

Notice of Meeting

Audit & Governance Committee



Date & time
Monday, 24 June
2013
at 10.00 am

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

Contact
Cheryl Hardman
Room 122, County Hall
Tel 020 8541 9075

Chief Executive
David McNulty

cherylh@surreycc.gov.uk

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9068, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email cherylh@surreycc.gov.uk.

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Cheryl Hardman on 020 8541 9075.

Members

Mr Nick Harrison (Chairman), Mr W D Barker OBE (Vice-Chairman), Mr Denis Fuller, Mr Tim Evans, Mr Will Forster and Mr Tim Hall

Ex Officio:

Mr David Hodge (Leader of the Council), Mr Peter Martin (Deputy Leader), Mr David Munro (Chairman of the County Council) and Mrs Sally Ann B Marks (Vice Chairman of the County Council)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING [18 MARCH 2013]

(Pages 1
- 16)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

- In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
- Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
- Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*18 June 2013*).
2. The deadline for public questions is seven days before the meeting (*17 June 2013*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER

(Pages
17 - 26)

To review the Committee's recommendations tracker.

6 EXTERNAL AUDIT: 2012/13 AUDIT PLAN SURREY PENSION FUND

(Pages
27 - 44)

The Council's external auditors are presenting their Audit Plan for the year 2012/13 in respect of the Surrey Pension Fund.

The purpose of this report is to inform the Committee of the external auditors' plan, including the risk assessment and approach being adopted for the audit of the financial statements for 2012/13.

7 STATEMENT OF ACCOUNTS 2012/2013

(Pages
45 - 212)

The Chief Finance Officer (and Deputy Director for Business Services) has approved the statement of accounts for 2012/13 as presenting a true and fair view of the county council's financial position as at the 31 March 2013 and its income and expenditure for the year. The accounts are attached at Annex A to this report for Member debate and approval. The committee is asked that these be approved and published, subject to examination by the external auditors.

The draft accounts of the Surrey Pension Fund for the year ended 31 March 2013 are also included at Annex A, as required by the county council's obligations as the administering authority of the fund under the Local Government Pension Scheme Regulations. The pension fund accounts summarise the fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013.

The Annual Report for the authority is also attached at Annex B for consideration by the Committee.

- | | | |
|-----------|--|-------------------------|
| 8 | TREASURY MANAGEMENT OUTTURN REPORT 2012/13 | (Pages
213 -
230) |
| | This report summarises the council's treasury management activity during 2012/13, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential Indicators for 2012/13, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities. | |
| 9 | RISK MANAGEMENT ANNUAL REPORT | (Pages
231 -
250) |
| | This annual risk management report has been produced to enable the committee to meet its responsibilities for monitoring the development and operation of the council's risk management arrangements. It also presents the latest Leadership risk register. | |
| 10 | INTERNAL AUDIT ANNUAL REPORT 2012/13 | (Pages
251 -
304) |
| | This report summarises the work of Internal Audit for the period 1 April 2012 to 31 March 2013, identifying the main themes arising from the audit reviews and the implications for the County Council. | |
| 11 | FULL YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS: APRIL 2012 - MARCH 2013 | (Pages
305 -
312) |
| | The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations undertaken by Internal Audit between 1 April 2012 and 31 March 2013. This report complements and builds upon the half-year irregularity report, which was presented to Audit and Governance Committee on 6 December 2012. | |
| 12 | CODE OF CORPORATE GOVERNANCE | (Pages
313 -
330) |
| | The purpose of this report is to provide the Committee with an update on the changes made to the Code of Corporate Governance. | |
| 13 | 2012/13 ANNUAL GOVERNANCE STATEMENT | (Pages |

This report presents the Annual Governance Statement, which provides an assessment of the council's governance arrangements for the financial year ending 31 March 2013.

331 -
338)

14 COMPLETED INTERNAL AUDIT REPORTS

(Pages
339 -
364)

The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting of this Committee in March 2013.

David McNulty
Chief Executive

Published: 13 June 2013

MOBILE TECHNOLOGY – ACCEPTABLE USE

Use of mobile technology (mobiles, BlackBerries, etc.) in meetings can:

- Interfere with the PA and Induction Loop systems
- Distract other people
- Interrupt presentations and debates
- Mean that you miss a key part of the discussion

Please switch off your mobile phone/BlackBerry for the duration of the meeting. If you wish to keep your mobile or BlackBerry switched on during the meeting for genuine personal reasons, ensure that you receive permission from the Chairman prior to the start of the meeting and set the device to silent mode.

Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 18 March 2013 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its meeting.

Elected Members:

Mr Nick Harrison (Chairman)
Mr W D Barker OBE (Vice-Chairman)
Mr Stephen Cooksey
Mr Tony Elias
Mr Mel Few
Denis Fuller

In Attendance

Denise Le Gal, Cabinet Member for Change and Efficiency

Cath Edwards, Risk and Governance Manager
Cheryl Hardman, Committee Manager
Sue Lewry-Jones, Chief Internal Auditor
Sheila Little, Chief Finance Officer (Section 151 Representative)

17/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

18/13 MINUTES OF THE PREVIOUS MEETING [21 FEBRUARY 2013] [Item 2]

The minutes of the 21 February 2013 meeting were agreed as a true and correct record, subject to amendments circulated at the meeting.

19/13 DECLARATIONS OF INTEREST [Item 3]

There were none.

20/13 QUESTIONS AND PETITIONS [Item 4]

There were none.

21/13 RECOMMENDATIONS TRACKER [Item 5]

Declarations of Interest:

None.

Officers:

Mark Borland, Projects and Contracts Group Manager

Cath Edwards, Risk & Governance Manager

Laura Langstaff, Procurement and Commissioning Manager

Nicola O'Connor, Finance Manager (Asset, Investment and Accounting)

Paul Osborne, Finance and Procurement Manager

Sue Lewry-Jones, Chief Internal Auditor

Sheila Little, Chief Finance Officer

Key Points Raised During the Discussion:

1. In relation to A4/13 (purchase cards), the Finance and Procurement Manager informed the Committee that acceptance of the new purchase card guidelines by purchase card holders and budget holders was being monitored. As of the day of the meeting, acceptance of the new guidelines stood at 62%. The new workflow approval process was due to go live on 1 April 2013. By the go-live date it was expected that acceptance of the guidance would be 100% and if anyone had not accepted the new guidance, their purchase card would be suspended. The Committee was also advised that officers would need to take an e-learning course before being approved for a purchase card in the future. The Chief Internal Auditor confirmed that a follow-up audit on Purchase Cards was planned for 2013/14.

Tony Elias joined the meeting.

2. In relation to A20/12 (damage to county property recovery rates), the Projects and Contracts Group Manager tabled a briefing note (attached as Annex 1). In response to questioning, the Projects and Contracts Manager clarified that analysis indicated that 90% of non-A&E damage to individual items do not exceed £8,000 and responsibility for recovery will transfer to May Gurney. The Projects and Contracts Manager also explained that most damage to kerbstones occurs through wear and tear and would be repaired

through the normal replacement programme. Clear evidence would be required to recover cost of repairs through 3rd party insurance. The in-house customer service team would be unaffected by May Gurney accepting responsibility for 'green' claims. While they would no longer undertake insurance recovery, they would focus on their core function of customer service. This new process would also incentivise May Gurney to identify and address 'hot spots' on the highway.

3. In relation to R3/11 (social care debt), the Chairman highlighted that the level of social care debt would be a topic for discussion when the Audit and Governance Committee looks at the Council's accounts in June 2013. A Member pointed out that the Chairman of Adult Social Care Select Committee had written to the Cabinet with regard to a spike in social care debt.
4. In relation to R1/12 (Annual Governance Statement), the Risk & Governance Manager informed the Committee that the 2013/14 Annual Governance Statement was likely to highlight areas of focus rather than include an action plan as the governance environment generally works well.
5. In relation to R3/12 (Direct Payments), the Committee was informed that the Member Reference Group would report in April 2013 not May 2013.
6. In relation to A53/12 (Internal Audit reports and Scrutiny), the Chairman informed the Committee that he had written to select committee chairmen on the process of handling Internal Audit reports at select committees and had also copied in Scrutiny Officers.
7. In relation to A45/12 (early closing of school accounts), the Finance Manager (Asset, Investment and Accounting) informed the Committee that meetings had been held with Babcock 4S and the timetable for schools had been revised. The situation has been improving over recent years and it was anticipated that these improvements would continue.
8. In relation to A55/12 (Finance Dashboard), the Chief Finance Officer informed the Committee that implementation of the Finance Dashboard had been delayed due to technical issues with the suppliers. A Project Board meeting this week would look at the project plan and it was expected that the Finance Dashboard would be in place for budget monitoring and forecasting for the new financial year.
9. In relation to A58/12 (Environment and Infrastructure Risk Register), the Chairman informed the Committee that he had written again to the Portfolio Holder. The Risk & Governance Manager confirmed that she had not yet received the updated risk register.
10. In relation to A59/12 (Energy Purchasing Contract), the Chairman reported some positive soundings from the Leader of the local authority in question but no detailed response.
11. In relation to A2/13 (financial reserves), Members requested that the level of financial reserves held by the Council be made clear in financial statements, along with the reason for holding reserves. This would support transparency of the Council budget to the public. The Chief Finance Officer confirmed that there was a description of each reserve in the budget report approved by Full Council in February and in the MTFP.
12. In relation to A5/13 (Committee terms of reference), the Chairman informed the Committee that he had reviewed the Public Sector Internal Audit Standards and the Audit and Governance Committee

terms of reference and had concluded that there was no need for constitutional change to the Committee's terms of reference.

13. In relation to A9/12 (Babcock 4S), the Chief Finance Officer confirmed that Babcock 4S was free to use its dividend payment however it wished. However, the council's Assistant Chief Executive was a Director on the Board for Babcock 4S and so the Council had influence on how the surplus cash was used. Members also queried whether the services that Babcock 4S was now providing in Devon and Exeter offered any benefit to Surrey County Council. The Committee agreed to explore this when Babcock 4S was next invited to a meeting (**Recommendations tracker ref: A6/13**).
14. In relation to A43/12 (Strategic Director for Customers and Communities), a Member queried whether the increased hours that the Strategic Director for Customers and Communities was contracted to provide as Chief Executive of Mole Valley District Council had any impact of the work she did for Surrey County Council. The Chairman agreed to ask the Chief Executive for an analysis of this point.

Actions/Further Information to be Provided:

The recommendation tracker to be updated to reflect the discussion, as noted above.

RESOLVED:

That the recommendations tracker was noted and the Committee agreed to remove pages 20 to 24 of the tracker, with the exception of A43/12, as the actions were completed.

Next Steps:

The Chairman agreed to write to the Chief Executive for an analysis of the impact on Surrey County Council of the Strategic Director for Customers and Communities spending four days a week working as Chief Executive for Mole Valley District council.

22/13 EFFECTIVENESS REVIEW OF THE SYSTEM OF INTERNAL AUDIT [Item 6]

Declarations of Interest:

None.

Officers:

Sue Lewry-Jones, Chief Internal Auditor
Stephen Mungavin, CIPFA

Key Points Raised During the Discussion:

1. The representative of CIPFA introduced the report, explaining that the effectiveness review for 2012/13 assessed the Council's readiness for the Public Sector Internal Audit Standards which come into effect from 1 April 2013. Many aspects of the Internal Audit service were found to be good but there were some areas which could be improved to meet the new Standards.
2. The Cabinet Member for Change and Efficiency requested an explanation of risk-based planning as opposed to risk priority planning. The CIPFA representative explained that risk priority planning is a system of prioritising audit work through identifying, scoring and ranking risks. Resources are then aligned to the highest scored risk

areas. In risk-based planning, there is a clear thread between high level objectives and risks, which feed into the control environment and audit planning on a periodic basis and into audit works itself.

3. It was suggested that Galileo could be more effectively used to centrally record and evidence continuous professional development.
4. Members expressed concern about increasing the amount of paperwork necessary for audits. The CIPFA representative explained formal evidence of audit planning discussions would help steer the auditor and clarify what is being reviewed for the Manager. However, records could be kept electronically rather than in hard copy.
5. There was support from both the CIPFA representative and some Members for replacing the current audit opinions with a traffic-light system.
6. The CIPFA representative clarified that while the guidance suggests that the Chief Internal Auditor should report to the Chief Executive in order to retain independence, it was understood that this may not be practical in an organisation of Surrey's size. No weaknesses were identified in the operation of the current arrangements.
7. CIPFA views the scope of Internal Audit as being beyond a narrow financial accounting role. If the Council believes that there is risk with regard to the structure of the organisation, CIPFA does not perceive any difficulty in Internal Audit looking at management structures.
8. In response to a query about how robust the conclusions can be when they are based on only two Internal Audit reports, the CIPFA representative explained that the two reports showed a similar pattern and therefore provided adequate evidence.
9. In relation to paragraph 53, the Chairman noted that an independent review of governance arrangements had been carried out by the audit commission some two years ago.
10. The Chief Internal Auditor informed the Committee that she was pleased with the report by CIPFA. With regard to the Standards where the opinion is that Internal Audit is "partially compliant", the issues have either already been addressed, are in the Internal Audit Charter to be approved by the Audit and Governance Committee later on the agenda, or are otherwise easily rectified. The Chief Internal Auditor stated that she did not wish to rush into risk-based planning but would provide training to the audit team and review how this was approached elsewhere. Also, while some auditors used Galileo consistently, others did not and this report would be used to address this with the team. The Annual Internal Audit Report to be considered by the Committee in June would provide an update on progress on implementing the review recommendations.

Actions/Further Information to be Provided:

None.

Resolved:

The Committee

- a. Noted the report.
- b. Agreed to receive an update on progress in implementing the recommendations arising from the review as part of the Annual Internal Audit Report to be presented to the Committee in June 2013.

Next Steps:

To receive an update on progress in implementing the recommendations of the External Review of the System of Internal Audit at Surrey County Council
(Recommendations tracker ref: A7/13).

23/13 EXTERNAL AUDIT - AUDIT PLAN [Item 7]**Declarations of Interest:**

None.

Officers:

Andy Mack, Engagement Lead (Grant Thornton)

Kathryn Sharp, Audit Manager (Grant Thornton)

Nicola O'Connor, Finance Manager (Assets, Investment and Accounting)

Key Points Raised During the Discussion:

1. The Audit Manager (Grant Thornton) reported progress in delivering the external auditor's interim audit work. There were no significant issues to report on.
2. The Chairman pointed out that this would be the Audit & Governance Committee's last meeting before reviewing the accounts in June 2013. He requested that any interim findings be discussed with the Chief Finance Officer and that members of Audit & Governance Committee be kept informed.
3. The report also brought to the attention of Members a number of emerging national issues and developments. The Audit Manager (Grant Thornton) highlighted the debates around assets transferring to academy schools and Provisions. The Finance Manager (Assets, Investment and Accounting) clarified that academy school assets were taken off the Council's Balance Sheet and that this policy formed part of the Council's accounting policies which are stated in the Statement of Accounts. The Finance Manager explained that there were differing views about this issue and she would therefore welcome guidance from CIPFA. Members of the Committee who also sit on Education Select Committee offered to raise the issue with the Secretary of State for Education when the Committee met with him.
4. The Chairman asked that a briefing be provided to Members in advance of the June 2013 meeting of the Audit & Governance Committee, when the Committee would review the accounts.
5. Members requested that reserves were differentiated according to whether or not they are cash reserves. The Audit Manager (Grant Thornton) explained that accounting standards constrained how reserves were badged in accounts. However, this could be outlined in the explanatory foreword.
6. The Engagement Lead (Grant Thornton) introduced the proposed Audit Plan which would culminate in a report on findings to Audit and Governance Committee in September 2013. If circumstances required, Grant Thornton would keep the Committee informed.
7. The Audit Manager (Grant Thornton) informed the Committee that the Pensions Audit Plan would be reported in June 2013. This was due to delays internal to Grant Thornton.

Actions/Further Information to be Provided:

- Grant Thornton to discuss interim findings with the Chief Finance Officer and keep members of the Audit & Governance Committee informed (**Recommendations tracker ref: A8/13**).
- Officers to arrange a briefing for members of Audit & Governance Committee in advance of the Committee reviewing the accounts in June 2013 (**Recommendations tracker ref: A9/13**).

Resolved:

The Committee noted the progress report.

Next Steps:

To receive further reports from Grant Thornton and receive a briefing prior to considering the accounts in June 2013.

24/13 PENSION FUND Q3 [Item 8]**Declarations of Interest:**

None.

Officers:

Sheila Little, Chief Finance Officer

Philip Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Key Points Raised During the Discussion:

1. The Chairman highlighted that, subject to a Full County Council decision on 19 March 2013, the Investment Advisors' Group would be transforming to a Pension Fund Board with full committee status. Therefore, this would be the last Pension Fund report to the Committee in this format.
2. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report and highlighted uncertainties in overseas markets.
3. In response to questioning, the Strategic Finance Manager (Pension Fund and Treasury) informed the Committee that the current gilt market differed from the previous actuarial valuation in 2010. The discount rate was now 4.9% compared with the previous discount rate of 6.1%. A lower discount rate results in a higher valuation of the fund's future liabilities.
4. The Chief Finance Officer clarified that the Pension Fund Board would be responsible for the whole pensions fund, including liabilities and investments. While there was still a role for People, Performance and Development Committee, the responsibilities of Audit and Governance Committee transferred to the new Board.
5. The Chairman suggested that assets with the weaker members of the Euro be reviewed.
6. The Chairman thanked the Strategic Finance Manager (Pension Fund and Treasury) for his support to the Committee.

Actions/Further Information to be Provided:

None

Resolved:

The Committee noted the report.

Next Steps:

None.

25/13 SELF ASSESSMENT ON ISSUES RAISED IN 'FINANCIAL SUSTAINABILITY OF LOCAL AUTHORITIES' [Item 9]**Declarations of Interest:**

None.

Officers:

Nick Carroll, Finance Manager

Sheila Little, Chief Finance Officer

Key Points Raised During the Discussion:

1. The Finance Manager introduced the two recent publications by the National Audit Office (NAO) and the Council's external auditors Grant Thornton.
2. The Finance Manager explained that the NAO report highlighted the possibility of some financial failures in local authorities. In the past, failure within local government was due to a failure of corporate governance. Financial failure has not been tested. The report highlights the importance of Councils holding reserves. Decisions on the council tax base have also been taken to ensure financial sustainability.
3. The Finance Manager explained that the Grant Thornton report questioned whether local authorities were reaching a point where they cannot deliver services.
4. Members questioned whether central government would allow local authorities to fail. Officers suggested that while the DCLG was aware of the impact of its decisions on local authorities, other departments were not so aware of the impact when making grant funding available. The Chief Finance Officer agreed that it was unprecedented for a local authority to financially fail. Discussions with DCLG around what would happen if the budget could not be agreed suggests that central government would send in its own people in these circumstances.
5. The Finance Manager suggested that those most reliant on government grants were more at risk of financial failure than local authorities such as Surrey County Council who were more reliant on council tax.
6. Members queried how certain it was that the county council would receive the funding it is owed from the implementation of council tax support localisation. The Finance Manager explained that District and Borough authorities have changed their local scheme and will, in part, use council tax flexibilities to reduce the impact. It was noted that Surrey collection rates are higher than the national average.
7. In response to a query about the proportion of planned savings which are scored as red risks, the Chief Finance Officer informed the Committee that of £68m of planned savings in 2013/14, £32m is scored as red risks. Finance was working with the Corporate Leadership Team to ensure robust monitoring takes place. Select Committees are also expected to monitor savings. However, it was important to note that being scored as red does not mean that the savings will not be achieved. It rather highlights the extent of the challenge to achieve the savings within the timescales. Some savings have not yet been allocated for 2014/15 onwards, partly because of

uncertainty around the impact of funding changes relating to localisation of council tax and retention of business rates.

8. Members suggested that increasing business rates which are set by central government may bring about the “tipping point” for local authorities and that that message needed to be passed up to central government.
9. The Chief Finance Officer offered to provide the Committee with an assessment of whether the Council meets each of the best practice points listed on page 159 of the report.

Actions/Further Information to be Provided:

The Chief Finance Officer to provide the Committee with an assessment of whether the Council meets each of the best practice points listed on page 159 of the report. **(Recommendations tracker ref: A10/13).**

Resolved:

The Committee

- a. noted the recent publications by NAO and Grant Thornton;
- b. considered the assessment of Surrey County Council's performance;
and
- c. will consider progress on the areas for improvement in due course.

Next Steps:

To consider progress on the areas for improvement in due course
(Recommendations tracker ref: A11/13).

26/13 INTERNAL AUDIT PLAN [Item 10]

Declarations of Interest:

None.

Officers:

Sue Lewry-Jones, Chief Internal Auditor
Sheila Little, Chief Finance Officer

Key Points Raised During the Discussion:

1. The Chief Internal Auditor introduced the report. She circulated an amended first page of the Internal Audit Reporting and Escalation Policy, which is attached to the Minutes as Annex 2. The Policy had been updated to reflect the new Public Sector Internal Audit Standards and to address issues in the Effectiveness Review of Internal Audit.
2. The Chairman requested that paragraph 22 of the Internal Audit Reporting and Escalation Policy be amended to identify a job role rather than an individual.
3. Members queried the changing number of days allocated by Internal Audit to service reviews between the previous year and the upcoming year. The Chief Internal Auditor highlighted that while Adult Social Care had been allocated 135 days this year in comparison with 150 days last year, in the previous year Adult Social Care had received 95 days. Therefore, the trend in recent years had been upwards. The Chief Internal Auditor also highlighted that more days had been allocated to Irregularity and Special Investigation. This will make use of the new position of IMT Auditor who will undertake data mining/counter-fraud type work. The results from this work will also

feed into other audits eg an interrogation of Company House data will feed into the Officer Interests audit.

4. In response to a question about providing audit services to other public sector organisations, the Chief Internal Auditor confirmed that Internal Audit does do some work for other public sector organisations for a charge. However, this work is limited and she would be concerned about being asked to do much more as it would be a distraction from completing the Internal Audit Plan.
5. Members expressed concern that Plain English be used within the Internal Audit Reporting and Escalation Policy and in particular asked that the phrase “populated MAP” be revised.
6. The Chief Internal Auditor explained that the Internal Management section of the Internal Audit Plan mainly details her own workload.
7. The Chief Finance Officer informed the Committee that she had worked with the Chief Internal Auditor on the Plan and she was content that the right financial controls would be checked.

Actions/Further Information to be Provided:

The Chief Internal Auditor to amend paragraph 22 of the Internal Audit Reporting and Escalation Policy to identify a job role rather than an individual **(Recommendations tracker ref: A12/13)**.

The Chief Internal Auditor to review wording in the Internal Audit Reporting and Escalation Policy to ensure Plain English is used **(Recommendations tracker ref: A13/13)**.

Resolved:

The Committee approved:

- a. The Internal Audit Charter;
- b. The Internal Audit Strategy;
- c. The Internal Audit Reporting and Escalation Policy; and
- d. The 2013/14 Internal Audit Plan.

Next Steps:

Completed audit reports will continue to be presented to the Committee throughout the year and an update on performance against the 2013/14 Plan will be reported to the Committee in December 2013.

27/13 COMPLETED INTERNAL AUDIT REPORTS [Item 11]

Declarations of Interest:

None.

Officers:

Sue Lewry-Jones, Chief Internal Auditor

Key Points Raised During the Discussion:

1. The Chief Internal Auditor introduced the four audit reports which had been issued since the last report to the Committee in February 2013. There was one high priority recommendation for improvement following the audit of Financial Assessments and Charging. All the audit reports had been presented to Council Overview and Scrutiny Committee on 13 March 2013.

Actions/Further Information to be Provided:

None.

Resolved:

The Committee noted the completed Internal Audit reports.

Next Steps:

None.

28/13 LEADERSHIP RISK REGISTER [Item 12]**Declarations of Interest:**

None.

Officers:

Cath Edwards, Risk and Governance Manager

Key Points Raised During the Discussion:

1. The Risk and Governance Manager introduced the report, highlighting changes since the Leadership Risk Register had last been presented to the Committee. Risk Ref. L2 was now entitled 'Major change programmes' rather than 'Fit for the Future'. Welfare Reform had also been added to the Risk Register as a high residual risk.
2. Members asked what measures were taken to ensure that waste targets were not being fiddled. A Member who sits on the Surrey Joint Waste Partnership pointed out that the responsibility lies with Borough and District Councils and that a countywide audit would be impossible. The Chief Internal Auditor offered to find out what controls were applied and report back to the Committee for information.

Nick Harrison stood down from the Chair at 12.23pm and left the room due to illness. The Vice-Chairman, Bill Barker, took the Chair.

3. Members pointed out that from a county perspective, minimising landfill waste was the priority. Concern was expressed that Environment and Transport Select Committee had not looked at waste for a year, according to the Risk Register.

Actions/Further Information to be Provided:

The Chief Internal Auditor to find out what controls were being applied to ensure that waste targets are being achieved appropriately and to report back to the Committee for information (**Recommendations tracker ref: A14/13**).

Resolved:

The Committee noted the Leadership Risk Register.

Next Steps:

To continue to review the Leadership Risk Register on a regular basis.

Meeting ended at: 12.30 pm

Chairman

This page is intentionally left blank

SURREY COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE

DATE: 18TH MARCH 2013



LEAD OFFICERS: MARK BORLAND, HIGHWAYS GROUP MANAGER

SUBJECT: IMPROVING GREENS CLAIMS (DCP) MANAGEMENT

1. This briefing note provides an update to the Audit & Governance Committee concerns regarding how Surrey Highways recovers costs for damage to council property.
2. Surrey Highways has two specific cost liabilities in regards to insurance loss:
 - a) **Red Claims** – claimants can claim against the Council for damage for personal injury or vehicle damage as a result of a highway defect (e.g. pothole);
 - b) **Green Claims** – highway can be damaged as a result of vehicle collisions and we have the right to recover cost of repair from 3rd party's insurance; however, where funds cannot be recovered council is currently liable for repair cost, also known as Damage to Council Property (DCP).
3. The majority of the highway related Red Claims are repudiated and since 2010 Surrey County Council has seen an overall reduction in losses in Red Claims.
4. However, there has not been the same improvement in recovery of Green Claims. A project team was therefore developed to recommend practical steps to improve recovery. After review the project team identified 3 key issues preventing success:
 - **Information Ownership** – Majority of damage to council property is caused as result of road accident or collision (A&E). May Gurney are responsible for attending and resolving A&Es, with SCC responsible for pursuing 3rd parties costs. However, the information required for successful claim was not always captured by May Gurney when they attended original incident and thus prevented successful claim
 - **Skill Set** – SCC insurance recovery was managed by in-house customer service team, however, the skill set was not always appropriate for dealing with trained commercial insurance departments.
 - **Time Delay** – Resolving insurance claims was taking approximately 6-9 months, during which time, the original damage would remain on network. The delay was then increased when funds could not be recovered, as SCC would then need to find an alternative in-house funding solution.
5. Poor information and skills set was thus leading to low recovery rates, with under 50% recovered from insurance companies, while length of delay in resolving was impacting resident and member satisfaction.

6. Following project finding, SCC therefore undertook review with May Gurney to accept increased risk within contract and improve overall resource management. Following negotiations, May Gurney have agreed to implement the steps below from 1st April 2013:
- **New Accountability** – Responsibility for Green Claims will transfer to May Gurney. This will make one organisation responsible for both attending A&Es to re-open road to traffic and then subsequently repairing any damage, thus incentivising on-site crew to retrieve all required information for insurance recovery.
 - **Immediate repair all damage** – As part of new ownership, May Gurney (at their expense) will repair all damage to council property within 20 working days. They will then separately pursue 3rd party for cost recovery, with any non-recovered cost at their full expense.
 - **New Claims Management Team** – To deliver service above, May Gurney will appoint new dedicated claims team who will have skills to manage insurance companies risks and focus on achieving 100% of claims recovery.
 - **Non A&E Damage** – A proportion of damage is also caused by “hit & runs”, where a car user strikes council property and leaves the scene with no contact details. As there is little evidence of guilty party, successful recovery from insurance company is reduced. However, following review May Gurney have accepted risk on this recovery, with the only exception being where damage of individual item exceeds £8,000, in this cases Surrey will retain cost liability.
 - **Co-ordination** – May Gurney Claims Management team will be the lead contact point for emergency services, insurance companies and SCC supply chain, e.g. when an accident involves damage to street lights, traffic lights and carriageway May Gurney will take lead, even if it is not them that undertake repair.
7. The new process will ensure that from 2013/14, approximately 90% of damage to council property is repaired within 20 days at no cost to the council. The only increased cost to the council is funding new May Gurney Claims Manager.
8. May Gurney will assume full responsibility for Green Claims, it is anticipated that recovery from insurance companies will meet all May Gurney costs, with primary benefit for MG through removing ongoing disputes with SCC and the overall impact on customer satisfaction.
9. The new May Gurney Claims Management team and A&E process will therefore result in an overall improved service to the highway network. An annual report will be produced in June 2014, confirming the success or otherwise of new service.

INTRODUCTION:

1. The Public Sector Internal Audits Standards require that internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. Timely and appropriate management responses to Internal Audit reports enable the Council to demonstrate that it maintains high standards of internal control and governance in line with corporate objectives.
2. The Audit and Governance Committee have approved this policy in order to ensure that issues are remedied in an appropriate and timely manner.

REPORTING:

3. With the exception of investigations into alleged irregularities (which are subject to separate arrangements not covered in this policy), the following reporting and escalation arrangements apply to all audit reviews undertaken by Internal Audit.

Draft Report

4. Following completion of an audit review the auditor will produce a draft report, which is issued to the responsible manager, (the auditee). The auditee will be asked to comment on the factual accuracy of the report and attend an exit meeting with the auditor within 5 working days. In this context 'factually accurate' means that the auditor's report and recommendations are based on a correct interpretation of the systems or circumstances pertaining to the review.

Exit meeting

5. The exit meeting is held with the auditee and other officers as appropriate. It is during this meeting that key points arising from the audit, factual amendments and recommendations for improvement are discussed. Where possible service actions addressing audit recommendations should be captured for inclusion in a draft management action plan (MAP).

Management Action Plan production

6. Following the exit meeting a draft MAP and revised draft report will be produced for distribution to the auditee, Head of Service and other key officers involved in the audit. Auditees must obtain agreement from their Head of Service as to the proposed actions to be included in the MAP. The relevant Head of Service will be recorded in the MAP as the Responsible Officer and there is an expectation that the Head of Service will have briefed their Director on the findings/recommendations arising from any Internal Audit review in advance of agreeing the MAP. Where actions rest with one or more service, the Head of Service responsible for the business activity reviewed will be deemed the Responsible Officer.
7. The service then has 10 working days to return a populated MAP and any further comments on factual accuracy to the auditor. As part of this process the service is responsible for ensuring that named officers with responsibility for individual actions within the MAP are sufficiently briefed and accepting of such responsibility before the MAP is returned to Internal Audit.

Ownership of the Management Action Plan

8. Whilst individual actions within the MAP may rest with one or more officers, the Head of Service has overall accountability for timely completion of the actions in the MAP, and is required to inform Internal Audit if timescales are likely to be missed. In assigning their

This page is intentionally left blank

Audit & Governance Committee Recommendations Tracking

Recommendations (REFERRALS)

Number	Meeting Date	Item	Recommendation / Referral	To	Response
R3/11	05/10/11	(75/11)	That the audit report 'accounts receivable' be referred to the Adult Social Care Select Committee for scrutiny (with a particular focus on the finding that debts had arisen as a result of recipients of direct payments within ASC, using the money for purposes other than to meet their care needs and improvements in the dunning process).	Adult Social Care Select Committee	<p>An audit of Social Care debt was included in the 'Completed Audit reports' item on the agenda (5 April 2012) and an audit of Direct Payments is included on the 'Completed Audit Reports Item' on the 21 May 2012 agenda.</p> <p>An update on Social Care Debt was considered by the Adult Social Care Select Committee at their meetings on 4 July and 30 November 2012. The Audit & Governance Committee will continue to be kept updated on the outcome of the Adult Social Care Committee's debate through the Bulletin.</p> <p>On 18 March 2013, the Chairman highlighted that the level of social care debt would be a topic for discussion when the Audit and Governance Committee looks at the Council's accounts in June 2013. A Member pointed out that the Chairman of Adult Social Care Select Committee had written to the Cabinet with regard to a spike in social care debt.</p>
R1/12	21/05/12	(36/12) Annual Governance Statement	That the Annual Governance Statement be COMMENDED to Cabinet for publication with the council's statement of accounts.	Cabinet	The Annual Governance Statement was presented to the Cabinet on 19 June 2012. The Cabinet approved the content and authorised the Leader and Chief Executive to sign for inclusion in the Statement of Accounts. The Committee will continue to monitor progress on the implementations of the actions required and report to Cabinet where appropriate.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Referral	To	Response
R3/12	21/05/12	(38/12) Completed Internal Audit Reports	<p>The Committee recommends that the Adult Social Care Select Committee:</p> <p>Review the Direct Payments audit report and monitor the situation until the policy commitment for annual reviews of the social care needs of the recipients of direct payments is met.</p>	Adult Social Care Select Committee	<p>An officer working group reported to the Adult Social Care Select Committee on 30 November 2012. The Assistant Director for Transformation reported to the Committee that the intention was that the review process would be embedded within the Locality Teams in the future, rather than responsibility of a dedicated team. There would be a review of the Direct Payment Review team in March 2013.</p> <p>A Member Reference Group of the Adult Social Care Select Committee has also been set up to review whether AIS meets the needs of the directorate. The Group's work is ongoing.</p>

Audit & Governance Committee Recommendations Tracking

Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A17/12	07/04/12	Completed Internal Audit Reports (21/12)	Traffic Signal Management audit report: Data to be reported to the Committee regarding the level of collection rates.	Audit Performance Manager	An update was annexed to this tracker with the agenda papers for 21 May 2012. Members were concerned that recovery rates were still low and commented on the fact that action had only been taken on 50 cases out of the 71 recorded. It has subsequently been confirmed that the remaining 21 cases are those being actively pursued with companies, insurance companies and individuals.
A33/12	25/06/12	Completed Internal Audit reports (51/12)	An update to be provided on the recommendations made in the Highways Contract audit report.	Projects & Contracts Group Manager (Surrey Highways)	A follow up audit commenced at the end of February, with an audit report circulated in May 2013.
A36/12	25/06/12	Future of External Audit (54/12)	When the new external auditors are in place, the Committee to challenge how the estimated 40% savings will and have been met.	Committee Members	The new external auditors attended the meeting in December 2012. The new District Auditor was confident that the 40% savings could be met, based on the quality of the previous year's accounts.
A39/12	3/09/12	2011/12 Surrey County Council accounts and external audit annual governance report (63/12)	Recommended that Environment & Transport Select Committee should be considering the outcome of the MAXIMO internal audit report	Projects & Contracts Group Manager (Surrey Highways)	A six-month review of the May Gurney contract was considered by the Environment & Transport Select Committee in February 2013. Members were satisfied with the performance figures and supported proposals to improve the highways maintenance programme. A twelve-month review will be considered by the Select Committee in June 2013.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A43/12	03/10/12	Funding Strategy Update Report (74/12)	Update to be provided on the impact of the Strategic Director for Customers and Communities working part-time with Mole Valley District Council, on the rest of CLT.	Section 151 Officer Chairman of the Committee	<p>At the meeting in December 2012, the Section 151 Officer assured the Committee that she still had as much access to all the Strategic Directors and that the Strategic Director for Customers and Communities had been presented at all CLT meetings, since taking on the additional responsibilities at Mole Valley District Council.</p> <p>On 18 March 2013, Members queried whether the increased hours that the Strategic Director for Customers and Communities was contracted to provide as Chief Executive of Mole Valley District Council had any impact of the work she did for Surrey County Council. The Chairman agreed to ask the Chief Executive for an analysis of this point.</p>
A54/12	06/12/12	Whistleblowing update (92/12)	Babcock 4S representative to attend the meeting when the next 6 monthly whistleblowing report is presented.	Deputy Head of HR&OD	This is scheduled for September 2013.
A55/12	06/12/12	Completed Internal Audit Reports (95/12)	Further update to be provided on the recommendation that finance staff continue to develop reports for budget holders to analyse all additional payroll costs.	Chief Internal Auditor	Implementation of the Finance Dashboard would enable these reports to be developed but implementation has been delayed due to issues with the suppliers. It was expected that the Finance Dashboard would be in place for the start of the new financial year.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A58/12	06/12/12	Risk Management Half year report (96/12)	The Chairman to write to the Cabinet Member for Environment & Transport to raise his concern about the outstanding Strategic Director risk register.	Chairman of the Committee	<p>A response was received from the Cabinet Member which read:</p> <p><i>Work has been underway since November to review and revise the 3 Service Risk Registers within the directorate. Once these are completed a revised Directorate Risk Register will be compiled. This is due to be agreed early this month. The new Directorate Risk Register will be reviewed at Directorate Management Team, Directorate Leadership Team and by myself (with DMT) on a quarterly basis.</i></p> <p>At the meeting on 21 February 2013, the Risk & Governance Manager confirmed that she had not yet received the updated risk register. The Chairman subsequently wrote to the Portfolio Holder again. At the meeting on 18 March 2013, the Risk and Governance Manager confirmed that she had still not received the updated risk register.</p>
A59/12	06/12/12	Energy Purchasing Contract (99/12)	The Committee to urge the Leader to write to the Council involved to offer support to amending the terms of reference of the governance panel.	Chairman of the Committee	<p>A letter has been sent from the Leader of the Council to the Leader of the local authority in question, to make the recommendations.</p> <p>On 18 March 2013, the Chairman reported some positive soundings from the Leader of the local authority in question but no detailed response.</p>
A1/13	12/02/13	Business Planning 2013 – 2018 (4/13)	The recommendations from the 1 February Council Overview & Scrutiny Committee to the Cabinet include follow up action by the Committee (see Annex A)	Chairman of the Committee.	The details of these recommendations will be added to the Committee's forward work programme.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A2/13	21/02/13	External Audit Progress Report (12/13)	Members asked the external auditor how reserves should be shown on the balance sheet. The Engagement Lead (Grant Thornton) explained that for long term planning decisions the holding of reserves was beneficial. He agreed to include consideration of this in the interim work undertaken by the external auditor before the final findings were reported	Engagement Lead (Grant Thornton)	Updates to be provided through the external auditor's progress reports
A3/13	21/02/13	PAMS (13/13)	The Committee to receive a further update and demonstration of the system once it is implemented	Chief Property Officer/Performance Manager	Progress check in June 2013.
A4/13	21/02/13	Completed Internal Audit Reports (14/13)	Committee recommend to Head of Corporate Purchasing that where managers are failing to follow Purchasing Card guidelines, consideration be given to removing cards from use in that department. Chief Internal Auditor and Head of Corporate Purchasing to report on progress against actions to address recommendations in the Corporate Purchasing Cards audit.	Head of Procurement & Commissioning	The Procurement & Commissioning Manager has replied that new guidelines are clear that where there are repeated failures to follow guidelines, then the user's card is withdrawn. Monitoring is in place to ensure this happens. Acceptance of new purchase card guidelines by purchase card holders and budget holders is being monitored. As of the day of the meeting, acceptance of the new guidelines stood at 62%. The new workflow approval process was due to go live on 1 April 2013. Anyone who had not accepted the new guidance by that date would have their purchase card suspended. The Chief Internal Auditor confirmed that a follow-up audit on Purchase Cards was planned for 2013/14.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A6/13	18/03/13	Recommendations Tracker (21/13)	The Committee agreed to explore whether the expansion of Babcock 4S had any benefits for Surrey County Council with the Babcock 4S representative.	Committee	The Babcock 4S representative is due to attend the September 2013 meeting.
A7/13	18/03/13	Effectiveness Review of the System of Internal Audit (22/13)	The Committee to receive an update on progress in implementing the recommendations of the External Review of the System of Internal Audit at Surrey County Council as part of the Annual Internal Audit Report to be presented to the Committee in June 2013.	Chief Internal Auditor	The annual Internal Audit Report is to be considered in June 2013.
A8/13	18/03/13	External Audit – Audit Plan (23/13)	Grant Thornton to discuss interim findings with the Chief Internal Auditor and keep members of the Audit & Governance Committee informed.	Audit Manager/Engagement Lead (Grant Thornton)	The findings of the External Auditors will be reported to the Committee in September 2013.
A9/13	18/03/13	External Audit – Audit Plan (23/13)	Officers to arrange a briefing for members of Audit & Governance Committee in advance of the Committee reviewing the accounts in June 2013.	Chief Finance Officer	A briefing has been scheduled for 20 June 2013.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A10/13	18/03/13	Self Assessment on Issues Raised in 'Financial Sustainability of Local Authorities' (25/13)	The Chief Finance Officer to provide the Committee with an assessment of whether the Council meets each of the best practice points listed on page 159 of the report.	Chief Finance Officer	The Chief Finance Officer is preparing an assessment as requested.
A11/13	18/03/13	Self Assessment on Issues Raised in 'Financial Sustainability of Local Authorities' (25/13)	The Committee to consider progress on the areas for improvement.	Chief Finance Officer	To be scheduled.
A14/13	18/03/13	Leadership Risk Register (28/13)	The Chief Internal Auditor to find out what controls were being applied to ensure that waste targets are being achieved appropriately and to report back to the Committee for information	Chief Internal Auditor	Officers are reviewing. Update to be provided.

Audit & Governance Committee Recommendations Tracking

Completed Recommendations/Referrals/Actions

Recommendations – to be deleted

A20/12	21/05/12	Recommendations tracker (31/12)	With regards to low recovery rates in cases of damage to county property, the Chairman to write to the Portfolio Holder and ask for his comments on the matter and seek assurance that relevant action was being taken to improve collection rates for damage to county property.	Chairman of the Committee	<p>Following the response to action A17/12 (above), the Chairman determined that it was no longer necessary to write to the Portfolio holder on damage to traffic signals.</p> <p>However, the Chairman has requested further information about other damage to county property. At the meeting in February 2013, the Committee agreed to invite the accountable officer to the next meeting.</p> <p>On 18 March 2013, the Projects and Contracts Group Manager tabled a briefing note providing information on the recovery of costs for damage to council property and attended the meeting to answer questions.</p>
A45/12	03/10/12	Financial Management PVR Update (75/12)	Officers to consider whether early close of schools accounts would help overcome the barrier of schools not using SAP	Deputy Chief Finance Officer	<p>At the meeting in December 2012, the Finance Manager (Assets & Accounting) advised that a mini project on schools accounts closing was underway.</p> <p>A further update was provided at the meetings in February and March. Details can be found in the minutes of those meetings. The timetable for closing school accounts had been revised and it was anticipated that recent improvements would continue.</p>
A53/12	06/12/12	Recommendations tracker	Letter from Chairman to select committee chairmen about importance of internal audit reports	Chairman of the Committee.	The Chairman has written to Select Committee Chairmen on the process for handling Internal Audit reports at Select Committee and had copied in Scrutiny Officers.

Audit & Governance Committee Recommendations Tracking

A57/12	06/12/12	Risk Management Half year report (96/12)	The Assistant Chief Executive to attend a future meeting of the Committee to talk about risk management arrangements.	Risk & Governance Manager/Assistant Chief Executive	The Chief Finance Officer is now leading on the strategic risk arrangements and will attend the meeting on 24 June 2013 for the Annual Risk Management Report.
A5/13	21/02/13	Public Sector Internal Audit Standards (15/13)	It was agreed that the terms of reference for the Committee would need to be changed to reflect the adoption of the new standards	Chairman	On 18 March 2013, the Chairman informed the Committee that he had reviewed the Public Sector Internal Audit Standards and the Audit and Governance Committee terms of reference and had concluded that there was no need for constitutional change to the Committee's terms of reference.
A12/13	18/03/13	Internal Audit Plan (26/13)	The Chief Internal Auditor to amend paragraph 22 of the Internal Audit Reporting and Escalation Policy to identify a job role rather than an individual.	Chief Internal Auditor	Completed
A13/13	18/03/13	Internal Audit Plan (26/13)	The Chief Internal Auditor to review wording in the Internal Audit Reporting and Escalation Policy to ensure Plain English is used	Chief Internal Auditor	Completed



AUDIT & GOVERNANCE COMMITTEE

24 June 2013

EXTERNAL AUDIT 2012/13 AUDIT PLAN SURREY PENSION FUND

SUMMARY AND PURPOSE:

The Council's external auditors are presenting their Audit Plan for the year 2012/13 in respect of the Surrey Pension Fund.

The purpose of this report is to inform the Committee of the external auditors plan including the risk assessment and approach being adopted for the audit of the financial statements for 2012/13.

RECOMMENDATION:

The Committee is asked to consider the Audit Plan shown in Annex 1 and determine whether they have any matters that they wish to ask the external auditors.

INTRODUCTION:

- 1 The County Council's external auditor has prepared Audit Plan for the Surrey Pension Fund (Annex A).

IMPLICATIONS:

- 4 Financial
The estimated decrease in fees will help to alleviate pressure on the external audit budget.
- 5 Equalities
There are no direct equality implications arising from this report or the external auditors opinion audit plans.
- 6 Risk management
The reports of the external auditor may highlight areas for the improvement or risk management and governance and opportunities to improve value for money.

REPORT AUTHOR: Sheila Little, Chief Finance Officer and Deputy Director for Business Services

CONTACT DETAILS: Sheila.little@surreycc.gov.uk, 020 8541 7012

Sources/background papers: none

This page is intentionally left blank



The Audit Plan for Surrey Pension Fund

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2013

Andy Mack

Surrey County Council Engagement Lead
T 020 7728 3299
E andy.l.mack@uk.gt.co

Paul Creasey

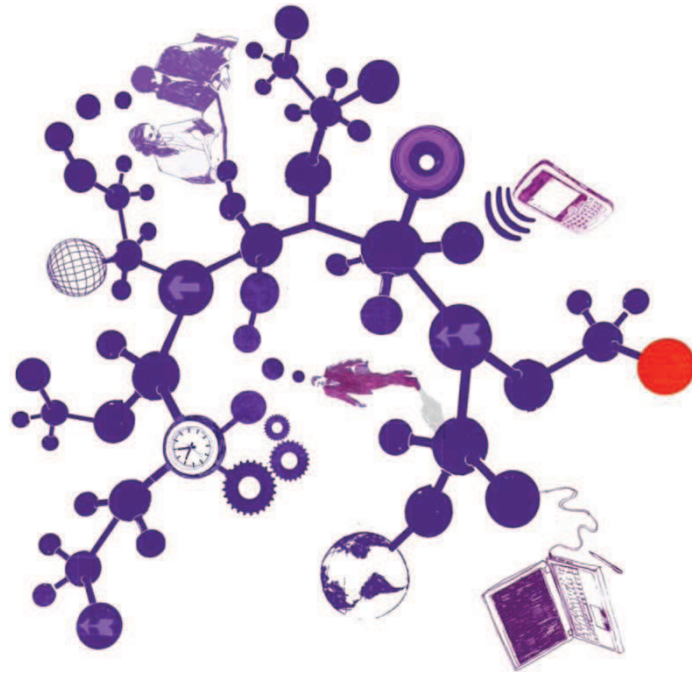
Pension Fund Engagement Lead
T 0118 955 9127
E paul.creasey@uk.gt.com

Lynn Clayton

Audit Manager
T 020 7728 3365
E lynn.h.clayton@uk.gt.com

Fahad Hafeez

Auditor In Charge
T 020 7728 3202
E fahad.hafeez@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. 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.

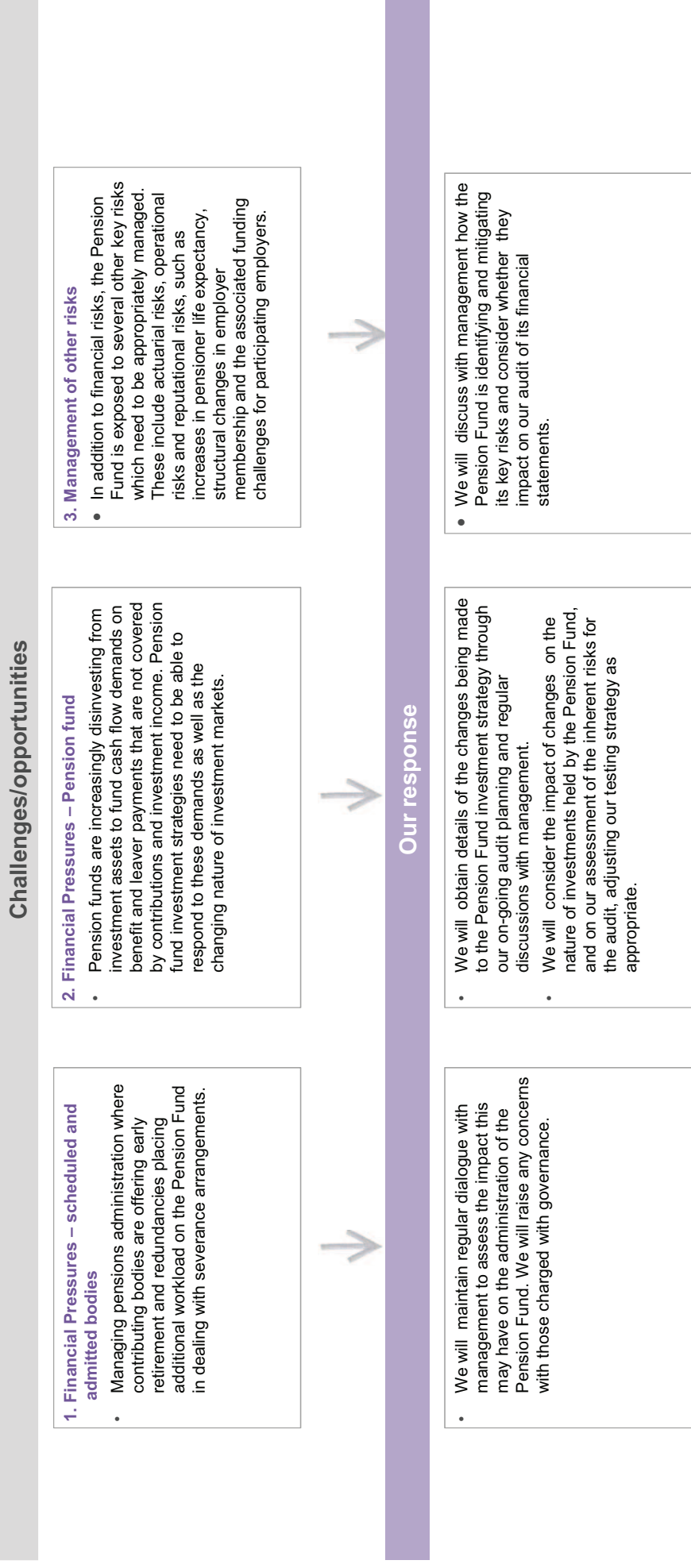
Contents

Section

1. Understanding your fund
2. Developments relevant to your fund and the audit
3. Our audit approach
4. An audit focused on risk
5. Significant risks identified
6. Other risks
7. Results of interim work
8. Logistics and our team
9. Fees and independence
10. Communication of audit matters with those charged with governance

1. Understanding your fund

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

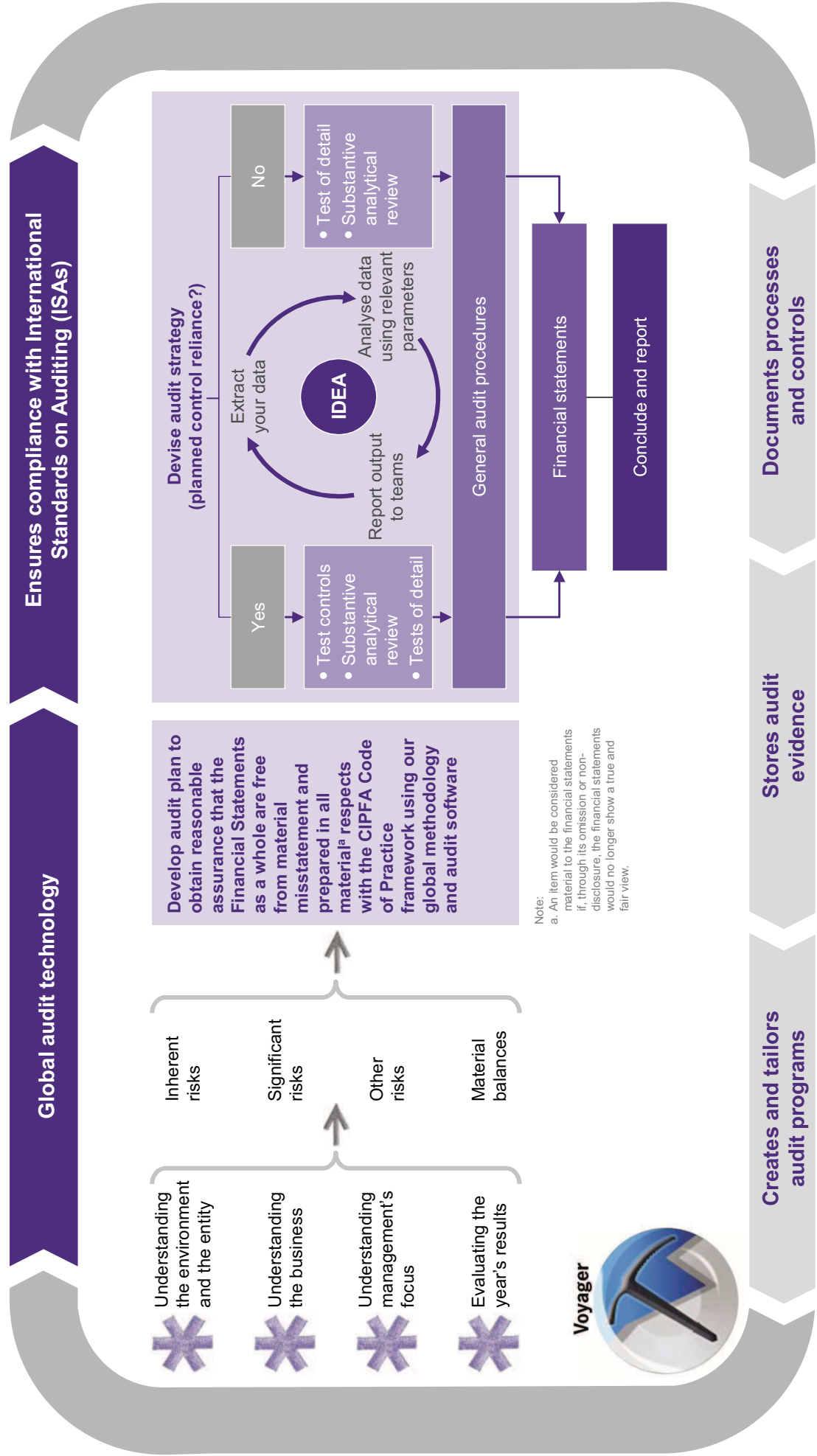


2. Developments relevant to your fund and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements		
1. Financial reporting <ul style="list-style-type: none">CIPFA published a revised set of example accounts for pension funds in 2013.	2. LGPS 2014 <ul style="list-style-type: none">The Pension Fund needs to consider the impact of the implementation of the career average re-valued earnings scheme (CARE) from 1 April 2014.	3. Triennial valuation <ul style="list-style-type: none">The triennial valuation will place demands on the Pension Fund's resources in terms of administration and providing the necessary data and other information required by the actuary.
Our response		
<ul style="list-style-type: none">We will carry out work to test if the Pension Fund complies with the material requirements of the CIPFA Code of Practice.	<ul style="list-style-type: none">We will discuss the impact of the changes through our regular meetings with management. We will report any observations we have from our work, where appropriate.	<ul style="list-style-type: none">We will maintain regular dialogue with management on the progress of the valuation process and any significant issues arising. We will report any observations arising from our work.

3. Our audit approach



4. An audit focused on risk

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can gain assurance from testing controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned control reliance?	Substantive testing?
Contributions receivable	Yes	Scheme Contributions	Medium	Other	Recorded contributions not correct	Yes	✓
Transfers in	Yes	Transfers in to the scheme	Low	Remote		No	✓
Pensions payable – lump sums and on retirement	Yes	Benefit payments	Medium	Other	Benefits improperly computed/claims liability understated	Yes	✓
Transfers out - payments to and on account of leavers	Yes	Benefit payments	Medium	Other	Transfers improperly computed/liability understated	Yes	✓
Administrative expenses	No	Administrative expenses	Low	N/A		No	×
Investment income	Yes	Investments	Medium	Other	Investment activity not valid – income not complete	No	✓

4. An audit focused on risk (continued)

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing?
Changes in market value of investments	Yes	Investments	Medium	Other	Investment activity not valid – investments not valued at fair value	No	✓
Taxes on income	No	Investments	Low	N/A		No	×
Investment management expenses	Yes	Investments	Low	Remote		No	✓
Investments	Yes	Investments	Medium	Other	Investments not valid Fair value measurement not correct	No	✓
Current assets	No	Scheme Contributions, investments and cash	Low	N/A		No	×
Current liabilities	No	Benefit payments, investments	Low	N/A		No	×

5. Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
Revenue	Under ISA 240 there is a presumed risk that revenue (which for the purposes of the Surrey Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for Surrey Pension Fund since:</p> <ul style="list-style-type: none"> • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted bodies and are supported by separately sent schedules. They are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred. They are subject to agreement between the transferring and receiving funds.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions

6. Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Investments	<p>Investments not valid</p> <p>Investments activity not valid</p> <ul style="list-style-type: none"> - Income not complete - Investments not valued at fair value <p>Fair value measurement not correct</p>	<p>We will review the reconciliation between information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any material variances.</p> <p>We will select a sample of the individual investments held by the Fund at the year end and test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by review of the valuation methodology used to ensure it represents fair value (unquoted investments and direct property investments).</p> <p>We will confirm the existence of investments directly with independent custodians and/or fund managers or by agreement to legal documentation.</p> <p>We will test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers.</p>
Benefit payments and transfers on account of leavers	Benefits improperly computed/claims liability understated	<p>We will select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and test them by reference to the benefit calculation on the respective member file. This testing is designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by the Fund have been followed.</p> <p>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year and compare pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained. We will compare the number of transfer out payments and lump sums on retirement to recorded member transfers/retirements in the year.</p> <p>We will compare the movements on membership statistics to material transactions in the accounting records.</p>
Contributions	Recorded contributions not correct	<p>We will test the controls the Pension Fund operates to ensure that it receives all expected contributions from member bodies.</p> <p>We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</p>

7. Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered or will consider:

- a review of Information Technology (IT) controls
- journal entry controls
- the effectiveness of the internal audit function
- internal audit's work on the Pension Fund's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement

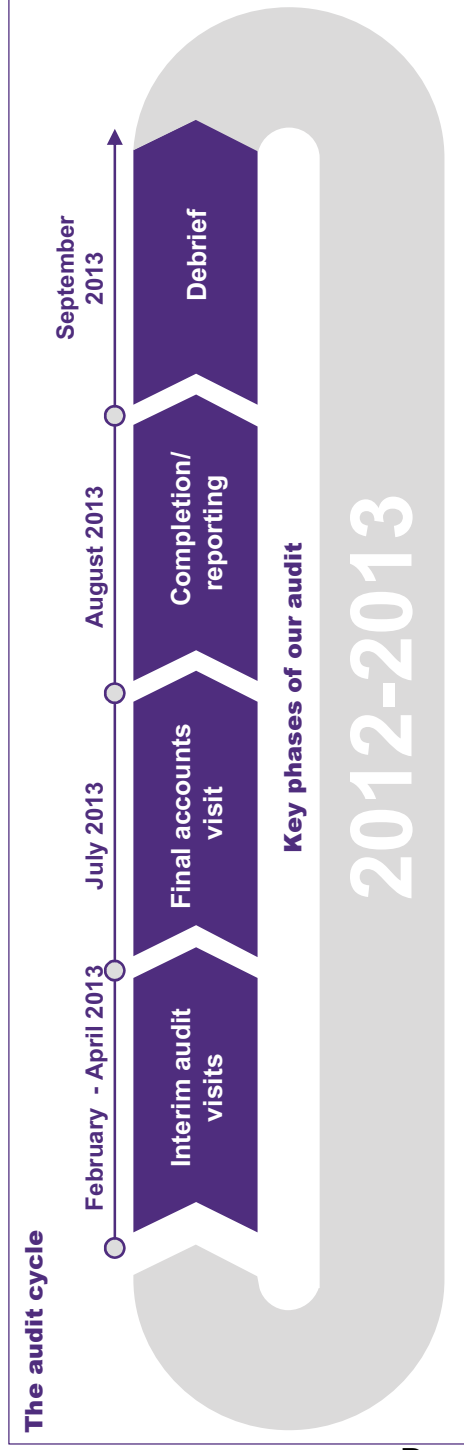
The first three areas have been considered in conjunction with the Surrey County Council audit.

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	This work is scheduled for completion in May 2013, after the SWAN network upgrade has been completed.
Journal entry controls	We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. We will undertake detailed testing on journal transactions, by extracting 'unusual' entries for further review.	Journal testing will be completed during the year end audit in July 2013.

7. Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Internal audit	We will review internal audit's overall arrangements against the CIPFA Code of Practice and the new Public Sector Internal Audit Standards (PSIAS) which come into effect on 1 April 2013. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Pension Fund.	This work is scheduled for completion prior to the year end audit visit.
Walkthrough testing	We have completed walkthrough tests in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted for any of the transaction cycles reviewed. In-year internal controls were observed to have been implemented in accordance with our documented understanding.

8. Logistics and our team



Date	Activity
25 Feb 2013	Planning meeting
25 Feb 2013	Interim audit work commences
24 June 2013	Audit plan presented to Audit and Governance Committee
8 July 2013	Year end fieldwork commences
Jul/Aug	Audit findings clearance meetings
4 Sept 2013	Audit and Governance Committee meeting to report our findings
Sept 2013	Issue opinion of the financial statement and annual report

Our team

Andy Mack Surrey County Council Engagement Lead T 020 7728 3299 M 07880 456 187 E andy.i.mack@uk.gt.com	Paul Creasey Pension Fund Engagement Lead T 0118 955 9127 M 07967 381 750 E paul.creasey@uk.gt.com
Lynn Clayton Audit Manager T 020 7728 3365 M 07880 456 146 E lynn.h.clayton@uk.gt.com	Fahad Hafeez Auditor In Charge T 020 7728 3202 E fahad.hafeez@uk.gt.com

9. Fees and independence

Fees

	£
Pension fund audit	26,459

Fees for other services

Service	Fees £
No other services have been requested	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- The Fund will have strong key financial systems of internal control throughout the financial year
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension Fund and its activities have not changed significantly
- The Pension Fund will make available management and accounting staff to help us locate information and to provide explanations

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

10. Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council and Pension Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension Fund's financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk



AUDIT & GOVERNANCE COMMITTEE

24 June 2013

STATEMENT OF ACCOUNTS 2012/2013

SUMMARY:

The Chief Finance Officer (and Deputy Director for Business Services) has approved the statement of accounts for 2012/13 as presenting a true and fair view of the county council's financial position as at the 31 March 2013 and its income and expenditure for the year. The accounts are attached at Annex A to this report for Member debate and approval. The committee is asked that these be approved and published, subject to examination by the external auditors.

The draft accounts of the Surrey Pension Fund for the year ended 31 March 2013 are also included at Annex A, as required by the county council's obligations as the administering authority of the fund under the Local Government Pension Scheme Regulations. The pension fund accounts summarise the fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013.

The Annual Report for the authority is also attached at Annex B for consideration by the Committee.

PURPOSE:

1. The 2007 Accounts & Audit Regulations require that the annual statement of accounts produced by local authorities is published by 30 September. This report brings the accounts to this committee, in draft form, for approval before the conclusion of the external audit.
2. The purpose of the statement of accounts is to give electors, those subject to locally levied taxes and charges, members of the authority, employees and other interested parties information about the council's finances.

BACKGROUND:

3. The statutory (s151) Chief Financial Officer is responsible for the preparation of the Surrey County Council statement of accounts, the pension fund statement of accounts and the firefighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code).

4. The Code of Practice on Local Authority Accounting (The Code) is a very prescriptive document, and determines not only the accounting policies to follow, but also the form and content of the statement of accounts. The Code is based on International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board. Local authorities have a legal obligation to follow "proper accounting practice", this therefore means that compliance is mandatory.
5. In addition to the Code the Service Reporting Code of Practice (SERCOP) prescribes the format and composition for reporting service income and expenditure in the Comprehensive Income and Expenditure Statement. This is designed to allow comparison of service expenditure and income between authorities.
6. Any significant departure from The Code or SERCOP will normally result in a qualified audit opinion.

CONCLUSION

7. The audit of the accounts by the county council's external auditors, Grant Thornton, has already commenced, which is earlier than previous years. As part of the process the auditors will report to the Chief Finance Officer on the work undertaken and on the technical and substantive issues arising. Any key issues arising from the audit are also taken forward to be reported in the Annual Governance Report to Members, due to be reported to this Committee in September.
8. The Statement of Accounts 2012/13 has been prepared and delivered to the authority in compliance with proper practices. They have been presented to the Audit & Governance Committee to review and have been submitted to Grant Thornton for the conduct of the audit. They will be resubmitted to this committee once the audit has concluded, within the regulatory timeframe for approval and publication of the audited accounts by 30 September 2013.

RECOMMENDATIONS:

9. The county council's annual statement of accounts, including the firefighters' pension accounts, for 2012/2013, as approved by the Chief Finance Officer, and set out in Annex A, be approved.
10. The pension fund accounts, as approved by the Chief Finance Officer, and set out in Annex A, be approved.
11. That pending the completion of the audit and subject to the accounts being re-presented to this Committee in September, the accounts are published.
12. That the Committee note the Annual report, attached at Annex B, and endorse it for publication.

IMPLICATIONS:

Financial

13. There are no direct financial implications of this report, all financial implications in the accounts have been made in line with the Code of Practice and any impact on the 2012/2013 budget has been considered in the outturn report to the Cabinet.

Equalities

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

Risk management

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

<u>WHAT HAPPENS NEXT:</u>

28. If, following the completion of the audit, there are any material changes to the statements to be made, these will be reported to the committee in September.
16. The statements of accounts will also be made available for public inspection and challenge. This year's period for public inspection has been set for the period 24 June to 19 July. The audit of accounts cannot however be formally closed until any issues arising from public inspection have been dealt with. If, as a result of this process, changes are required to the statement of accounts, the revised accounts will be re-presented for committee approval of the changes.
17. When complete, the external auditors will issue an opinion on the accounts and then they will be published.
18. Once the pension fund accounts have approved and audited they will be included in the Pension Fund Annual Report for 2012/13.

REPORT AUTHOR: Nikki O'Connor, Finance Manager (Assets & Accounting)

CONTACT DETAILS: Nikki O'Connor: 020 8541 9263 –
nicola.oconnor@surreycc.gov.uk

Sources/background papers:

Financial Outturn 2012/13 – Report to Cabinet 28 May 2013.

Statement of Accounts 2011/2012 – Report to Audit & Governance Committee 25 June 2012

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13
CIPFA

Service Expenditure Reporting Code of Practice 2012/13 - CIPFA

This page is intentionally left blank

SURREY COUNTY COUNCIL
STATEMENT OF ACCOUNTS
2012-13

Independent auditor's report to the members of Surrey County Council

TO FOLLOW

Explanatory Foreword by the Chief Finance Officer

Explanatory Foreword by the Chief Finance Officer

1. Introduction

Welcome to Surrey County Council's Statement of Accounts for 2012/13. The statement of accounts reports the income and expenditure on service provision for the year and the value of the council's assets and liabilities at the end of the financial year. This is done in accordance with proper accounting practices as defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Surrey County Council is a large and diverse organisation and the information contained in these accounts is technical and complex. The aim of this foreword, therefore, is to provide a general guide to the items of interest and highlights some of the more significant matters that have determined this position for the financial year ending 31 March 2013.

2. Key Financial Statements (known as Primary Statements)

Local authorities are required to produce an income and expenditure statement, a balance sheet and a cash flow statement, as a private sector company would. However, as local authorities are also tax raising bodies (through council tax), they are required to produce an additional financial statement: accounting for movements to and from the general fund through a movement in reserves statement.

A brief explanation of the purpose of each of the four primary statements is provided below:

Movement in Reserves Statement (page 12) shows the movement during the 2012/13 financial year on the different reserves held by an authority, analysed into useable reserves and other unusable reserves:

- Usable reserves are where money is set aside to fund future expenditure plans or reduce taxation
- Unusable reserves reflect the difference between the surplus or deficit made on the true economic cost of providing an authority's services and the statutory amounts required to be charged to the general fund balance for council tax setting purposes (i.e. adjustments between accounting basis and funding basis under regulations).

The total increase in this authority's reserves during 2012/13 is £109.4million (an increase of £19.3m in useable reserves, offset by a decrease of £128.7m in unusable reserves).

Comprehensive Income & Expenditure Statement (CIES) (page 14) shows the true economic accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The surplus on the provision of services for 2012/13 was £2.2m which is shown in the movement in reserves statement. The surplus in 2011/12 was £32.2m. This represents the accounting surplus on the provision of services in accordance with International Financial Reporting Standards (IFRS), not a surplus in funding raised over what has been spent.

Balance Sheet (page 15) shows the value of the assets and liabilities recognised by the authority as at 31 March. The balance sheet of the authority shows a net liability of -£39.2m, which is matched by reserves (as set out in the movement in reserves statement). This negative balance sheet position as at the 31 March is due to the pension liability which does not need to be met within the next year, but over the lifetime of the scheme members. This is explained further in Section 5.

Cash Flow Statement (page 16) shows the changes in cash and cash equivalents during the financial year. The total increase in cash and cash equivalents for this authority during 2012/13 was £4.3m which is shown in the cash flow statement and note 20. The statement

Explanatory Foreword by the Chief Finance Officer

shows how an authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities:

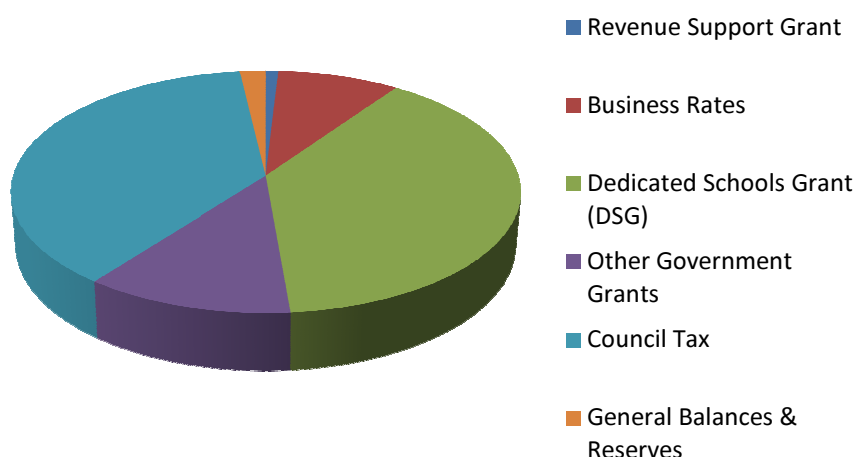
- Operating activities - the amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of an authority are funded by way of taxation, grant income or from recipients of services provided by an authority.
- Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the future service delivery (note 27).
- Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to an authority (note 28).

3. Budgeted Income & Expenditure

The authority set its budget for the 2012/13 financial year in the context of the government's austerity programme, reduction in public sector budgets and expenditure, and rising demand for its services: developing plans for efficiencies and reductions in expenditure totalling £71m.

The outturn position for 2012/13 provides a clearer indication of the authority's strong financial stewardship during the year than is apparent from the accounting surplus provided in the Comprehensive Income & Expenditure Statement (CIES).

The updated revenue budget for the 2012/13 financial year, including schools, was £1,535.6 million, to be funded as follows:

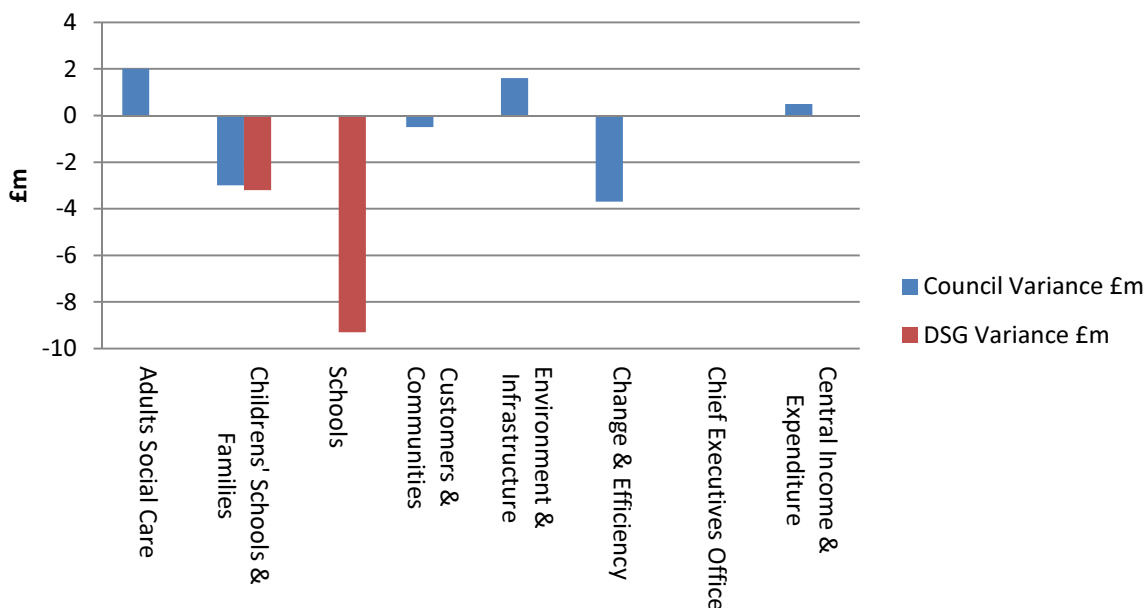


In developing the financial plan for the five years to 2018 (known as the Medium Term Financial Plan), the authority took a multi-year approach to its budget setting: approving the use of £11m to support the 2013/14 financial year when it set the budget in February 2013, and a further £1m in March 2013. The cabinet has also approved £7.9m of service budgets to be rolled forward to ensure funding is available for schemes, projects and commitments that need to be funded in the new financial year.

The final outturn for the authority funded net revenue budget is an underspending of -£3.1m. In addition there was an underspending on the Dedicated Schools Grant (DSG) funded services of -£12.5m, of which -£9.3m related to schools' delegated budgets.

Explanatory Foreword by the Chief Finance Officer

SCC 2012/13 Outturn Variances



This underspend/surplus represents the movement on the general fund balance during 2012/13 (after contributions to reserves). This is known as the outturn position and is more important for Surrey County Council residents than the CIES which takes a wider view of financial performance. The accounting position presented in the comprehensive income and expenditure statement shows a surplus of £2.4m.

The outturn position is more important to residents because it records only those expenses which statute allows to be charged against the County Council's annual budget and the amounts to be collected from council tax. The amounts which are charged to the CIES for items such as depreciation, impairment, capital grants and pension charges are eliminated in the General Fund expenditure analysis. The movement in reserves statement and supporting note (note 7) show how these items are removed from the General Fund position.

Since December 2011 the authority has performed a 'quarterly hard close', which is reported for in accordance with accounting standards, for which it won an award for transparency in 2012. These quarterly position statements are published to aid transparency and ease comparisons with private sector entities for reporting financial performance in the public interest.

The authority also continues to bring forward its audited accounts publication date and continues to report within around 3 weeks to Cabinet on budget monitoring forecasts. The timeliness of this reporting means variations from the budget are considered early and management action can be put in place promptly.

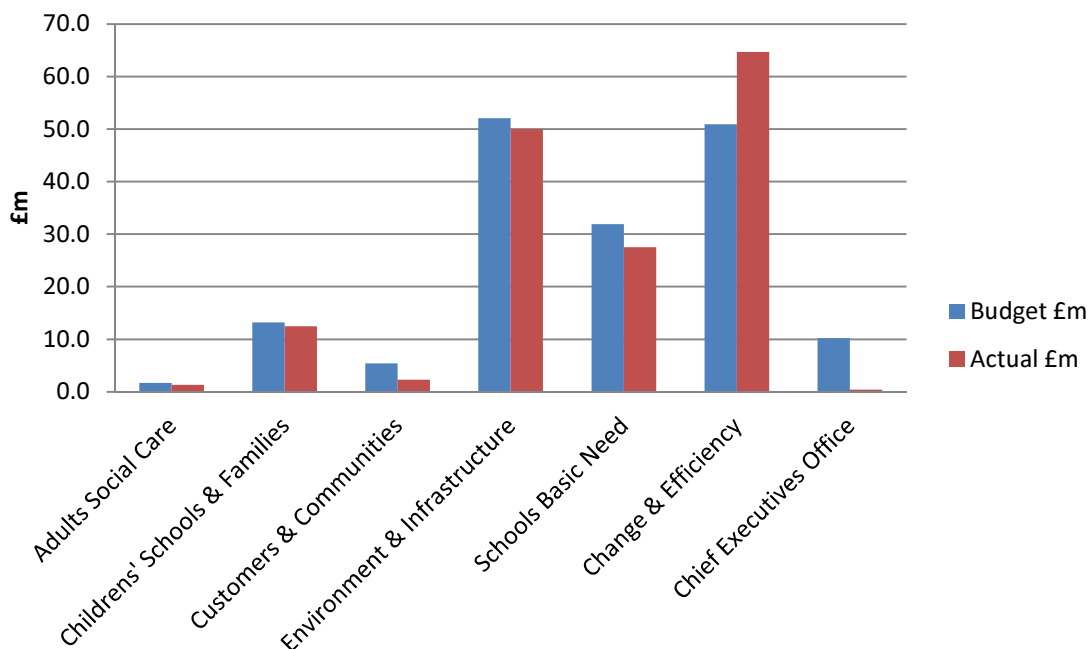
4. Capital Expenditure

In agreeing significant capital investment as part of the MTFP for 2012-17 in February 2012, the authority demonstrated its firm long term commitment to stimulating economic recovery in Surrey. The total capital programme was £685m over the 5 year MTFP (2012/17) period, with £152.8m planned in 2012/13. On a scheme by scheme basis the budgets include the funding carried forward for projects continuing from 2011/12.

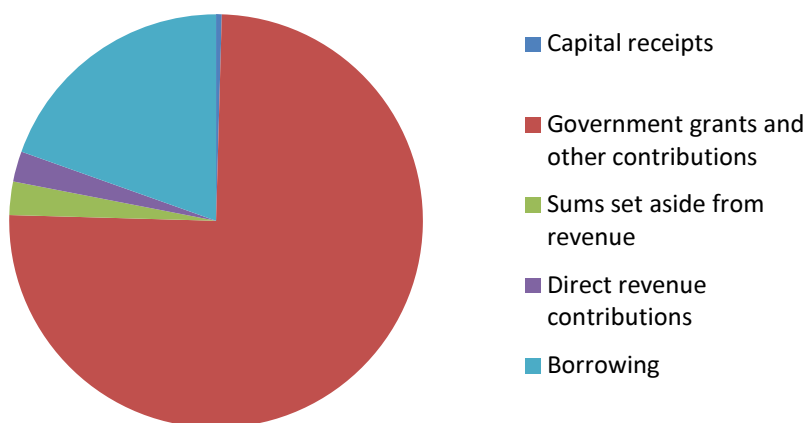
Explanatory Foreword by the Chief Finance Officer

The graph below shows the capital budget outturn, on a directorate basis. The in-year capital budget was overspent by £2.8m (this figure includes a capital carry-forward of £16.3m in relation to expenditure incurred in early April, these amounts will be capitalised in 2013/14 and do not form part of the balance sheet as at 31 March 2013) .

SCC Capital Budget vs Actual Outturn



The 2012/13 capital expenditure was funded as follows:



5. Material Items of Income and Expenditure, Material Assets Acquired and Liabilities Incurred

These are defined as follows:

- Material Items of income and expenditure are those amounts either incurred or received to or from the same supplier or customer for the same good or service.
- Material items of expenditure relate mainly to highways maintenance and contracted bus services, these are disclosed on note 5. In addition, material expenditure is

Explanatory Foreword by the Chief Finance Officer

incurred in relation to the Private Finance Initiative Schemes the authority is involved, further details can be found in note 43.

- Material items of income are government grants and council tax which are further disclosed in notes 11 and 39.

During 2012/13, 8 schools transferred to academy status. An academy is self-governing, directly funded by central government and independent of direct control by local government. Within the 2012/13 accounts, £30.4m of Property, Plant & Equipment and £1.8m of schools balances have been written out of the balance sheet to reflect these transfers.

Capital expenditure incurred during 2012/13 included expenditure on two **material assets**:

- Consort House is an administrative building which was purchased in 2011/12 and became operational in 2012/13. Capital totalling £9.9m was spent over the two years on purchasing this and bringing it into an operational condition
- .
- Within the asset under construction figure on the balance sheet is £23.9m in relation to Walton Bridge which is expected to be operational in 2013/14.

The **pension liability** recognised on the authority's balance sheet at the 31 March 2013, has a significant impact on the net worth of the authority. The authority contributes to three pensions schemes on behalf of current employees:

- the teachers' pension scheme
- the Local Government pension scheme (LGPS)
- the Fire Fighter Pension Fund, although under current arrangements firefighters' pensions are funded by the government department for Communities and Local Government (DCLG).

It is important to understand that pension benefits do not become payable until employees retire, however the authority is required to account for the future obligations at the same time as the employees earn their future entitlement, in accordance with proper accounting practices.

The authority's independent actuary Hymans Robertson estimated the Local Government Pension Scheme (LGPS) liability to be £628.1m at the balance sheet date, an increase of £90.7m on the previous year. The DCLG fire-fighter pension liability consolidated within the authority's accounts is estimated to be £442.6m an increase of £60.8m on the previous year. This increase in liabilities is caused mainly by a change to the net discount rate over the period from 31 March 2012 of around 0.3% p.a. This results in an increase in the balance sheet liabilities. The liability does not need to be met within the next year but over the working lifetime of the scheme members. The authority is making appropriate lump sum payments to the pension fund in addition to the contributions related to current employees. Readers of the accounts should note that the pension fund deficit of £1.071m is based on a snapshot in time and it does not predict the fund's future financial condition or its ability to pay benefits in the future.

6. Changes in Accounting Policies

The 2012/13 Code adopted IFRS 7, which deals with hedge accounting and the transfer of financial assets. Due to the speculative nature of hedge accounting, the authority has not entered into such arrangement to date and so this accounting policy change has not had an impact on these accounts.

7. Borrowing

Long-term borrowing (repayable in more than 12 months) held on the balance sheet relates to the financing of capital expenditure incurred in previous years. The balance currently

Explanatory Foreword by the Chief Finance Officer

stands at £238.1m. This is a decrease of £68m since 2011/12, due to the planned repayment of £68m of borrowing in 2013/14. This has been transferred to short-term borrowing which also includes the balance which the authority holds on behalf of Surrey Police Authority.

When undertaking borrowing, the authority ensures that its plans are prudent and affordable in the long term and that its borrowing is in accordance with its approved Treasury Management Strategy. The authority's average interest rate on borrowing was 4.2%.

During 2012/13 no additional external borrowing was undertaken. The authority has adopted a strategy of temporarily using its internal cash resources to finance capital expenditure rather than borrowing externally to do so. These cash resources will need to be replenished in the future in order to meet the commitments for which they are held, but as these commitments are not due to arise in the short-term, this strategy is considered appropriate in the current economic climate where surplus cash balances are producing minimal returns on investment. This strategy has resulted in the authority being 'under-borrowed' against its borrowing limits and capital financing requirement. The MTFP (2013-18) makes provision for the financing of all proposed borrowing.

8. Provisions

Where the authority has a liability to make future payments but the precise timing of the payment and the amount is uncertain, then it creates provisions in the Balance Sheet. At 31 March 2013 the Council has the following material provision:

- Insurance of £6.7m. This provision was created to meet the cost of reported outstanding claims which are not covered by external insurance. It also includes an amount expected to be paid in relation to levy due in relation to the formal trigger on the MMI scheme of arrangement (£1.038m).

Further details on provisions can be found in Note 23.

9. Reserves & Balances

Usable reserves

The table below shows the authority's usable reserves classified in accordance with CIPFA's accounting code of practice for International Financial Reporting Standards. These include in following broad categories;

- earmarked reserves - providing financing for future expenditure plans, commitments and possible liabilities;
- general balances – available balances to cushion the impact of uneven cash flow and a contingency for unexpected events;
- capital receipts - the balance of proceeds from the sale of assets not used in-year to fund new capital expenditure but set aside to fund future capital expenditure in accordance with the authority's Medium Term Financial Plan and asset management strategy;
- capital government grants unapplied – the balance of grants received from central government that have not been used in-year to fund new capital expenditure.

Explanatory Foreword by the Chief Finance Officer

	Balance at 31 March 2012 £000	Transfers In £000	Transfers Out £000	Balance at 31 March 2013 £000
Earmarked Reserves				
Schools Balances	49,784	3,007		52,791
Investment Renewals Reserve	11,077	5,075	-2,844	13,308
Equipment Replacement Reserve	1,111	4,861	-2,915	3,057
Vehicle Replacement Reserve	4,350	729	-24	5,055
Waste Site Contingency Reserve	299			299
Budget Equalisation Reserve	31,977	25,031	-31,977	25,031
Financial Investment Reserve	9,505	1,572		11,077
PFI Reserve	4,621	1,163		5,784
Insurance Reserve	7,225	547	-285	7,487
Severe Weather Reserve	5,000			5,000
Eco Park Sinking Fund	3,000	5,000		8,000
Investment Reserve	4,987			4,987
Child Protection Reserve	1,300	2,266		3,566
Revenue Grants Unapplied Reserve	19,200	21,273	-20,102	20,371
General Capital Reserve	8,432	55	-879	7,608
Interest Rate Reserve	0	3,210		3,210
Economic Downturn Reserve	0	4,400		4,400
	161,869	78,188	-59,026	181,031
General Balances	28,837	2,989		31,826
Capital Receipts	11,697	6,284	-634	17,347
Capital Government Grants Unapplied	66,726	98,523	-107,008	58,241
USEABLE RESERVES	269,129	185,984	-166,668	288,445

Unusable reserves

Certain 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 authority and are not backed by cash balances. Note 25 provides further details on unusable reserves.

10. Looking forward to 2013/14 and beyond

The current challenges facing the public sector look set to continue for the foreseeable future. Local authorities continue to experience budget cuts and at the same time Surrey County Council, continues to face unprecedented growth in demand for its services. Having a robust medium term financial plan is essential in these challenging times.

The government has changed local authorities' financing, and added significant uncertainty to the level of funding that the Authority will receive through the introduction of partial local retention of business rates and localisation of council tax support from April 2013.

Surrey County Council has successfully delivered significant savings over recent years and did so again in 2012/13. Continued year on year savings are becoming increasingly challenging to deliver. The Authority has put the following in place to mitigate against these risks and uncertainties for 2013/14:

- increased level of risk contingency

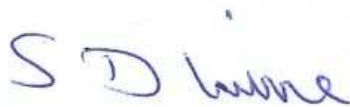
Explanatory Foreword by the Chief Finance Officer

- levels of balances and reserves
- planned review of the 2013-18 MTFP after quarter one of 2013/14
- robust and timely monitoring processes.

From April 2013, local authorities will be provided with a ring-fenced public health grant to discharge the new public health responsibilities being transferred from primary care trusts. With a longer-term view, the Authority has created a revolving investment and infrastructure fund to cover the borrowing costs of capital spend on long-term capital investments which will improve the financial resilience of the authority in the future.

11. Further Information

Additional information on the authority's overall revenue and capital budget outturn position and achieved efficiencies for 2012/13 can be found in the '2012/13 Outturn report' considered by the Cabinet on 28 May 2013. Surrey County Council's annual report can be viewed on the website www.surreycc.gov.uk. Further information on the financial statements presented in this document can be obtained from Nikki O'Connor, Finance Manager (Assets & Accounting) (020 8541 9263, nicola.oconnor@surreycc.gov.uk).



Sheila Little BA CPFA
Chief Finance Officer and
Deputy Director for Business Services
May 2013

Statement of Responsibilities

The Authority's Responsibilities

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 Chief Finance Officer and Deputy Director for Change and Efficiency (the chief financial officer);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The chief financial officer is responsible for the preparation of the authority'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 chief financial 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 chief financial 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 12 to 87 presents a true and fair view of the financial position of the authority and of its expenditure and income for the year ended 31 March 2013; that the firefighter pension fund accounting statements on page 89 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2013; that the summary statement of accounts on pages x to x presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2013 and its income and expenditure for the year then ended.

Sheila Little BA CPFA
Chief Finance Officer and
Deputy Director for Business Services
24 June 2013

Nicholas Harrison
Chairman of Audit & Governance Committee

24 June 2013

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Total Useable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2012	-28,837	-161,869	-11,697	-66,726	-269,129	198,903	-70,226
(Surplus) or deficit on provision of services (accounting basis)	-2,240				-2,240		-2,240
Other comprehensive income & expenditure					0	111,632	111,632
Total comprehensive income & expenditure	-2,240	0	0	0	-2,240	111,632	109,392
Adjustments between accounting basis & funding basis under regulations	-19,911	0	-5,650	8,485	-17,076	17,076	0
Net increase/decrease before transfers to earmarked reserves	-22,151	0	-5,650	8,485	-19,316	128,708	109,392
Transfers to/from earmarked reserves	19,162	-19,162	0	0	0	0	0
Increase/decrease in year	-2,989	-19,162	-5,650	8,485	-19,316	128,708	109,392
Balance at 31 March 2013	-31,826	-181,031	-17,347	-58,241	-288,445	327,611	39,166

Movement in Reserves Statement

Comparison for Financial Year 2011/12	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Total Useable Reserves £000	Un-useable Reserves £000	Total Council Reserves £000
Balance at 31 March 2011 (as per balance sheet)	-36,321	-107,061	-17,047	-7,214	-167,643	30,770	-136,873
Surplus(-) or deficit on provision of services (accounting basis)	-32,173				-32,173		-32,173
Other comprehensive income & expenditure						98,819	98,819
Total comprehensive income & expenditure	-32,173				-32,173	98,819	66,646
Adjustments between accounting basis & funding basis under regulations (Note 7 & 25)	-15,151		5,350	-59,512	-69,313	69,313	
Net increase/decrease before transfers to earmarked reserves	-47,324		5,350	-59,512	-101,486	168,132	66,646
Transfers to/from earmarked reserves (Note 8)	54,808	-54,808					
Increase(-)/decrease in year	7,484	-54,808	5,350	-59,512	-101,486	168,132	66,646
Balance at 31 March 2012 (as per balance sheet)	-28,837	-161,869	-11,697	-66,726	-269,129	198,902	-70,227

Comprehensive Income & Expenditure Statement

Year ended 31 March 2012				Year ended 31 March 2013		
Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
398,883	-59,821	339,062	Adult Social Care	420,698	-66,113	354,585
1,020,543	-741,597	278,946	Education & Children's Services	969,681	-688,360	281,321
112,119	-10,312	101,807	Highways & Transport Services	117,990	-14,840	103,150
35,896	-5,554	30,342	Cultural and Related Services	34,730	-4,899	29,831
64,284	-2,007	62,277	Environmental & Regulatory Services	59,078	-1,880	57,198
3,959	-212	3,747	Planning Services	4,731	-207	4,524
20,098	-137	19,961	Housing General Fund	16,786	-72	16,714
46,650	-2,209	44,441	Fire Services	52,190	-11,159	41,031
6,827	0	6,827	Corporate and Democratic Core	6,189	-2	6,187
5,244	-2,345	2,899	Central Services to the Public	4,891	-2,420	2,471
1,127	0	1,127	Court Services	1,174	0	1,174
6,506	0	6,506	Non Distributed Costs	2,034	-5,445	-3,411
<hr/>			Cost of Services - continuing operations	<hr/>		
1,722,136	-824,194	897,942		1,690,172	-795,397	894,775
24,141	-28,573	-4,432	Other Operating Income & Expenditure (note 9)	27,495	-27,626	-131
114,114	-74,201	39,913	Financing & Investment Income & Expenditure (note 10)	110,483	-62,251	48,232
	-556,452	-556,452	Council Tax (note 11)	0	-579,906	-579,906
	-409,144	-409,144	General Grants & Contributions (note 11)	0	-365,210	-365,210
<hr/>			Surplus(-) or Deficit on Provision of Services	<hr/>		
1,860,391	-1,892,564	-32,173		1,828,150	-1,830,390	-2,240
		-16,354	(Surplus) or Deficit on revaluation of non-current assets			-22,510
		115,173	Actuarial (gains) / losses on pension assets/liabilities			134,142
		98,819	Other Comprehensive Income & Expenditure			111,632
		66,646	Total Comprehensive Income & Expenditure			109,392

Balance Sheet

As at 31.03.2012 £000		As at 31.03.2013 £000
1,257,775	Property, Plant & Equipment	1,279,980
665	Heritage Assets	665
7,148	Intangible Assets	5,893
241	Long Term Investments	216
503	Long Term Debtors	8,833
<u>1,266,332</u>	LONG TERM ASSETS	<u>1,295,587</u>
	Short Term:	
99,969	Investments	104,112
80	Intangible Assets	108
4,555	Assets Held for Sale	15,279
1,356	Inventories	1,264
100,845	Short Term Debtors	141,521
<u>109,791</u>	Cash & Cash Equivalents	<u>114,119</u>
316,597	CURRENT ASSETS	376,403
	Short Term:	
-15,101	Borrowing	-82,089
-194,962	Creditors	-234,271
-2,564	Provisions	-3,300
-157	Revenue Grants Receipts in Advance	-205
<u>-1,239</u>	Capital Grants Receipts in Advance	<u>-587</u>
-214,023	CURRENT LIABILITIES	-320,452
	Provisions	-7,202
-7,903	Long Term Borrowing	-238,109
-306,233	Other Long Term Liabilities	-1,145,393
<u>-984,543</u>	LONG TERM LIABILITIES	<u>-1,390,704</u>
<u>-1,298,679</u>		
<u>70,226</u>	NET ASSETS	<u>-39,166</u>
	Usable Reserves	-288,445
-269,129	Unusable Reserves	327,611
<u>198,903</u>		<u>39,166</u>
<u>-70,226</u>		

Cash Flow Statement

2011/12 £000		2012/13 £000
-32,173	Net Surplus (-) / Deficit on the Provision of Services	-2,240
-134,084	Adjustments to Net Surplus / Deficit on the Provision of Services for non-Cash Movements	-131,439
-23,944	Adjustments for Items Included in the Net Surplus / Deficit on the Provision of Services that are Investing and Financing Activities	-15,872
<hr/> -190,201	Net Cash Flows from Operating Activities	<hr/> -149,551
154,239	Investing Activities (note 27)	140,455
4,142	Financing Activities (note 28)	4,768
<hr/> -31,820	Net Increase (-) / Decrease in Cash & Cash Equivalents	<hr/> -4,328
-77,971	Cash and Cash Equivalents at the Beginning of the Reporting Period	-109,791
<hr/> <hr/> -109,791	Cash and Cash Equivalents at the End of the Reporting Period	<hr/> <hr/> -114,119

Notes to the Accounts

Note 1. Summary of Significant Accounting Policies

i. General Principles

The statement of accounts summarises the council's transactions for the 2012/13 financial year and its position at the year end 31 March 2012. The council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011. 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 2012/13 and the Service Reporting Code of Practice 2012/13 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. Accruals of Income and Expenditure

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.
- 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.

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

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

Notes to the Accounts

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.

v. 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.

vi. 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 Surplus or Deficit on the Provision of Services but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service, or where applicable, to the Non-Distributable Costs line, in the Comprehensive Income and Expenditure Statement, when the council is demonstrably committed to the

Notes to the Accounts

termination of the employment of an officer or group of officers or is making an offer to encourage voluntary redundancy.

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 three separate pension schemes:

- the teacher pension scheme is administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- the Local Government Pension Scheme is administered by Surrey County Council;
- the Fire Fighter Pension Scheme is administered by Surrey County Council.

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 fire fighter 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).

The teachers' pension scheme is administered nationally and arrangements mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. Therefore, the scheme is accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to teachers' pensions in the 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 4.5%. This rate is based on the indicative rate of return on a high quality corporate bond which is defined as having been "rated at the level of AA or equivalent status". In this instance the 4.5% is made up of a 3.2% yield on 20 year UK Government Bonds and a suitable addition of 1.3% to reflect the extra risk involved in using AA corporate bond yields. The 1.3% was derived by comparing the iBoxx Sterling Corporates AA over 15 year index and the corresponding over 15 year Government Bond index.

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;

Notes to the Accounts

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

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

- *current service cost* – the increase in liabilities as a result of years of service earned this year 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;
- *interest cost* – the expected increase in the present value of liabilities during the year as they move one year closer to being paid are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- *expected return on assets* – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- *gains or losses on settlements and curtailments* – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees are debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- *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;
- *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.

vii. 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

Notes to the Accounts

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.

viii. Exceptional Items

When items of income and expense are material their nature and amount is disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts depending on how significant the items are to an understanding of the council's financial performance.

ix. Financial Instruments

Financial Liabilities

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

For most of the borrowings that the council has the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

The Council entered into a Lender Option Borrower Option (LOBO) in 2003/04. This is carried on the balance sheet at a higher amortised cost than the outstanding principal and interest is charged at a marginally higher effective rate of interest than the current rate of interest payable to the lender. This is to smooth the effect of the scheduled stepped interest rate rises over the life of the loan.

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

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

Notes to the Accounts

receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made loans to the Painshill Park Trust and to foster carers at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate actually 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 General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Available-for-Sale Assets

Available-for-sale assets 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. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the

Notes to the Accounts

asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices take the market price;
- other instruments with fixed and determinable payments use discounted cash flow analysis;
- equity shares with no quoted market prices require an independent appraisal of company valuations.

The Council holds two investments which are classified as available for sale, these are detailed in Note 16. These investments are included in the accounts at the nominal cost of the share holding as there is no active market. If the value of these investments were to decrease then the carrying amount on the balance sheet would fall accordingly and a provision for the unrealised loss made to the Comprehensive Income & Expenditure Account. Investments in relation to social services residents' accounts are shown at their current cash value.

x. Foreign Currency Translation

Where an council enters into a transaction denominated in a foreign currency the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year- end they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. 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 in 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

Notes to the Accounts

Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xii. Heritage Assets

The council holds a portfolio of artists' paintings, murals, some antique furniture at County Hall, some glass works and tapestry artefact which are exhibited within Surrey History Centre and a collection of maps and other documents held at the county archive. These assets are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the council's history and local area. Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment (see note xix in this summary of significant accounting policies).

The art collections, artefacts, antique furniture and equipment are reported in the Balance Sheet at market value as valued by an external valuer. The assets are deemed to have indeterminate lives and a high residual value and hence are not subjected to a charge for depreciation. Maps and documents held in the council's archives would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements of being valued and therefore are not carried in the council balance sheet; this is because of the diverse nature of the assets held and the lack of comparable values.

The carrying amounts of heritage assets are reviewed and where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity the impairment is recognised and measured in accordance with the Council's general policies on impairment (see note xix in this summary of significant accounting policies). Where items are disposed, the proceeds are recorded in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see note xix in this summary of significant accounting policies).

xiii. Intangible Assets

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

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

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

Intangible assets are measured initially at cost. Amounts are re-valued where the fair value of the assets held by the council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired; any losses recognised are posted to the relevant service line(s) in the

Notes to the Accounts

Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

xiv. Interests in Companies/Other Entities and Jointly Controlled Operations/Assets

The Council has considered all its relationships and interests in other entities and, save for one case, does not have the power to exercise significant control or influence over those entities' economic activities. The Council does exercise significant control over one trust fund; however, the economic activity of the trust fund is not material. Therefore the Council has not prepared group accounts to show a consolidated position for itself and other entities.

Jointly controlled operations/assets are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers, rather than the establishment of a separate entity (such as pooled budgets). The council accounts for only its share of the jointly controlled assets & liabilities and cash flows it incurs on its own or jointly with others in respect of its interest in the joint venture.

xv. Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO (first in first out) costing formula. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

xvi. 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 as Lessee

Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment to be applied to write down the lease liability;

Notes to the Accounts

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

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

Operating Leases

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

The Council as Lessor

Finance Leases

Where the council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal) matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

Notes to the Accounts

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

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

xvii. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SeRCOP). The total absorption costing principle is used so that the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- corporate and democratic core i.e. costs relating to the council's status as a multifunctional, democratic organisation;
- non distributed costs i.e. the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of Net Expenditure on Continuing Services.

xviii. 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;

Notes to the Accounts

- **payment towards liability** is applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **lifecycle replacement costs** reflect a proportion of the amounts payable to be posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

The Council currently has three PFI contracts and one similar long-term contract, namely;

- Anchor Homes
- Waste
- Street Lighting
- Care UK

xix. Property, Plant and Equipment (Assets Held for Sale & Investment Properties)

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.

The Council has adopted a de-minimis limit of £10,000 for vehicles, equipment & plant, and £50,000 for buildings and other assets, below which assets and expenditure on the enhancement of assets will not be capitalised. No formal de minimis limit applies to infrastructure assets.

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 in the Balance Sheet using the following measurement bases:

Notes to the Accounts

- infrastructure, community assets and assets under construction are held at depreciated historical cost;
- for all other assets fair value is determined as the amount that would be paid for the asset in its existing use.

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

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 fair value.

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains (exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service).

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

Notes to the Accounts

- buildings use a straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment use a straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- infrastructure assets use a straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.

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

Componentisation

Where an item of property, plant or equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Significant is interpreted as being more than 20% of the value of the total asset.

The external valuers have been instructed to look at property assets worth more than £1m and to highlight any components which have a value of 20% or more of the total value of the asset. Separate components within our asset register will be created for these components.

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 written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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 noncurrent assets is fully provided for under separate

Notes to the Accounts

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 the Capital Adjustment Account.

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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Investment properties are not depreciated but are 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.

Rentals received are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. 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 Capital Receipts Reserve. For 2012/13 all rental properties were used to facilitate the council's policy for delivery of services and therefore do not constitute an Investment Property.

xx. 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.

Provision for Back Pay Arising from Unequal Pay Claims

The Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy. Although statutory arrangements exist which allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established, the county council has not taken up this option to defer payment and the costs

Notes to the Accounts

that have arisen as a result of the single status agreement have been charged to the comprehensive income and expenditure account and are funded from this provision.

Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA), are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant. After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Carbon Reduction Commitment Scheme

The authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its introductory phase, which will last until April 2014. The council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the council is recognised and reported in the costs of the council's services and is apportioned to services on the basis of energy consumption.

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.

Contingent Assets

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

xxi. Reserves

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

Notes to the Accounts

Certain reserves are kept to manage the accounting processes for noncurrent assets, financial instruments, retirement and employee benefits and do not represent usable resources for the council; these reserves are explained in the relevant policies.

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

xxiii. 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 2: Accounting standards Issued not adopted

The International Accounting Standards Board (IASB) published a revised IAS 19 on 16 June 2011. These new changes will be adopted by the Code for 2013/14 and will be applicable from 1 April 2013. These amendments reclassify components of defined benefit costs to be recognised in the financial statements and provide new definitions for recognition criteria for service costs and termination benefits. These changes to IAS 19 will be retrospectively applied for the 2012/13 financial year, at the time the 2013/14 accounts are prepared. Therefore the figures in this set of accounts will be restated to take account of the changes for the 2012/13 financial year, as well as basing the new 2012/13 figures on the revised standards.

Note 3: Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, 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:

- There is a high degree of uncertainty about future levels of funding for local government, 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.
- The council reviewed its grants and contributions and where the money was conditional upon the money being expended in a specific way and the council was satisfied initially that the money could be expended as intended it was set aside in useable reserves (either earmarked revenue or capital un-applied) to be drawn down at a future date. The council reviews its reserves annually and 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.
- The council had £20m deposited with two Icelandic institutions which collapsed in early October 2008. Local authorities have the status of a preferred creditor and the council is anticipating recovery of its original deposit plus accrued interest at 22 April

Notes to the Accounts

2009 or the maturity date if earlier. Further details of the assumptions made in relation to the impairment of these investments are provided in Note 48.

- The council has considered all its relationships and interests in other entities and with the exception of the Henrietta Parker Centre has made a judgement that it does not have the ability to exercise control or significant influence over another entity's economic activities and therefore no entities are considered to be subsidiaries of the council. Where the council does exercise significant control over the Henrietta Parker Centre the economic activity of that trust fund, the income of which supports adult learning, is deemed not material and hence the council has not prepared group accounts.
- The council is deemed to control the services provided under the outsourcing agreement, and has an interest in the assets at the end of the agreement, for four contracts:
 - In 1998 the council entered into a long-term contract with Anchor Trust for the purchase of residential and day care for the elderly in 17 homes previously operated by the council.
 - In 2002 the council entered into a further long-term contract for the provision of 7 residential and day care homes with Care UK.
 - In 1999 the council entered into a 25-year contract for waste disposal with Surrey Waste Management.
 - In 2010 the council entered into a long term contract with Skanska John Laing for street lighting services, the contracts includes the replacement or refurbishment of all street lights in Surrey and continued maintenance of the light 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 43 for additional details).

Note 4: 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 are disclosed in notes 46 & 47.

The items in the council's Balance Sheet at 31 March 2013 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 was estimated that the annual depreciation charge for buildings would increase by around £1.7m for every year that useful lives had to be reduced.

Notes to the Accounts

Provisions	The council has made a provision of £0.974m for the settlement of redundancy costs agreed but not paid. These costs are not certain as some employees may be redeployed.	Should employees be redeployed rather than made redundant, then any unused provision will be reversed in 2013/14.
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.	A decrease of 0.5% in the real discount rate would result in an increase in the pension liability of £178m for the LGPS. A 0.5% increase on the "pension increase rate" would result in an increase in the pension liability of £131m for the LGPS.
Debtors	At 31 March 2013, the council had a balance of £154m on short term debtors (government grants and payments in advance to social care clients in the main). A credit risk review suggested that an impairment level of £12.2m for doubtful debts was sufficient (note 16 to the accounts shows that aged debtors decreased by £8.7m).	Debtors are monitored regularly and should general debtors rise in 2013/14 the council may consider raising its provision for bad and doubtful debt.
Investments	The council had £20m invested in Icelandic institutions which collapsed in early October 2008. The Icelandic Supreme Court ruled that UK local council claims qualified as priority status and this council has received £13.3m to date. The carrying amounts reflected in the accounts are impaired in line with the most recent guidance (See note 48)	The council created an earmarked reserve to mitigate the potential impact of the impairment of this investment.

Note 5: Material items of income and expenditure

The following material items of income and expenditure are included in the comprehensive income and expenditure account (revenue) or the capital expenditure figures for 2012/13:

- Expenditure on highways maintenance (revenue and capital) includes £35.4m to May Gurney and £7.2m to Tarmac.
- £11.5m Costain for Walton bridge capital scheme
- Expenditure on street lighting energy consumption, include £3.7m to Laser Energy
- Contracted bus services including concessionary fares of £7m (£3.6m to Arriva Southern Counties Ltd and £3.4m to Abellio West London Ltd).

Note 6: Events after the balance sheet date

The statement of accounts will be authorised for issue by the chief finance officer in September 2013. 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. No such adjustments have been deemed necessary.

Notes to the Accounts

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

Note 7: Adjustments between accounting basis and funding basis under regulations

Local authorities as tax raising bodies are subject to specific rules when determining local tax rates for budget setting purposes. The budget requirement is met from general government grant, non domestic rates and council tax and is calculated net of fees and charges and other specific government grant. Local authorities are required to use capital receipts from the sale of council assets or what the government terms capital grant on the purchase of new or enhancement of existing physical assets or where specified under statute revenue expenditure can be funded from capital sources.

The statutory general fund is the revenue account into which all the receipts of the council are paid and out of which all payments are made. All unused receipts, including capital receipts and capital grant unapplied, available for use in future years is accounted for as useable reserves in a council's Movement in Reserves Statement as shown in note 25 the unusable reserves shown in this statement reflect certain liabilities that are accounted for in the comprehensive income and expenditure statement in accordance with proper accounting practice but are not recognised in accordance with statutory in the general fund for tax setting purposes (e.g. depreciation and unrealised gains and losses on the revaluation of assets).

The following table sets out the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

Notes to the Accounts

	Usable Reserves			
	General Fund Balance	Capital grant & contributions unapplied reserve	Capital Receipts Reserve	Unusable Reserves
	£000	£000	£000	£000
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement				
Charges for depreciation & impairment of non-current assets	-73,842	0	0	73,842
Revaluation losses on property, plant & equipment	-16,053	0	0	16,053
Amortisation of intangible assets	-2,230	0	0	2,230
De-recognition of Academies	-27,584	0	0	27,584
Revenue expenditure funded from capital under statute	-15,872	0	0	15,872
Net gain/loss on sale disposal of property, plant & equipment	656	0	-6,284	5,628
Deferred Income in respect of PFI schemes	158	0	0	-158
Reversal of donated asset adjustment	21	0	0	-21
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	98,523	-98,523	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	107,008	0	-107,008
Use of Capital Receipts Reserve to finance new capital expenditure	0	0	634	-634
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	67,585	0	0	-67,585
Employer's pensions contributions and direct payments to pensioners payable in the year	-84,973	0	0	84,973
Amount by which the council tax income credited to the Comprehensive Income & Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	-120	0	0	120
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,618	0	0	-1,618
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment (MRP)	25,061	0	0	-25,061
Capital expenditure charged against the general fund balance	7,141	0	0	-7,141
TOTAL ADJUSTMENTS	-19,911	8,485	-5,650	17,076

Notes to the Accounts

Comparator information relating to the previous year adjustments between accounting basis and funding basis under regulations is provided in the table below:

	General Fund Balance	Capital grant & contributions unapplied reserve	Capital Receipts Reserve	Unusable Reserves
	£000	£000	£000	£000
2011/12 adjustments between accounting basis and funding basis under regulations:				
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement				
Charges for depreciation & impairment of non-current assets	-72,873			72,873
Revaluation losses on property, plant & equipment	-44,299			44,299
Amortisation of intangible assets	-2,293			2,293
Revenue expenditure funded from capital under statute (REFCUS)	-23,944			23,944
Net gain/loss on sale disposal of property, plant & equipment	3,522		-9,197	5,675
De-recognition of academy schools	-67,804			67,804
Deferred Income in respect of PFI schemes	150			-150
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	59,512	-59,512		
Application of grants to capital financing transferred to the Capital Adjustment Account (Non current Assets £63.731m and REFCUS £23.944m)	87,675			-87,675
Use of Capital Receipts Reserve to finance new capital expenditure			14,547	-14,547
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	66,774			-66,774
Employer's pensions contributions and direct payments to pensioners payable in the year	-56,023			56,023
Amount by which the council tax income credited to the Comprehensive Income & Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	1,661			-1,661
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-1,457			1,457
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment (MRP)	26,715			-26,715
Capital expenditure charged against the general fund balance	7,533			-7,533
TOTAL ADJUSTMENTS	-15,151	-59,512	5,350	69,313

Notes to the Accounts

Note 8: 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 and the amounts posted back from earmarked reserves to meet General fund expenditure in 2013/14.

	Balance at 01/04/11 £000	Transfers In £000	Transfers Out £000	Balance at 31/03/12 £000	Transfers In £000	Transfers Out £000	Balance at 31/03/13 £000
Schools Balances	36,606	11,354		47,960	4,831		52,791
Transfer of Schools Balances to Academies	6,047		-4,223	1,824		-1,824	0
Investment Renewals	2,602	8,488	-13	11,077	5,075	-2,844	13,308
Equipment Replacement	3,400	2,167	-4,455	1,112	4,860	-2,915	3,057
Vehicle Replacement	3,342	1,057	-49	4,350	729	-24	5,055
Waste Site Contingency	299			299			299
Budget Equalisation	22,215	31,977	-22,215	31,977	25,031	-31,977	25,031
Financial Investment	5,507	3,998		9,505	1,572		11,077
Private Finance Initiative	2,689	1,932		4,621	1,163		5,784
Insurance	6,231	994		7,225	547	-285	7,487
Severe Weather	5,000			5,000			5,000
Eco Park Sinking Fund	3,000			3,000	5,000		8,000
Investment	0	4,987		4,987			4,987
Child Protection	0	1,300		1,300	2,266		3,566
Revenue Grants Unapplied	1,729	19,200	-1,729	19,200	21,273	-20,102	20,371
General Capital	8,394	38		8,432	55	-879	7,608
Interest Rate	0			0	3,210		3,210
Economic Downturn	0			0	4,400		4,400
	107,061	87,492	-32,684	161,869	80,012	-60,850	181,031

Note 9: Other operating income and expenditure

2011/12		2012/13
£000		£000
949	Land drainage precept	949
-365	Miscellaneous income	-382
213	Contributions from trading services	-406
-1,584	Change in provisions	385
0	Donated Assets	-21
-3,645	(Gain)/ Loss on the disposal of non current assets	-656
-4,432		-131

Notes to the Accounts

Note 10: 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 Authority and various trust funds.

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

2011/12 £000		2012/13 £000
15,889	Interest payable and similar charges	16,698
98,225	Local government pensions' interest cost (Note 47)	92,934
-69,134	Local government & fire pensions' return on assets (Note 47)	-58,988
-5,067	Interest receivable and similar income	-2,412
<u>39,913</u>		<u>48,232</u>

Note 11: Council tax and general grants & contributions

2011/12 £000		2012/13 £000	2012/13 £000
556,453	Council tax income		579,906
	Grants and Contributions:		
116,455	Non domestic rates	134,854	
169,501	Non-ringfenced government grants	141,539	
123,187	Capital Grants and contributions	88,817	365,210
<u>965,596</u>			<u>945,116</u>

Notes to the Accounts

Note 12: Property, plant & equipment - movements during 2012/13

	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
Cost (revalued)							
Balance at 01/04/12	1,265,864	70,976	593,288	4,480	36,206	31,165	2,001,979
Additions	41,370	6,155	52,598	282		33,107	133,512
Donations		21					21
Revaluations recognised in the Revaluation Reserve	17,235	12					17,247
De-recognition - disposals	-3070	-5,607			-117		-8,794
De-recognition - other	-38,961						-38,961
Reclassifications	288				-288		0
Assets reclassified (to)/from Assets Held for Sale	-5,266			-187	552		-4,901
Other Movements in assets and valuation						-10,611	-10,611
At 31/03/13	1,277,460	71,557	645,886	4,575	36,353	53,661	2,089,492
Accumulated Depreciation and Impairment							
At 01/04/12	-332,671	-44,201	-363,276	0	-4,056	0	-744,204
Depreciation charge	-37,743	-6,360	-29,739	0	0	0	-73,842
Impairment losses recognised in the Revaluation Reserve	-4,052						-4,052
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-4,336		-1,112				-5,448
De-recognition - disposals	701	5,311			11		6,023
De-recognition - other	11,377						11,377
Reclassifications	-9				9		0
Assets reclassified (to)/from Assets Held for Sale	689				-55		634
At 31/03/13	-366,044	-45,250	-394,127	0	-4,091	0	-809,512
Net Book Value							
at 31/03/12	933,193	26,775	230,012	4,480	32,150	31,165	1,257,775
at 31/03/13	911,416	26,307	251,759	4,575	32,262	53,661	1,279,980

* These amounts include assets acquired under PFI schemes (see note 43 for additional details).

Notes to the Accounts

Property, Plant & Equipment Comparator 2011/12	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
Cost (re-valued)							
Balance at 01/04/11	1,296,582	61,251	547,042	4,641	26,793	53,940	1,990,249
Additions*:	51,897	9,467	46,246		153	7,569	115,332
Revaluations recognised in the revaluation reserve	5,588	408			9,760		15,756
De-recognition	-86,703						-86,703
Reclassifications Assets reclassified (to)/from assets held for Sale	-1,426			-67	-500		-67
Other movements in cost or valuation **		-150				-30,344	-30,494
Balance at 31/03/12	1,265,938	70,976	593,288	4,480	36,206	31,165	2,002,053
Accumulated Depreciation and Impairment							
Balance at 01/04/11	-304,680	-38,409	-333,141				-676,230
Depreciation charge	-38,057	-5,792	-29,023				-72,872
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-8,788		-1,112		-4,056		-13,956
De-recognition	18,780						18,780
Balance at 31/03/12	-332,745	-44,201	-363,276		-4,056		-744,278
Net Book Value							
at 31/03/11	991,902	22,842	213,901	4,641	26,793	53,940	1,314,019
at 31/03/12	933,193	26,775	230,012	4,480	32,150	31,165	1,257,775

* These amounts include assets acquired under PFI schemes, please see note 29 for additional details.

** A review of the balance brought forward on assets under construction resulted in de minimis capital expenditure being written out to the Comprehensive Income and Expenditure account in accordance with the council's de minimis policy. In future years de minimis will not be shown in Note 12 as this is not a requirement of the Code. De minimis expenditure does not impact on the general fund balance to the extent that it is financed from capital funding under statutory provisions as accounted for in the capital adjustment account and reflected in unusable reserves

Capital Commitments

At 31 March 2013, the Council has entered into a contract for the acquisition of property, plant and equipment in 2013/14 and future years, budgeted to cost £17.4m. The major commitments are:

Notes to the Accounts

- Ranger House, Guildford Project £14.4m
- Egham Town Centre Project £1.8m
- Schools Basic Need (The Pines) £1.2m

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations of land and buildings were carried out by The Valuation Office, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

	Land and Buildings £'000
Carried at historical cost	14,941
Change in fair value as at:	
31 March 2009	292,311
31 March 2010	368,070
31 March 2011	122,828
31 March 2012	54,981
31 March 2013	58,285
Total	911,416

Impairment Losses

During 2012/13 the council has recognised an impairment loss of £20.1m in total. £8.4m is in relation to property assets. This is land and building assets which are re-valued based on existing use value, as part of the five year rolling programme by external valuers. An impairment loss of £4.3m is charged to the Comprehensive Income and Expenditure Statement and £4.1m was offset from the balance in the revaluation reserve in relation to these assets. £10.6m relates to capital expenditure which is below the council's de minimis levels and consequently is written off to the Comprehensive Income & expenditure Statement in the year it is incurred. A further £1.1m impairment relates to Infrastructure assets, where the council has replaced the street lighting assets under the PFI contract. The replacement assets have been added to the balance sheet in line with the appropriate accounting treatment for PFIs and similar contracts and the replaced assets impaired and charged to the Comprehensive Income and Expenditure Statement.

Note 13: Foundation, voluntary aided and voluntary controlled schools and academies

Foundation

The local council funds foundation schools but they are owned and managed, including the provision of support services by the governing body and therefore values for non-current assets have not been consolidated in this balance sheet.

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.

Notes to the Accounts

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 2012/13, 8 schools had transferred to academy status (5 Community Schools, 2 Voluntary Aided Schools and 1 Foundation School). The school is owned and managed completely independently of the local authority and therefore the non-current assets have been excluded from this balance sheet.

Note 14: Heritage assets

Heritage assets are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the council's history and local area. Surrey History Centre is the home of the Archives Service for Surrey County Council. The Centre holds the corporate archives of the County Council and its predecessors, particularly the Court of Quarter Sessions, along with those of second and third tier authorities and a wide range of other public bodies and private institutions and individuals. The collection size varies from a single item (e.g. a letter or title deed) to hundreds of boxes. In total is estimated to be 1000 cubic metres. Ownership of the collections is split between owned (its own archive but also all 'gifted' and purchased collections) and a wide range of corporate bodies and individuals. Over the last 20 years, around 48% of the collections received have been accepted on terms of indefinite loan, ownership remaining with the depositor, 48% as gifts and 4% have been purchased. In terms of physical quantity (cubic metres) the first category (deposited) would constitute a far greater proportion of the whole, as purchased and gifted collections tend to be very small.

The archive collections housed within the repository date back to the 12th century, number over 9000 and are made up of millions of individual items of paper, parchment, photographic (and other) images, maps, plans, volumes, digital and magnetic storage devices. The vast majority of material held unique, i.e. no other copy exists, and is therefore irreplaceable. The three repositories in which the collections are stored meet the British Standard BS5454 (Storage and Exhibition of Archival Material). Temperature and humidity are regulated to tight parameters and a gas-based fire suppressant is installed. The repositories are secure (i.e. only specified staff can access the records).

In addition, the centre houses the local studies' collections of the county which comprise around 35,000 books and pamphlets relating in some way to the history of the county and its inhabitants, around 41,000 illustrations (engravings, prints, postcards etc), around 10,000 photographs, 900 printed maps and 600 periodical titles. Most of this material is to be held in perpetuity as a definitive reference source for the history of the county. Some items have a high monetary value but the vast majority are of a low value. There is no insurance held for these collections as the building is secure and the collections are irreplaceable.

Due to the diverse nature of the items held in the archives, the lack of comparable values and the disproportionate cost of having such items valued in comparison to the benefits to be derived to the users of accounts of having them valued, archived items are not carried in the council balance sheet. Other heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment. The assets are deemed to have indeterminate lives and a high residual value and hence are not subjected to a charge for depreciation and have not been subject to movement in the current or previous year. The art collections, antique furniture, equipment and artefact displayed at the county hall and other buildings are reported in the Balance Sheet at market value as valued by an external valuer. Part of the art

Notes to the Accounts

collection and certain artefact, furniture and fittings were valued November 2004 by Sotheby's with the remaining assets valued by Christies May 2011. Artefact, the Badge of Office and other miscellaneous items are carried at Historical cost.

The valuations of items carried on the Balance Sheet are set out in the table below:

	31/03/13 £'000
Furniture at County Hall	63
Picture and Paintings at County Hall	530
Artefacts and miscellaneous historical items.	67
Member's Badge of Office at County Hall	5
Total	<u>665</u>

Note 15: Intangible assets

The council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT network and accounted for as part of the hardware item of property, plant and equipment. The intangible assets include both purchased licenses and internally generated software. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council. The SAP accounting general ledger is the only item of capitalised software that is individually material to the financial statements and a useful life of 10 years has been assigned to it.

SAP general ledger	31/03/12	31/03/13
Carrying Amount (£000)	5,339	3,509
Remaining Amortisation Period (Years)	3	2

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £2.230m charged to revenue in 2012/13 was charged to the Information Management and Technology administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

The movement on Intangible Asset balances during the year is as follows:

2011/12 Intangible Assets £000		2012/13 Intangible Assets £000
22,506	Gross carrying amounts at 1 April	23,197
<u>569</u>	Additions	<u>975</u>
23,197	Gross carrying amounts at 31 March	24,172
-13,756	Accumulated amortisation at 1 April	-16,049
<u>-2,293</u>	Amortisation charge in year	<u>-2,230</u>
<u>7,148</u>	Net carrying amount at 31 March	<u>5,893</u>

Notes to the Accounts

Note 16: Financial instruments

Categories of financial instruments

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

	Long-Term		Short-Term	
	31/03/2012 '£000	31/03/2013 '£000	31/03/2012 '£000	31/03/2013 '£000
Investments				
Loans & receivables	111	79	99,969	104,112
Available for sale financial assets	130	137		
Total Investments	241	216	99,969	104,112
Debtors				
Financial assets carried at contract amounts*	503	8,833	71,121	106,051
Total Debtors	503	8,833	71,121	106,051
Borrowings				
Financial liabilities at amortised cost	306,232	238,109	15,101	82,089
Total Borrowings	306,232	238,109	15,101	82,089
Other Long-term Liabilities				
PFI and finance lease liabilities	44,266	56,585		
Total Other Long-term Liabilities	44,266	56,585		
Creditors				
Financial liabilities carried at contract amounts			169,124	178,206
Total Creditors	0	0	169,124	178,206

* adjusted for provision for bad debt

Income, expense, gains & losses

	2011/12			2012/13		
	Financial Liabilities Measured at amortised cost £000	Financial Assets		Financial Liabilities Measured at amortised cost £000	Financial Assets	
		Loans & receivables £000	TOTAL £000		Loans & receivables £000	TOTAL £000
Interest expense	15,889		15,889	16,698		16,698
Total expense in Surplus or Deficit on the Provision of Services	15,889		15,889	16,698		16,698
Interest Income		-1,969	-1,969		-2,040	-2,040
Interest Income accrued on impaired financial assets		-3,098	-3,098		-372	-372
Total income in Surplus or Deficit on the Provision of Services		-5,067	-5,067		-2,412	-2,412

Notes to the Accounts

Fair Value of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost; their 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:

- by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at the balance sheet date for loans from the PWLB;
- the same procedures and interest rates as for PWLB loans has been used for non-PWLB loans as this provides a sound approximation for the fair value of these instruments;
- no early repayment or impairment is recognized;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

	31/03/12		31/03/13	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	317,444	390,873	320,198	393,817

The fair value is greater than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

Fair value shows a notional future loss (based on economic conditions at 31 March 2013) arising from a commitment to pay interest to lenders above current market rates.

	31/03/12		31/03/13	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans & receivables	99,969	99,969	104,112	104,112
Long-Term debtors	111	111	79	79

All the investments held by the council at the 31 March 2011 are due to mature within one year therefore the fair value is equal to the carrying amount, which includes accrued interest. Available for sale assets are carried on the Balance Sheet at their fair value. Available for sale assets consist of shares in 3 organisations. These shares are not traded in an active market and so the fair value is taken to be the cost less impairment i.e. the current nominal value of the shares.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

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:

- the credit risk is the possibility that other parties might fail to pay amounts due to the council;

Notes to the Accounts

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

Overall Procedures for Managing Risk

The council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice 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;
- by approving annually in advance prudential indicators for the following three years limiting:
 - the overall borrowing;
 - the maximum and minimum exposures to fixed and variable rates;
 - the maximum and minimum for exposures the maturity structure of its debt;
 - the 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 in compliance with government guidance.

These indices are required to be reported and approved at or before the 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 at least semi annually to the Audit & Governance Committee.

These policies are implemented by the pension fund and treasury team. The council maintains 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 through treasury management practices. These practices are a requirement of the Code of Practice and are reviewed periodically.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers.

This risk is minimised through the annual investment strategy, which 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 & Poors' Rating Services. The investment strategy imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria; credit ratings of short term of F1, long term A, support C and Individual 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria. Additionally, sovereign ratings are also

Notes to the Accounts

used to determine creditworthiness of countries, allowing only banks from AAA countries to be listed.

The following analysis summarises the council's maximum exposure to credit risk on other financial assets, based on experience of default, adjusted to reflect current market conditions.

Estimated maximum exposure to default	Amount	Historical experience of default	Adjustment for market conditions	Estimated maximum exposure to default
£000s 31/03/12	£000s 31/03/13	% 31/03/13	% 31/03/13	£000s 31/03/13
Deposits with banks and financial institutions				
	(a)	(b)	(c)	(a x c)
AAA rated counterparties*	113,750	0.00%	0.00%	
36 AA rated counterparties	20,000	0.03%	0.03%	36
A rated counterparties	100,000			
Other counterparties**				
6,263 Trade debtors***	118,282			6,966
6,299 Total	358,655			7,052

* includes £65.2m with other Local Authorities that do not have credit ratings but are backed by central government.

** includes £6.6m of deposits placed in Icelandic institutions whose credit ratings have reduced since the date of placing the deposit.

In October 2008 the Icelandic banking sector defaulted on its obligations and at that time the council had £20m invested in this sector. In accordance with accounting practice the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to accounting requirements. Now all deposits are placed through the London money markets, and invested with institutions in the UK only. The council's treasury management strategy forbids any investment outside of the UK, unless the sovereign rating is AAA with all 3 agencies.

The council does not generally allow credit for its trade debtors, such that £1.2m of the £14.7m balance is past its due date for payment. The past due amount can be analysed by age as follows:

31/03/12 £000		31/03/13 £000
3,801	Less than six months	13,500
2,471	Six months to one year	307
9,549	More than one year	847
15,821	Total	14,654

Notes to the Accounts

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 Code of Practice. This seeks to ensure that cash is available when it is needed. The council has ready access to borrowings from the money markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions is unlawful). 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.

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 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 prudential 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;
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for 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:

31/03/12		31/03/13
£000		£000
5,677	Less than one year	69,243
	Between one and two	
71,790	years	-10,401
	Between two and five	
14,096	years	12,493
	Between five and 15	
26,768	years	43,116
237,049	More than 15 years	262,333
<u>355,380</u>		<u>376,784</u>

The maturity analysis of financial assets which follows includes some investments which are classed on the balance sheet as cash equivalents:

31/03/12		31/03/13
£000		£000
220,033	Less than one year	240,373
<u>220,033</u>		<u>240,373</u>

All trade and other payables are due to be paid in less than one year and are not shown in the table above.

Notes to the Accounts

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:

- when borrowings at variable rates the interest expense charged to the Income and Expenditure Account will rise;
- when borrowings at fixed rates the fair value of the borrowing will fall;
- with investments at variable rates the interest income credited to the Income and Expenditure Account will rise;
- with investments at fixed rates the fair value of the assets will fall.

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. 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 treasury management strategy draws together council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. The treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure; market and forecast interest rates are monitored 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.

Currently all borrowing is at a fixed interest rate, with the exception of the monies held for Surrey Police Authority and some trust funds which are classed as short-term borrowing and the fair value is assessed to be the amount outstanding. All investments are held at fixed rate with the exception of the shares where dividends are received based on the performance of the company, which is not influenced by interest rates. The estimated recoverable amount on the fixed rate investments is not deemed to be impaired by the change in the fair value and therefore there is no impact on the Comprehensive Income & Expenditure Statement of an interest rate rise.

Price risk

The council, excluding the pension fund, does not generally invest in equity shares or marketable bonds. The council does have holdings to the value of £130k in two companies. These companies are not quoted and the shares are held at book value. The council is therefore not exposed to losses arising from movements in the prices of the shares although if either of the companies were to go into liquidation there is a risk that the shares would become worthless. As the shareholdings have arisen in the acquisition of specific interests, the council is not in a position to limit its exposure to these risks.

Foreign exchange risk

The Council currently has money held in escrow in Icelandic krona, as part of the recovery from Landsbanki and Glitnir. While the recovery process is still ongoing, repayments have been made in a basket of currencies, some of which has been in Icelandic krona. Due to currency restrictions still in place, the money held in escrow cannot be transferred into

Notes to the Accounts

sterling. This may expose Surrey to a risk in exchange rates should the value of krona fall significantly against sterling.

The council does not have any other financial assets or liabilities denominated in foreign currencies, and therefore has no other exposure to loss arising from movements in exchange rates.

Note 17: Inventories

	Consumables & Materials	
	2011/12 £000	2012/13 £000
Balance Outstanding at the start of year	1,221	1,356
Purchases	3,423	1,133
Recognised as an expense in the year	-3,288	-1,225
Balance outstanding at year-end	1,356	1,264

Note 18: Landfill allowance trading scheme and carbon reduction commitment allowances

Landfill Allowance Trading Schemes (LATS)

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of biodegradable municipal waste disposed of to landfill. It also provides the legal framework for the landfill allowance trading scheme (LATS), which commenced operation on 1 April 2005. The scheme allocates tradable landfill allowances to each WDA in England. Should a WDA exceed its landfill allowances then it is liable to a fine of £150 per tonne.

The county council is the WDA for the area of Surrey. The Department for Environment, Food and Rural Affairs (DEFRA) allocated the council tradable landfill allowances of 152,623 tonnes of bio-municipal waste for the 2012/13 financial year. The council did not purchase any additional allowances during the year.

When the council buries waste in landfill sites it creates a liability which is measured at the prevailing market rate for tradable landfill allowances. At 31 March 2013, the rate was £1 per tonne which is included as expenditure in the accounts of the council as £40,294. This liability is matched by the tradable landfill allowances the county has been allocated, or purchased. The allocated allowances are measured at a rate of £1 per tonne and the allowances are included in income of £152,623.

Unused allowances cannot be carried forward as they cease to be useable for any landfill after the 31 March 2013 and therefore the unused allowances of 145,695 have been written off at the prevailing market rate of £1 per tonne. The estimated usage for 2011/12 was 87,355 tonnes, actual allowances used were 53,989. The excess liability 33,366 has been written back to reduce expenditure as has the excess asset to reduce income at the 2012/13 prevailing market rate of £1 per tonne.

The LATS amounts included in the Comprehensive Income and Expenditure Account and Balance Sheet.

Notes to the Accounts

LATS Included in the Comprehensive Income & Expenditure Account

2011/12 £000	Environmental and Regulatory Services	2012/13 £000
80	Expenditure on landfill	7
98	Loss on expired allowances	146
178		153
-178	Income from allowances	-153

Balance Sheet

31/03/12 £000		31/03/13 £000
	Current Intangible Assets:	
80	Landfill usage allowances	7
	Short term provisions:	
-80	Liability to DEFRA for landfill usage	-7

Carbon Reduction Commitment Allowances

The council is required to purchase and surrender carbon reduction commitment allowances, currently retrospectively, on the basis of emissions (i.e. carbon dioxide produced as energy is used). As carbon dioxide is emitted (i.e. as energy is used) a liability and an expense are recognised. The liability will be discharged by surrendering allowances.

The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. For 2012/13, the cost to the council of £1.080m (£0.946m for 2011/12) is recognised in short term provisions on the balance sheet (see note 23 for breakdown of provisions). The cost is reported across the council's services and has been apportioned to services on the basis of energy consumption. The council has allowances of £0.101m which have been purchased in advance of need and these are held as a current intangible asset on the Balance Sheet.

Note 19: Debtors

The amounts shown below and on the face of the balance sheet include amounts paid in advance.

31/03/2012 £000		31/03/2013 £000
18,547	Central government bodies	36,494
41,678	Other local authorities	46,090
4,490	NHS bodies	2,445
174	Public corporations and trading funds	316
	Bodies external to general government (i.e. All other bodies)	
47,282		68,637
112,171	Total	153,982
	Less:	
	Provision for Bad Debts	
-5,893	- Social Services	-6,803
-370	- Other Services	-163
-5,063	- Council Tax Arrears	-5,495
100,845		141,521

Notes to the Accounts

Note 20: Cash and cash equivalents

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

31/03/12		31/03/13
£000		£000
-18,747	General account	-22,800
0	Overnight Investments	8,200
80,502	Call accounts	80,094
48,036	Money market	48,625
109,791	Total Cash and Cash Equivalents	114,119

Note 21: Assets held for sale

Assets held for sale (Current)		Assets held for sale (Current)
31/03/2012		31/03/2013
£000		£000
8,090	Balance Outstanding at 1 April	4,555
	Assets newly classified as held for sale:	
2,020	- Property, Plant and Equipment	4,267
	Revaluation gains	9,315
-5,555	Assets sold*	-2,858
4,555	Balance Outstanding at 31 March	15,279

* Of the total assets sold (i.e. £2.858m) in 2012/13 £0.4m relates to land and property included in the opening balance and £2.458m relates to land and property newly classified as held for sale during 2012/13.

Note 22: Creditors

31/03/12		31/03/13
£000		£000
-19,740	Central government bodies	-27,031
-33,077	Other local authorities	-64,141
-13,085	NHS bodies	-4,177
	Public corporations and trading	
-1,716	funds	-323
	Bodies external to general	
	government (i.e. All other	
-127,342	bodies)	-138,599
-194,962	Total	-234,271

Notes to the Accounts

Note 23: Provisions

	Insurance Liabilities £000	Landfill Usage Liability £000	Equal Pay £000	Redundancy £000	Carbon Reduction Commitment £000	Total Provisions £000
Balance at 1 April 2012	6,373	80	1,581	1,487	946	10,467
Additional provisions made in 2012/13	286			570	1,281	2,137
Amounts used in 2012/13		7		-1,083	-946	-2,022
Unused amounts reversed in 2012/13		-80				-80
Balance at 31 March 2013	6,659	7	1,581	974	1,281	10,502
Current Provisions	1,038	7	0	974	1,281	3,300
Non-Current Provisions	5,621		1,581	0	0	7,202
	6,659	7	1,581	974	1,281	10,502

Comparator information relating to 2011/12 provisions are provided in the following table:

	Insurance Liabilities £000	Landfill Usage Liability £000	Unequal Pay Claim £000	Travel lump sum £000	Redundancy £000	Carbon Reduction Commitment Scheme £000	Total Provisions £000
Balance at 1 April 2011	6,373	135	1,530	1,287	1,701		11,026
Additional provisions made in 2011/12		80	51		1,487	946	2,564
Amounts used in 2011/12		-135		-1,287	-1,046		-2,468
Unused amounts reversed in 2011/12					-655		-655
Balance at 31 March 2012	6,373	80	1,581		1,487	946	10,467
Current Provisions		80	51		1,487	946	2,564
Non-Current Provisions	6,373		1,530				7,903
	6,373	80	1,581		1,487	946	10,467

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 provision also includes an amount to cover the payment of a levy in relation to the MMI

Notes to the Accounts

insurance scheme (£1.038m). The fund and its liabilities are subject to review by the council's actuaries. The last review occurred during 2012. The council has an earmarked reserve to cover any unknown future liabilities.

Landfill Usage

Landfill allowances, whether allocated by DEFRA (accounted for as a government grant) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. After initial recognition, allowances are measured at the lower of cost and net realisable value. As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. Where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty. The liability for landfill usage is described in Note 18.

Unequal Pay Claim

In July 2005 the council introduced new pay and conditions arrangements for its employees in respect of equal pay and harmonisation legislation. These arrangements were fully implemented by July 2006. The 2006/07 accounts made a provision to cover the cost of any harmonisation claims, however, the council recognises that there is also a potential risk that claims may be made for a period of up to six years, which has been assessed to be in the region of £1.6m.

Travel Lump Sum Payments

The council had a policy of making travel lump sum payments to qualifying staff, who claimed the allowance a year in arrears. A provision of £1.287m was carried forward from 2010/11 accounts to cover the estimated cost of this claim which was drawn during 2011/12 resulting in a nil balance at 31 March 2012. In future adjustments between allowances and actual costs will be accrued for at year end.

Redundancy Costs

A provision was made for £0.974m to cover the cost of redundancies which had been agreed during 2011/12 but for which the expenditure would not be incurred until 2012/13.

Carbon Reduction Scheme

The council is required to purchase and surrender carbon reduction commitment allowances, currently retrospectively, on the basis of emissions (i.e. carbon dioxide produced as energy is used). As carbon dioxide is emitted (i.e. as energy is used) a liability and an expense are recognised. The liability will be discharged by surrendering allowances. Further information on the carbon reduction scheme is disclosed in note 18.

Note 24: Usable Reserves

Movements in the council's usable reserves are summarised in the table below (see Movement in Reserves Statement and notes 7 and 8 for detail).

	Balance 01/03/12	Transfers In	Transfers Out	Balance at 31/03/13
Revenue				
General Fund Balance	28,837	22,153	-19,164	31,826
Earmarked Reserves	161,869	80,012	-60,850	181,031
Total revenue reserves	190,706	102,165	-80,014	212,857

Notes to the Accounts

Capital

Capital Grant Unapplied	66,726	-107,008	98,523	58,241
Capital Receipts Reserve	11,697	6,284	-634	17,347
Total capital reserves	78,423	-100,724	97,889	75,588
Total usable reserves	269,129	1,441	17,875	288,445

Note 25: Unusable Reserves

31/03/12		31/03/13
£000		£000
-235,057	Revaluation Reserve	-251,579
-494,130	Capital Adjustment Account	-498,931
37	Financial Instruments Adjustment Account	37
919,182	Pensions Reserve	1,070,711
-6,360	Collection Fund Adjustment Account	-6,240
15,231	Accumulated Absences Account	13,613
<u>198,903</u>		<u>327,611</u>

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.

31/03/12		31/03/13	31/03/13
£000		£000	£000
(225,683)	Balance at 1 April		(235,057)
(16,354)	Upward revaluation of assets	(26,562)	
	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	4,052	
(16,354)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(22,510)
6,980	Difference between fair value depreciation and historical cost depreciation	5,988	
6,980	Amount written off to the Capital Adjustment Account		5,988
(235,057)	Balance at 31 March		(251,579)

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

Notes to the Accounts

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.

The capital adjustment account is detailed in the table that follows:

31/03/12 £000		31/03/13 £000	31/03/13 £000
(567,419)	Balance at 1 April		(494,130)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
72,873	Charges for depreciation and impairment of non-current assets	73,842	
44,299	Revaluation losses on Property, Plant and Equipment	16,054	
2,293	Amortisation of intangible assets	2,230	
23,944	Revenue expenditure funded from capital under statute	15,872	
(150)	Deferred Income	(158)	
0	Donated Assets credited to the Comprehensive Income and Expenditure Statement	(21)	
73,479	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	33,212	
216,738			141,031
(6,979)	Adjusting amounts written out of the Revaluation Reserve		(5,988)
209,759	Net written out amount of the cost of non-current assets consumed in the year		135,043
	Capital financing applied in the year:		
(14,547)	Use of the Capital Receipts Reserve to finance new capital expenditure		(634)
	Application of grants to capital financing from the Capital Grants Unapplied Account		(107,008)
(26,715)	Statutory provision for the financing of capital investment charged against the General Fund		(25,061)
(7,533)	Capital expenditure charged against the General Fund		(7,141)
<u>(494,130)</u>	Balance at 31 March		<u>(498,931)</u>

Notes to the Accounts

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 2013 is in relation to the loss of interest on soft loans issued by the council in 2007/08 to Painshill Park Trust and foster carers, there have been no movements on this reserve during 2012/13.

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 recognized 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.

31/03/12		31/03/13
£000		£000
814,760	Balance at 1 April	919,182
115,173	Actuarial gains or losses on pensions assets and liabilities	134,142
	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive	
56,023	Income & Expenditure Account	84,973
-66,774	Employer's pensions contributions and direct payments to pensioners payable in the year	-67,585
<u>919,182</u>	Balance at 31 March	<u>1,070,712</u>

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.

31/03/12		31/03/13
£000		£000
-4,669	Balance at 1 April	-6,360
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	
<u>-1,661</u>		<u>120</u>
<u>-6,360</u>	Balance at 31 March	<u>-6,240</u>

Notes to the Accounts

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.

31/03/12 £000		31/03/13 £000	31/03/13 £000
13,774	Balance at 1 April		15,231
	Settlement or cancellation of accrual made at the		
	end of the preceding year	-15,231	
-13,774	Amounts accrued at the end of the current year	13,613	
15,231	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		-1,618
-1,457			
15,231	Balance at 31 March		13,613

Note 26: Operating Activities

The cash flows for operating activities include the following items:

2011/12 £000		2012/13 £000
-5,067	Interest Received	-2,412
15,889	Interest Paid	16,698
10,822		14,286

Note 27: Cash Flow - Investing Activities

2011/12 £000		2012/13 £000
-123,899	Purchase of property, plant & equipment and intangible assets	-134,291
	Proceeds from the sale of property, plant & equipment and intangible assets	6,284
9,197	Movement in short-term and long-term investments	-4,118
-39,594	Other receipts/expenditure from investing activities	-8,330
57		
-154,239		-140,455

Notes to the Accounts

Note 28: Cash Flow - Financing Activities

2011/12 £000		2012/13 £000
	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	-3,632
-4,055		
	-87 Repayment of short & long term borrowing	-1,136
<u>-4,142</u>		<u>-4,768</u>

Note 29: Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. Decisions about resource allocation are taken by the council's Cabinet on the basis of budget reports analysed across directorates.

Financial reporting standards recognise charges for depreciation and unrealised revaluation gains and losses for determining the cost of services; such transactions are not taken into account for budget setting purposes. Since December 2011 however, this council has been reporting quarterly hard close, which reconciles the budget requirements with accounting requirements.

Notes to the Accounts

	Adults Social Care £m	Children, Schools & Families £m	Customer & Communit -ies £m	Environme -nt & Infrastruct- ure £m	Central Services & Financing £m	TOTAL £m
Sources of funding for budget:						
- Council tax					-580.2	-580.2
- Formula Grant					-149.6	-149.6
- Government grants & contributions		-647.2	-4.8	-2.5	-122.9	-777.4
- Contributions from Reserves					-28.4	-28.4
						<u>-1,535.6</u>
Amounts reported to Management						
Directorate Budgets:	337.4	815.4	73.8	130.3	178.7	1,535.6
Income						
- Fees, charges & other service income	-66.6	-79.2	-12.8	-16.0	-11.8	-186.4
- Interest & investment income					-1.7	-1.7
Expenditure						
- Employee expenses	65.5	555.7	57.0	22.3	49.6	750.1
- other service expenditure	340.5	320.3	28.2	124.7	122.3	936
- Interest payments					13.3	13.3
- Precepts & levies					0.9	0.9
- DSG variance		12.5				12.5
Actual Income & Expenditure	339.4	809.3	72.4	131.0	172.6	1,524.7
Contribution to Reserves (carry-forward)		3.1	0.9	0.9	3.0	7.9
Net Revenue Expenditure (cont to General Fund)	2.0	-3.0	-0.5	1.6	-3.1	-3.0
Accounting Adjustments to CIES (not reported for budget purposes)						
- Depreciation, amortisations & impairment						135.4
- Adjustments in relation to pension contributions						17.4
- Recognition of capital grants & contributions						-98.5
- Other accounting adjustments						-1.5
- Gain or loss on disposal of non-current assets						-0.7
Items reported for budget purposes but not charged to the CIES						
- Statutory provision for financing of capital						-25.1
- Capital expenditure financed from revenue						-7.1
Contributions to/from reserves						-19.1
Surplus on Provision of Services						-2.2
Surplus on Revaluation of Non-Current Assets						-22.5
Actuarial Losses on Pension Assets / Liabilities						134.1
Total Comprehensive Income & Expenditure						109.4

Notes to the Accounts

Comparator for 2011/12:

	Adults Social Care £m	Children, Schools & Families £m	Custom er & Comm- unities £m	Environ- ment & Infrastruc- ture £m	Central Services & Financing £m	TOTAL £m
Sources of funding for budget:						
- Council tax					-556.2	-556.2
- Formula Grant					-152.5	-152.5
- Government grants & contributions		-678.6	-4	-0.8	-145.4	-828.8
- Contributions from Reserves		-4.2	-0.3		-23.9	-28.4
						<u>-1,565.9</u>
Amounts reported to Management						
Directorate Budgets:	325.8	845.5	70.6	118.6	205.4	1,565.9
Income						
- Fees, charges & other service income	-55.3	-72.0	-12.3	-12.6	-12.6	-164.8
- Interest & investment income					-1.9	
Expenditure						
- Employee expenses	63.6	576.4	57.0	20.7	39.1	756.8
- other service expenditure	311.7	322.4	23.5	106.9	161.6	926.1
- Interest payments					13.0	13
- Precepts & levies					0.1	0.1
- DSG variance		12.6				12.6
Actual Income & Expenditure	320.0	839.4	68.2	115.0	199.3	1,541.9
Contribution to Reserves (carry-forward)	5.8	6.1	2.0	3.1	14.5	31.5
Net Revenue Expenditure (cont to General Fund)	0.0	0.0	-0.4	-0.5	8.4	7.5
Accounting Adjustments to CIES (not reported for budget purposes)						
- Depreciation, amortisations & impairment						211.2
- Adjustments in relation to pension contributions						-10.8
- Recognition of capital grants & contributions						-147.2
- Other accounting adjustments						-0.4
- Gain or loss on disposal of non-current assets						-3.5
Items reported for budget purposes but not charged to the CIES						
- Statutory provision for financing of capital						-26.7
- Capital expenditure financed from revenue						-7.5
Contributions to/from reserves						-54.8
Surplus on Provision of Services						-32.2
Surplus on Revaluation of Non-Current Assets						-16.4
Actuarial Losses on Pension Assets / Liabilities						115.2
Total Comprehensive Income & Expenditure						66.6

Notes to the Accounts

Note 30: Trading operations

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

The table below shows the income and expenditure for 2012/13:

2011/12		2012/13
£000		£000
-22,979	Turnover	-23,815
22,153	Expenditure	21,915
- 826	Surplus(-)	-1,900
1,038	Support services recharged to Expenditure of Continuing Operations	1,494
212	Net surplus credited to other Operating Expenditure	406

Note 31: Agency services

The Council provided the following agency services in 2012/13:

2011/12		2012/13
£000		£000
154	Expenditure incurred in providing library services within prisons for the Home Office	165
-154	Amount recharged to the Home Office	-165
0	Net surplus arising on the agency agreement	0
202	Expenditure incurred in providing Treasury Management services to the Surrey Local Government Pension Scheme	198
-202	Management fee payable by the Surrey Local Government Pension Fund	-198
0	Net surplus arising on the agency agreement	0
15	Expenditure incurred in providing Treasury Management services to the Surrey Police Authority *	14
-18	Management fee payable by the Surrey Police Authority	-17
-3	Net surplus arising on the agency agreement	-3
1,342	Expenditure incurred in providing Pension Administration services to the Surrey Local Government Pension Scheme	1,340
-1,342	Management fee payable by the Surrey Local Government Pension Fund	-1,340
0	Net surplus arising on the agency agreement	0

* Includes 20% management fee

Notes to the Accounts

Note 32: Pooled budgets

Section 75 of the National Health Service Act 2006 (formerly Section 31 of the Health Act 1999) 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 Council has entered into five such schemes with the local Primary Care Trust (PCT):

- 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 council acts as the 'host' authority to all these pooled budgets. The income from other authorities' contributions and expenditure for these partnerships are included within the income & expenditure account, which is adjusted for any surplus or deficit that relates to the PCTs. The funding, expenditure and any share of deficits or surpluses attributable to the county council are shown below.

Surrey integrated community equipment service

2011/12 £000		2012/13 £000
	Funding provided to the pooled budget	
-2,100	- Surrey County Council	-2,100
-2,100	- Surrey PCT	-2,100
<u>-4,200</u>		<u>-4,200</u>
	Expenditure met from the pooled budget	
4,223		4,262
<u>23</u>	Surplus(-) or deficit	<u>62</u>
12	Surrey County Council share	31

Child and adolescent mental health service

2011/12 £000		2012/13 £000
	Funding provided to the pooled budget	
-1,194	- Surrey County Council	-1,194
-1,040	- Surrey PCT	-1,036
<u>-2,234</u>		<u>-2,230</u>
	Expenditure met from the pooled budget	
2,124		2,206
<u>-110</u>	Surplus(-) or deficit	<u>-24</u>
-59	Surrey County Council share	-13

Notes to the Accounts

HOPE services

2011/12 £000		2012/13 £000
	Funding provided to the pooled budget	
-605	- Surrey County Council	-620
-818	- Surrey PCT	-838
<u>-1,423</u>		<u>-1,458</u>
1,423	Expenditure met from the pooled budget	1,490
<u>0</u>	Surplus or (deficit)	<u>32</u>
0	Surrey County Council share	14

Surrey safeguarding children board

2011/12 £000		2012/13 £000
	Funding provided to the pooled budget	
-177	- Surrey County Council	-215
-43	- Police	-52
-11	- Probation	-14
-15	- Surrey boroughs & districts	-18
-203	- Surrey PCT	-245
-25	- Other partners	-28
<u>-474</u>		<u>-572</u>
210	Expenditure met from the pooled budget	308
<u>-264</u>	Surplus or (deficit)	<u>-264</u>
-98	Surrey County Council share	-99

Note 33: Member Allowances

2011/12 £000		2012/13 £000
1,568	Member Allowances*	1,565
91	Member Expenses	86
<u>1,659</u>		<u>1,651</u>

*(Includes the employer's contributions for national insurance and superannuation £233k).

Note 34: 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 chief finance officer and any other individuals who are directly accountable to the council (committee or sub committee) and earn £50,000 or more (whether contracted on a temporary or permanent basis).

Remuneration includes salary/wages, bonuses, expenses, allowances and benefits (chargeable to United Kingdom income tax) compensation for loss of office and employer

Notes to the Accounts

pension contributions even though these are excluded from the general definition of remuneration.

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 Allowances £	Total remuneration excluding pension contributions £	Pension contributions £	Total remuneration including pension contributions £
Chief Executive - D McNulty	2012/13	210,350	4,053	214,403	31,132	245,535
	2011/12	210,000	4,053	214,053	31,080	245,133
Strategic Director of Children, Schools & Families - N Wilson	2012/13	135,350		135,350	20,032	155,382
	2011/12	134,417		134,417	19,894	154,311
Strategic Director of Adult Social Care - S Mitchell	2012/13	144,580		144,580	21,342	165,922
	2011/12	143,850		143,850	21,290	165,140
Strategic Director of Change & Efficiency	2012/13	125,882		125,882	19,372	145,254
	2011/12	127,413		127,413	19,320	146,733
Strategic Director of Environment & Infrastructure - T Pugh	2012/13	139,715		139,715	20,772	160,487
	2011/12	139,963		139,963	20,720	160,683
Strategic Director of Customers & Communities *	2012/13	129,158		129,158	19,061	148,219
	2011/12	128,838		128,838	19,009	147,847
Assistant Chief Executive	2012/13	105,840		105,840	15,740	121,580
	2011/12	106,000		106,000	15,688	121,688
Chief Finance Officer and Deputy Director for Change & Efficiency	2012/13	105,350		105,350	15,592	120,942
	2011/12	101,933		101,933	15,086	117,019
Head of Legal Services	2012/13	100,350		100,350	14,852	115,202
	2011/12	100,000		100,000	14,800	114,800
Head of Fire & Rescue	2012/13	111,838		111,838	13,228	125,066
	2011/12	102,311		102,311	13,141	115,452
Total	2012/13	1,308,413	4,053	1,312,466	191,121	1,503,587
	2011/12	1,294,725	4,053	1,298,778	190,028	1,488,806

* The Strategic Director of Customers & Communities spends a proportion of their time working for Mole Valley District Council. The full salary cost is shown in the table above but the Council does recover a proportion of these costs from Mole Valley District Council.

Notes to the Accounts

Note 35: Officers' Remuneration - Bands falling within the scale of £50,000 or more classified in of multiples of £5,000):

	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
Remuneration (£)	Total Numbers	Total Numbers	Schools Numbers	Schools Numbers	Non School Numbers	Non School Numbers
50,000-54,999	314	268	156	130	158	138
55,000-59,999	197	207	107	100	90	107
60,000-64,999	134	126	77	72	57	54
65,000-69,999	86	97	40	52	46	45
70,000-74,999	40	35	24	22	16	13
75,000-79,999	46	44	15	12	31	32
80,000-84,999	25	17	16	13	9	4
85,000-89,999	9	14	3	5	6	9
90,000-94,999	12	13	5	6	7	7
95,000-99,999	9	8	4	4	5	4
100,000-104,999	10	7	5	4	5	3
105,000-109,999	3	4	2	1	1	3
110,000-114,999	4	2			4	2
115,000-119,999	1	3		2	1	1
120,000-124,999	1	2	1	1		1
125,000-129,999	2	2			2	2
130,000-134,999	1				1	
135,000-139,999	1	2			1	2
140,000-144,999	1	1			1	1
150,000-154,999	1*				1	
185,000-189,999	1*				1	
210,000-214,999	1	1			1	1
	899	853	455	424	444	429

* denotes the total number of officers not included in the senior officer note 34 but included in the exit package note 36.

The table above includes the full salary costs of 3 officers who spend a proportion of their time working for Mole Valley District Council. The full salary cost is shown in the table above but the Council does recover a proportion of these costs from Mole Valley District Council.

Notes to the Accounts

Note 36: 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:

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band (b) + (c)		(e) Total cost of exit packages in each band*	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
Cost (£)							£000	£000
0-20,000	115	25	98	47	213	72	828	377
20,001-40,000	41	13	5	15	46	28	1,301	804
40,001-60,000	6	1		6	6	7	464	336
60,001-80,000	3	3		1	3	4	66	266
80,001-100,000	1			2	1	2	279	176
100,001-150,000		1				1	0	103
Total cost included in bandings	166	43	103	71	269	114	2,939	2,062
ADD: Amounts provided for in CIES not included in bandings**	68	6		1		7	1,351	338
Total cost included in CIES	234	49	103	72	269	121	4,290	2,400

*Includes cost of pension fund strain where applicable

** Included in the total cost charged to the CIES is an increase in the redundancy provision made in relation to redundancies that had been approved in 2011/12 but for which no payment had yet been made.

Notes to the Accounts

Note 37: External Audit Costs

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

2011/12 £'000		2012/13 £'000
290	Fees payable to the Audit Commission with regards to external audit services carried out by the appointed auditor for the year	174
8	Fees payable to the Audit Commission for the certification of grant claims and returns for the year	8
3	Fees payable in respect of other services provided by the Audit Commission during the year	4
301		186

Note 38: Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (DfE), 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 Finance (England) Regulations 2011.

The school budget includes elements for a range of educational services provided on an council-wide basis and for the individual school's budget, which is divided into a budget share for each maintained school.

Central expenditure includes items such as:

- children with special educational needs in schools not maintained by Surrey;
- speech and language, occupational and nursing therapy;
- pupil referral units and other alternative education for pupils who, by reason of illness or exclusion, cannot be educated in schools;
- specialist SEN teaching services for children with physical and sensory, learning, language and behaviour needs;
- additional allocations to schools and private nurseries after 1 April 2011.

Details of the deployment of DSG receivable for 2011/12 are shown on the table below:

2011/12 £000s			2012/13 £000s
687,968	Final DSG 2012/13 before academy recoupment		695,265
61,521	Academy figure recouped		107,121
626,446	Total DSG after academy recoupment		588,143
7,430	Brought forward from 2011/12		12,771
4,813	Carry forward agreed in advance		0
629,063		central	600,914
673,556	Agreed initial budgeted distribution	77,256	526,462
-44,493	In year adjustments	7,941	-10,746
629,063	Final distribution	85,197	515,716
64,955	Actual central expenditure	74,098	74,098
559,497	Actual ISB		515,716
3,347	Local authority contribution	2,677	2,677
12,771	Amount carried forward to 2013/14	13,776	0

Notes to the Accounts

Reference:

A-DSG figure as announced by the Department in June 2012

B- Figure recouped by DfE for conversion of maintained schools into academies

C- Total figure after DfE academy recoupment

D-Figure brought forward from 2011/12 as agreed with the Department

E- Any amounts which the council decided after consultation with the Schools Forum, to carry forward to 2013/14 rather than distribute in 2012/13, this will be the difference between initial and final DSG for 2012/13 or a figure which the council carried forward from 2011/12 which it is carrying forward again There was none, because Schools Forum agreed that all c/f should be added to School Specific contingency and carried forward again if necessary.

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

G-Changes to the initial distribution e.g. exclusions or contingency allocations

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

I-Actual amount of central expenditure items in 2012/13 , excluding transfers to earmarked reserves (no such transfers were made in 2012/13)

J-Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the council once it is deployed to schools' budget shares).

K-Contribution from LA which has the effect of substituting for DSG

L-Amount carried forward

Note 39: Grants and contributions

The council credited the followings grants, contributions and donations to the Surplus(-) /Deficit 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:

2011/12 £000		2012/13 £000
	General Grants & Contributions	
116,455	Non domestic rates	134,854
35,997	Revenue Support Grant	14,743
16,949	Private Finance Initiative Grant	16,949
13,837	Council Tax Freeze Grant	0
30,433	Early Intervention Grant	33,407
64,888	Learning Disability & Mental Health Reform	66,498
4,441	Dedicated Schools Grant (Non-ringfenced)	4,658
2,957	Other Revenue Grants	5,284
57,181	Partnership for Schools (Standards Fund)	40,346
15,071	Capital S106 developer contributions	6,557
8,502	Capital contributions from schools	7,046
25,829	DfT Highways Maintenance & Integrated Grant	22,054
2,417	PIC contributions	0
1,900	DCLG Resilience & Efficiency Grant	0
7,521	DfT Walton Bridge Grant	12,814
4,766	Other Capital grants & Contributions	0
<u>409,144</u>		<u>365,210</u>

Notes to the Accounts

Grants credited to services are analysed in the following table:

Credited to Services		
629,436	Dedicated Schools Grant	582,773
1,777	Standards Fund incl. School Development Grant	0
1	School Standards Grant/SSGP	0
33,852	Young People Learning Agency (replaced LSC)	27,099
5,693	Pupil Premium	10,640
2,075	Social Care Reform Grant	0
1,287	CWDC NQSW Programme Grant	0
23,231	Other revenue grants	18,837
	Government "Capital" Grant applied to Revenue Expenditure Statute:	
18,408	- Partnership for Schools (Standards Fund)	7,094
3,005	- DCLG Single Capital Pot	0
1,556	- DfT Highways Maintenance Grant	0
0	- DOH Community Capacity grant	1,129
0	- Developer Contribution Woking Library	826
0	- Capital Contributions from Schools	616
974	- Other grants	41
<u>721,295</u>	Total	<u>649,055</u>

Grants and Contributions Received in Advance

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at the year-end are as follows:

2011/12 £000		2012/13 £000
Grants Receipts in Advance (Capital)		
	Capital contributions from developers S106 for Highways and Transport Service	
<u>1,239</u>		<u>587</u>
<u>1,239</u>		<u>587</u>
Grants Receipts in Advance (Revenue)		
0	Learning Skills Council Post 16 Educ	88
0	TDA HLTA/SWIS 08/09	6
0	Pupil Premiums 12/13	76
0	EFA Grant for GTP Prog Ay 12/13	33
9	Standards' Fund and Teacher Training Development	0
0	DfE Y7 Catch Up Prem	2
<u>148</u>	New homes bonus (201/13 grant)	<u>0</u>
<u>157</u>		<u>205</u>

Notes to the Accounts

Note 40: 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 2012/13 is shown in Note 33.

In addition, a survey of the related party interests of members in office during the 2012/13 financial year and their immediate family members was carried out in preparing this statement of accounts. There were responses from 78 of 79 members. The one outstanding response relates to a member who attended 2 out of 12 meetings due to ill health. These were both local committee meetings and he was not present at any full council meetings which occurred during the year. The council had transactions with 72 bodies that members declared an interest in, with a total value of £11.1m. Of this, payments of £4.9m were to the Kings College for Arts & Technology in which 1 member declared an interest, £1.2m to the Surrey Wildlife Trust in which 7 members declared an interest, £0.9m was to Disability Challengers in which 1 member declared an interest.

Senior Officers are deemed to include all officers earning £60,542 or more of the management structure. The council had transactions with 10 other bodies in which an interest was declared totalling £23.9m. This includes payments of £18.2m to VT Four S in which 1 officer declared an interest; and £4.9m to Cable & Wireless in which 1 officer declared an interest.

Entities Controlled or Significantly Influenced by the Council – relate to one trust fund and the details are provided in the Note 49

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 32.

Surrey Pension Fund

The fee payable by the Surrey Pension Fund to the county council for services provided in 2012/13 was £1,537,236 (£1,544,000 in 2011/12). This is split into the fee for providing pension administration services £1,339,583 (£1,342,000 in 2011/12) and £197,653 (£202,000 in 2011/12) for treasury management, accounting and managerial services.

During 2012/13 the council paid employer pension contributions of £55,659,746 (£55,716,313 in 2011/12).

Net amounts owed by the council to the fund as at 31 March 2013 were £5,866,326 (£740,047 at 31 March 2012).

Notes to the Accounts

Note 41: 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:

2011/12 £000		2012/13 £000
537,949	Opening Capital Financing Requirement	540,950
-346	Prior year REFCUS adjustment	
	Capital investment:	
115,332	Property, Plant and Equipment	133,512
691	Intangible Assets	975
23,944	Revenue Expenditure Funded from Capital Under Statute	15,872
	Long Term Debtor	8,388
	Sources of Finance	
-14,547	Capital receipts	-634
-87,675	Government grants and other contributions	-107,008
-4,159	Sums set aside from revenue	-3,736
-3,374	Direct revenue contributions	-3,405
-26,715	Minimum Revenue Provision	-25,061
-150	PFI Deferred Income	-158
<u>540,950</u>	Closing Capital Financing Requirement	<u>559,695</u>
	Explanation of movements in year	
14,144	Increase in underlying need to borrowing (unsupported by government financial assistance)	27,896
-26,715	Minimum Revenue Provision	-25,061
16,068	Assets acquired under finance leases/PFI	16,068
-150	PFI Deferred Income	-158
-346	Prior year REFCUS adjustment	
<u>3,001</u>	Increase / (decrease) in Capital Financing Requirement	<u>18,745</u>

Note 42: Leases

Council as Lessee

Finance Leases:

In addition to the finance lease liabilities recognised as a result of PFI and similar arrangements (detailed in note 43) a school entered into a leasing agreement totalling

Notes to the Accounts

£980,000 during 2003/04 repayable over 22 years. This represents a long-term liability for the council and is treated as a finance lease matched by an asset, which is the security for the liability.

The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired and finance costs that will be payable in future years while the liability remains outstanding.

The minimum lease payments in respect of the future obligations in respect of finance leases other than those disclosed in Note 43 are set out in the following table:

31/03/12 £000		31/03/13 £000
	Finance lease liabilities:	
59	Not later than one year	59
236	Later than one year but not later than five years	236
441	Later than five year	383
312	Finance costs payable in future years	288
1,048	Minimum lease repayments	966

Operating Leases:

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

31/03/12 £000		31/03/13 £000
	Operating lease liabilities - land and buildings:	
4,363	Not later than one year	2,736
11,924	Later than one year but not later than five years	14,300
13,178	Later than five year	15,136
29,465		32,172

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

2011/2012 £000	Amounts charged to the Comprehensive Income and Expenditure Statement during the year	2012/2013 £000
	Operating leases - land and buildings	
5,521	Minimum lease payments for the year	3,151
175	Contingent rents in year	90
5,696		3,241

Initially the expenditure on these lease repayments is charged to the corporate property services department before being recharged to front line services as part of the corporate allocations process.

In addition, the council leases a number of items of equipment such as photocopiers. The future lease repayments on these operating lease items are as follows:

Notes to the Accounts

31/03/12		31/03/13
£000		£000
	Operating lease liabilities – equipment:	
248	Not later than one year	196
222	Later than one year but not later than five years	115
3	Later than five years	0
<u>473</u>		<u>311</u>

Council as Lessor

Operating Leases

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

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

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

31/03/12		31/03/13
£000		£000
	Lease liabilities - land and buildings:	
698	Not later than one year	1,041
1,771	Later than one year but not later than five years	2,806
8,904	Later than five years	8,817
<u>11,373</u>		<u>12,664</u>

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 43: 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. The original planned investment in new disposal facilities did not proceed due to planning constraints and a large proportion of the investment remains to be delivered. As a result the council faces a contingent liability as described in note 46.

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

Notes to the Accounts

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. Movements in their value over the year are included in the analysis of the movement on the Property, Plant and Equipment balance in Note 12.

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:

	2011/12		2012/13	
	Land & Buildings £000	Infrastructure £000	Land & Buildings £000	Infrastructure £000
Gross cost at 1 April	79,120	15,071	79,120	31,139
Additions		16,068		16,068
Gross Cost at 31 March	79,120	31,139	79,120	47,207
Accumulated Depreciation and Impairment at 1 April	-12,524	-600	-13,868	-2,122
Depreciation charge for the year	-1,344	-410	-1,344	-812
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	-1,112	0	-1,112
Accumulated Depreciation and Impairment at 31 March	-13,868	-2,122	-15,212	-4,046
Net book Value at 1 April	66,596	14,471	65,252	29,017
Net book value at 31 March	65,252	29,017	63,908	43,161

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.

Notes to the Accounts

Payments remaining to be made under the PFI contract at 31 March 2013 (based on 2012/13 prices, excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payable in 2013/14 £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	Payable within 21 to 25 years £000	TOTAL £000
Payment for Services							
- Waste*	33,541	134,162	167,703	33,541			368,947
- Anchor Trust	16,086	64,345	16,086				96,517
- Care UK	8,473	33,893	42,366	33,893			118,625
- Street Lighting	3,149	8,789	9,591	9,930	10,681	4,275	46,415
	61,249	241,189	235,746	77,364	10,681	4,275	630,504
Reimbursement of Capital Expenditure							
- Waste*	271	1,257	2,054	489			4,071
- Anchor Trust	1,519	7,056	2,040				10,615
- Care UK	75	349	570	594			1,588
- Street Lighting**	1,297	6,266	11,467	15,956	22,772	11,320	69,078
	3,162	14,928	16,131	17,039	22,772	11,320	85,352
Interest							
- Waste*	248	816	539	30			1,633
- Anchor Trust	645	1,599	124				2,368
- Care UK	97	338	289	93			817
- Street Lighting	4,671	25,877	30,497	25,668	18,102	4,149	108,964
	5,661	28,630	31,449	25,791	18,102	4,149	113,782
TOTAL	70,072	284,747	283,326	120,194	51,555	19,744	829,638

* The projected costs for the waste contract are based on capital investment up to 2011/12. When further facilities are delivered under the contract, the council's commitments will increase.

** The street lighting payment profile disclosed in the table above is greater than the asset recognised on the balance sheet because it shows the contractual commitment to make further payments for replacement street lighting beyond the existing useful life of the assets currently reflected on the balance sheet.

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

2011/12 Finance Lease Liability £000	2011/12 Deferred Income Liability £000		2012/13 Finance Lease Liability £000	2012/13 Deferred Income Liability £000
-31,458	-12,814	Balance outstanding at the start of the year	-43,471	-12,664
4,055		Payments during the year	3,632	
-16,068		Capital expenditure incurred in the year	-16,068	
	150	Amortisation of deferred income		158
-43,471	-12,664	Balance outstanding at year end	-55,907	-12,506

Notes to the Accounts

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

31/03/12 £000		31/03/13 £000
55	not later than one year	68
345	later than one year but not later than 5 years	342
907	later than 5 years	842
1,307		1,252

Note 44: Pension schemes accounted for as defined contribution schemes

Teachers employed by the council are members of the Teacher 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 technically a 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. 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 2012/13, the council paid £53.6m to teachers' pensions in respect of retirement benefits, representing 14.0% of pensionable pay. The figures for 2011/12 were £55.8m and 14.3%. 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.

Note 45: 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. The arrangements for the teachers' pension scheme mean that liabilities for these benefits cannot ordinarily be identified to the council specifically and therefore the scheme is accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the balance sheet.

Surrey County Council contributes to two defined benefit schemes:

- The Local Government Pension Scheme (LGPS) is a funded defined benefit final salary 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 Firefighter Pension Scheme is an unfunded defined benefit final salary 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.

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 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

Notes to the Accounts

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	
	2011/12	2012/13	2011/12	2012/13
	£000	£000	£000	£000
Comprehensive Income & Expenditure Statement				
<i>Cost of Services:</i>				
- current service cost	45,074	45,631	9,100	9,700
- past service cost	-1,807	-1,437	4,100	
- settlements and curtailments	-30,644	-4,008		
<i>Financing & Investment Income & Expenditure</i>				
- other operating expenditure (trading services)	1,109	1,141		
- interest cost	78,825	74,834	19,400	18,100
- expected return on scheme assets	-69,134	-58,988		
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	<u>23,423</u>	<u>57,173</u>	<u>32,600</u>	<u>27,800</u>
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement				
- actuarial (gains) and losses	<u>108,272</u>	<u>89,042</u>	<u>6,900</u>	<u>45,100</u>
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	<u>131,695</u>	<u>146,215</u>	<u>39,500</u>	<u>72,900</u>
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	-23,423	-57,173	-32,600	-27,800
Actual amount charged against the General Fund Balance for pensions in the year:				
- employers' contributions to the scheme / retirement benefits paid direct to pensioners	58,000	55,524	10,811	12,061

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £614.5m (£485.1m in relation to the LGPS and & £129.4m in relation to the Fire Fighters Pension Scheme).

Notes to the Accounts

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	
	2011/12	2012/13	2011/12	2012/13
	£000	£000	£000	£000
Opening Balance at 1 April	-1,459,701	-1,564,013	-353,515	-381,742
Current service cost	-46,183	-46,772	-9,100	-9,700
Interest cost	-78,825	-74,834	-19,400	-18,100
Contributions by scheme participants	-16,633	-16,581	-2,200	-2,300
Actuarial gains and losses	-57,030	-192,611	-6,900	-45,100
Pensions and lump sum expenditure			13,700	13,800
Benefits paid	53,574	54,195		
Past service costs	1,807	1,437	-4,100	
Curtailments	-2,886	6,695		
Settlements	43,215			
Employer contributions adjustment*	-1,351	-1,269	-227	561
Closing balance at 31 March	<u>-1,564,013</u>	<u>-1,833,753</u>	<u>-381,742</u>	<u>-442,581</u>

Reconciliation of present value of the scheme (plan) assets:

	Local Government Pension Scheme		Firefighters' pension scheme	
	2011/12	2012/13	2011/12	2012/13
	£000	£000	£000	£000
Opening Balance at 1 April	998,457	1,026,574		
Expected rate of return	69,134	58,988		
Actuarial gains and losses	-51,242	103,569		
Employer Contributions	55,500	55,524		
Employer contributions adjustment*	1,351	1,269		
Contributions by scheme participants	16,633	16,581		
Benefits paid	-53,574	-54,195		
Settlements	-9,685	-2,687		
Closing balance at 31 March	<u>1,026,574</u>	<u>1,205,623</u>	<u>0</u>	<u>0</u>
Net Asset Liability	<u>-537,439</u>	<u>-628,130</u>	<u>-381,742</u>	<u>-442,581</u>

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

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £162.6m (2012/13: £18.2m).

Notes to the Accounts

Scheme History

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Present value of liabilities:					
Local Government Pensions Scheme	-1,067,912	-1,756,940	-1,459,701	-1,564,013	-1,833,753
Firefighter Pension Fund	-274,889	-396,226	-353,515	-381,742	-442,581
Fair value of assets in the Local Government Pension Scheme	613,352	914,014	998,457	1,026,574	1,205,623
Surplus/(Deficit) in the scheme:	-729,449	-1,239,152	-814,759	-919,181	-1,070,711
Local Government Pensions Scheme	-454,560	-842,926	-461,244	-537,439	-628,130
Firefighter Pension Fund	-274,889	-396,226	-353,515	-381,742	-442,581
Total	-729,449	-1,239,152	-814,759	-919,181	-1,070,711

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £919m 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 healthy:

- 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 2027.

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 Fire Fighters Pension Scheme have been assessed by the council's actuaries, Hymans Robertson using the latest full valuation of the scheme as at 31 March 2007 and 31 December 2010 respectively.

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.

Notes to the Accounts

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Firefighters' pension scheme	
	2011/12	2012/13	2011/12	2012/13
	£000	£000	£000	£000
Long-term expected rate of return on assets in the scheme:				
- equity investments	6.3%	4.5%	-	-
- bonds	3.9%	4.5%	-	-
- property	4.4%	4.5%	-	-
- other (cash)	3.5%	4.5%	-	-
Mortality assumptions:				
- longevity at 65 for current pensioners (60 for firefighters):				
- Men	21.9 years	21.9 years	27.9 years	28.1 years
- Women	24.0 years	24.0 years	30.8 years	31.0 years
- longevity at 65 for future pensioners (60 for firefighters):				
- Men	23.9 years	23.9 years	29.5 years	29.7 years
- Women	25.9 years	25.9 years	32.3 years	32.5 years
Rate of inflation	2.5%	3.2%	3.3%	3.6%
Rate of increase in salaries*	4.8%	5.1%	3.5%	3.8%
Rate of increase in pensions	2.5%	2.8%	2.5%	2.8%
Rate for discounting scheme liabilities	4.8%	4.5%	4.8%	4.5%
Take-up of option to convert annual pension into retirement lump sum	25.0%	25.0%	-	-

* Salary increases are assumed to be 1% pa until 31 March 2015 reverting to the long-term assumption shown thereafter.

The Firefighter Pension Scheme does not hold assets to cover its liabilities which are met by the government department for Communities and Local Government.

The Local Government Pension Scheme assets consist of the following categories, by proportion of the total assets held:

2011/12		2012/13
%		%
73	Equity Investments	76
	Debt Instruments	
18	(Bonds)	18
6	Property	5
3	Other Assets (Cash)	1
<u>100</u>		<u>100</u>

Notes to the Accounts

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	Local Government Pension Scheme				
	2008/09 %	2009/10 %	2010/11 %	2011/12 %	2012/13 %
Difference between the expected & actual rate of return on assets	39.3%	24.7%	1.6%	4.2%	3.7%

Experienced gains & losses on liabilities	0.0%	0.1%	6.5%	11.7%	0.1%
---	------	------	------	-------	-------------

	Firefighters' Pension Fund				
	2008/09 %	2009/10 %	2010/11 %	2011/12 %	2012/13 %
Difference between the expected & actual rate of return on assets	-	-	-	-	-

Experienced gains & losses on liabilities	-1.6%	1.6%	3.2%	2.5%	0.0%
---	-------	------	------	------	-------------

Note 46: Contingent liabilities

Potential liabilities are not required to be incorporated within the accounts where there is no certainty that an actual liability will arise or where the extent of an obligation cannot be measured with sufficient reliability. At 31 March 2013 the council had the following contingent liabilities:

- The council embarked upon a PFI for waste disposal in 1999. By the end of 2012/13 £117.7 has been received in PFI credits. In return, the council has an obligation to invest in waste disposal infrastructure. A large 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.
- The County Council arranged in 2001 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. This review reported the potential liability from £400k, for minimum work, through to intervention (£4.3m to £5.9m) and best practice (£24.6m to £33.4m). 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. However, to date, very few investigations have been taken place. At a number of sites that the Council still own, data is currently being collected to gain a better understanding of the likelihood that remedial works will be required. The Council would seek to share any eventual liabilities with those in ownership of the sites when they were landfilled.
- There are a number of historic high profile investigations around social care which could impact on the council. The potential liability is difficult to quantify but there is potential for up to £1m of expenditure in respect of successful future high value claims.
- A school has received a contribution from Sport England amounting to £120,000 towards the total project costs of a sports facility project. The council has entered

Notes to the Accounts

into a Deed of Dedication in relation to the terms and conditions attached to the award of this contribution and if the school do not comply with these terms then the council may be liable to repay all or some of this grant.

Note 47: Contingent assets

Assets are not incorporated within the accounts where:

- there is no certainty that an actual benefit will arise
- the extent of an obligation cannot be measured with sufficient reliability
- it is not wholly within the council's control.

At 31 March 2013, the council had no material contingent assets.

Note 48: Nature and extent of risks arising from financial instruments

Early in October 2008 the Icelandic banks Landsbanki and Glitnir with which the council had invested £20m collapsed and went into administration. On 28 October 2011 the Icelandic Supreme Court ruled that UK local authorities' claims qualified as priority claims under Icelandic bankruptcy legislation meaning that the values of the council's claims will be equal to the value of the original deposit plus interest accrued to 22 April 2009 or the maturity date if earlier.

Glitnir's distribution policy was implemented on 16 March 2012, paying out the award in full, in a basket of currencies. A total of £8,385,477 was received in sterling, with the remainder held in escrow in Icelandic krona. This will be repatriated in sterling once the currency restrictions in Iceland have been restricted.

Landsbanki's distribution policy was implemented on 17 February 2011, and has since paid out £4,991,876 to the council on that day. It is estimated that the remainder of the award will be paid out over a number of years.

The winding up board anticipates recoveries in the Landsbanki administration to exceed the book value of recognised priority claims and therefore it is likely that the council will recover 100% of its deposits in Landsbanki (as well as Glitnir) subject to fluctuations in exchange rates. Due to the long recovery timescale for Landsbanki the council has not adjusted its carrying to reflect the revised 100% recovery rate for Landsbanki which was set at 94.85% for previous calculations.

The council has estimated the impairment on the original investments by discounting the cash flows of the estimated recovery amounts to its present value using the original annual interest rate.

The following table summarises the transactions in the council's accounts:

Institution	deposit at maturity date	Interest Rate	Maturity Date	Total paid to date	Carrying Amount
	£000s			£m	£m
Glitnir	5.3	6.25%	31 Oct. '08	4.2	1.1
Glitnir	5.3	6.20%	31 Oct. '08	4.2	1.1
Landsbanki	10.6	5.90%	31 Mar '09	4.9	4.5

Notes to the Accounts

Note 49: Trust funds

The Council acts as a custodian trustee for 42 trusts and as one of several trustees for a further 4 funds. As a custodian trustee the council holds the property but takes no decisions on its use. In neither case do the funds represent the assets of the council and therefore they have not been included in the Balance Sheet

	Total 2011/12 £000	Total 2012/13 £000
Overall general balances		
Balance at 1 April	4,179	4,035
Opening Balance for additional trust		849
Add income for year	80	403
	4,259	5,287
Less expenditure for year	224	274
Balance at 31 March	4,035	5,013
Number of funds	45	46

Balance Sheet at 31 March 2013

Assets:

Investments	2,989	3,189
Cash	1,046	1,824
	4,035	5,013

Represented by Fund balances

The council acts as trustee for the following categories of funds:

Educational purposes including prizes (32 funds)	626	634
Personal client funds in Children's Service	58	59
Recreational facilities in Runnymede (Abbey Barn)	70	32
Domestic Sciences (Henrietta Parker Centre)	883	903
Provision of facilities for Young People in Chobham (Lawson Bequest)	111	0
Lingfield Guest House Trust (building upkeep and maintenance)	453	488
Road maintenance in Long Ditton	22	22
	2,223	2,138

The council acts as one of several trustees for the following categories of funds:

Educational purposes including prizes (2 funds)	95	110
Music and the arts (Robert Phillips Trust)	1,717	1,916
Surrey Education Trust	0	849
	1,812	2,875
	4,035	5,013

Total market value of investments (council as sole trustee)	1,762	1,760
Total market value of investments (council as one of several trustees)	1,815	1,976

Annual Governance Statement

TO BE ADDED ONCE APPROVED BY COMMITTEE – SEPARATE ITEM ON AGENDA.

Firefighter Pension Fund Accounts

Explanatory Foreword

Legal status

The Fire-fighter 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 and the 2006 fire-fighter pension) schemes from a separate local fire-fighter pension fund and therefore the fire-fighter pension fund does not form part of the council's balance sheet.

Both the 1992 and 2006 schemes are contracted out of the state second pension and provide benefits at least as good as most members would have received had they been members of the state second pension scheme. Benefits provided include a guaranteed pension based on final salary upon retirement and an option to commute pension in favour of a tax free lump sum.

Fund operations

Employee contributions, new employer's contributions and transfer values received are paid into the pension fund, from which pension payments and other benefits are paid. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments with any surplus recouped by the Department for Communities and Local Government and in that way the fund is balanced to nil each year.

The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees while Central Government will meet the costs of retirement pensions in payment, net of employee and employer contributions.

As there are not any investment assets built up to meet these pension liabilities, cash, net of contributions from active members and government grants, has to be generated to meet pension payments as they fall due. When accounting for the cost of retirement benefits the liability is recognised and reported in the council's cost of services when pensions are earned by employees, rather than when the benefits are eventually paid as pensions. The actuarial loss recognised in the council's Comprehensive Income and Expenditure Statement to the 31 March 2013 for the fire fighters' scheme is £129.4m. The council's actuary based their calculations on future pension increases being linked to the consumer prices index (see note 45 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 1% decrease in the discount rate assumption would result in an increase in the pension liability of £8.3m.

Significant Accounting Policies

The fire-fighter 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 fire-fighter 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.

Firefighter Pension Fund Accounts

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.

2011/12 £000	Ref: Note	Fire-fighter Pension Fund Account	2012/13 £000
		Contributions Receivable:	
-4,016	1	Contributions receivable from employer (normal)	-3,960
-2,187	1	Contributions receivable from employees	-2,270
-75	3	Individual transfers in from other schemes	-42
<u>-6,278</u>			<u>-6,272</u>
		Benefits payable	
11,349	2	Pensions	12,103
2,214	2	Commutations and lump sum retirement benefits	1,768
57	3	Individual transfers out to other schemes	0
<u>13,620</u>		Total amounts payable	<u>13,871</u>
<u>7,342</u>		Net amount receivable for the year before top-up grant	<u>7,599</u>
-4,744	4	Top-up grant received from DCLG	-4,926
-2,598	4	Top-up grant still owing from DCLG	-2,673
<u>-7,342</u>		Net amount payable / receivable for the year	<u>-7,599</u>
Net Asset Statement			
31 March 2012 £000			31 March 2013 £000
Current Assets:			
<u>2,598</u>		Pension Top-up Grant Receivable from Central Government	<u>2,673</u>
<u>2,598</u>			<u>2,673</u>
Current Liabilities:			
<u>-2,598</u>		Cash Overdrawn	<u>-2,673</u>
<u>-2,598</u>			<u>-2,673</u>

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 21.3% for the 1992 Fire-fighter' Pension Scheme and 11% for the 2006 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.

Firefighter Pension Fund Accounts

Note 3 - Transfer Values

Transfer values are those sums paid to or received from other pension schemes and the firefighter 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 £7.599m in 2012/13 (£7.342m in 2011/12) as contributions are insufficient to meet the cost of pension payments due for the year of which £4,926 grant was received during the year leaving an outstanding balance of £2,673 due from the government.

Surrey Pension Fund Statement of Accounts 2012/13

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2012/2013 and of the disposition of its assets at 31 March 2013.

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 around a hundred other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply.

The Fund exists to provide pensions and other benefits for employees, their widows or dependants in accordance with Local Government Pension Scheme Regulations.

The number of employees in the fund and the number of pensioners as at 31 March 2012 and 31 March 2013 are:

2011/2012		2012/2013
29,120	Employees in the fund	30,608
19,664	Pensioners	20,553
26,583	Deferred pensioners	27,648
<u>75,367</u>	Total	<u>78,809</u>

Surrey Pension Fund Statement of Accounts 2012/13

Surrey pension fund account

2011/2012 £000		Note	2012/2013 £000
Contributions and benefits			
138,582	Contributions receivable	6	141,394
13,968	Transfers in	7	31,983
152,550			173,377
-109,800	Benefits payable	8	-113,893
-35,835	Leavers	9	-7,945
-1,717	Administrative expenses	13	-1,867
-147,352			-123,705
Net additions from dealings with members			
5,198			49,672
Returns on investments			
42,887	Investment income	15	40,645
1,441	Change in market value of investments	16	278,985
-6,150	Investment management expenses	14	-6,856
38,178	Net returns on investments		312,774
43,376	Net increase (decrease) in the fund during the year		362,446
Net assets of the fund			
2,152,894	At 1 April		2,196,270
2,196,270	At 31 March		2,558,716

Surrey Pension Fund Statement of Accounts 2012/13

Net asset statement

31 Mar 2012	Note	31 Mar 2013
£000		£000
Investment assets	16	
309,600 Fixed interest securities		347,863
79,752 Index linked securities		99,100
1,510,160 Equities		1,574,687
120,306 Property unit trusts		120,748
- Diversified growth		238,986
84,776 Private equity		90,336
Derivatives	16c	
126 - Futures		-
7,939 - Foreign exchange contracts		2,153
70,564 Cash		59,723
18,281 Other investment balances		11,128
Investment liabilities		
Derivatives	16c	
- - Futures		-310
-1,414 - Foreign exchange contracts		-7,500
-8,297 Other investment balances		-3,810
2,191,793 Net investment assets		2,533,104
- Long-term debtors		16,335
9,071 Current assets	10	13,582
-4,594 Current liabilities	12	-4,305
2,196,270 Net assets of the fund at 31 March		2,558,716

Surrey Pension Fund Statement of Accounts 2012/13

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 county council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2012/13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- The LGPS (Benefits, Membership & Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management & Investment of Funds) Regulations 2009

It is a contributory defined 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.

During 2012/13 the investments of the fund were overseen by the Investment Advisors Group (IAG) and scrutinised by the Audit & Governance Committee at Surrey County Council. Pension administration issues were overseen by the People, Performance and Development Committee. From May 2013 the governance arrangements of the fund will move in line with best practice and the various committees will be replaced by a single Surrey Pension Fund Board which will have full responsibility for all pension fund related matters.

b) 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 to the private sector.

Surrey Pension Fund Statement of Accounts 2012/13

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service.

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

The LGPS was changed on the 1st April 2008 adjusting the method by which entitlements are accrued. Benefits earned prior to the change are unaffected.

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

f) New LGPS Scheme 2014

The current government requested Lord Hutton to chair a commission on the reform of public sector pensions. Following the publication of this report in 2011, a new scheme design for the LGPS was agreed. The new scheme will commence on April 1 2014.

The changes will not affected those who currently receive pension payments. All pension benefits built up at March 2013 will be treated according to the current scheme rules.

Surrey Pension Fund Statement of Accounts 2012/13

	Current LGPS scheme	LGPS 2014 scheme
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60 th of salary	1/49 th 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

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

LGPS 2014 employee contribution rates	
Pensionable payroll banding	Contribution rate
Up to £13,500	5.5%
£13,501 to £21,000	5.8%
£21,001 to £34,000	6.5%
£34,001 to £43,000	6.8%
£43,001 to £60,000	8.5%
£60,001 to £85,000	9.9%
£85,001 to £100,000	10.5%
£100,001 to £150,000	11.4%
More than £150,000	12.5%
Estimated overall LGPS average	6.5%

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

Surrey Pension Fund Statement of Accounts 2012/13

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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 on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 25 of these accounts.

Note 3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary 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.

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/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 in Transfers In.

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.

Surrey Pension Fund Statement of Accounts 2012/13

- 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.

Fund account – expense items

- d) 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.
- e) 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 suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.
- f) Administration expenses
Pensions administrative expenses reflect the costs incurred in the payment of pensions and other benefits, actuarial advice, dealing with transfer values and the maintenance of member records. 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 pensions administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.
- g) 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

Surrey Pension Fund Statement of Accounts 2012/13

value of the investments under management and therefore increase or reduce as the value of these investments change.

Investment management expenses also include fees for investment advice and performance measurement services together with the county council costs incurred on administration and monitoring of investment related issues.

Net assets statement

h) Financial assets

Financial assets are included in the net asset statement on a fair value basis as at the reporting date. 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 council expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer - the value of the consideration offered under offer, less estimated realisation costs.
- Directly held investments in 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.
- 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

Surrey Pension Fund Statement of Accounts 2012/13

managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

- iv) Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- v) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single 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 at 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 contracts 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.

Surrey Pension Fund Statement of Accounts 2012/13

l) 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.

m) 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 IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

n) 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 its AVC provider, however a small number of members remain with 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 section 4(2)(b) of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093).

Note 4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2013 was £90 million (£85 million 31 March 2012).

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 summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

Surrey Pension Fund Statement of Accounts 2012/13

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 as at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Surrey Pension Fund Statement of Accounts 2012/13

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. An increase in the discount rate would result in a corresponding decrease of the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy.
Private equity	Private equity investments are valued at fair values provided by the administrators of the funds. These investments are not publically listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £90 million. There is a risk that this investment may be over or under stated in the accounts.

Note 6: Contributions receivable

By category

2011/2012		2012/2013
£000		£000
106,671	Employers	109,514
31,911	Members	31,880
138,582		141,394

By employer

2011/2012		2012/2013
£000		£000
75,435	Administering authority	78,045
52,266	Scheduled bodies	50,889
10,881	Admitted bodies	12,460
138,582		141,394

Surrey Pension Fund Statement of Accounts 2012/13

Note 7: Transfers in from other pension funds

2011/2012		2012/2013
£000		£000
-	Group transfers in from other schemes	18,150
13,968	Individual transfers in from other schemes	13,833
13,968		31,983

Note 8: Benefits payable

By category

2011/12		2012/13
£000		£000
86,143	Pensions	94,191
20,667	Commutation and lump sum retirement benefits	16,818
2,946	Lump sum death benefits	2,840
109,756		113,849

The total does not include interest on late payment of benefits £43,874 (£43,793 2011/12)

By employer

2011/2012		2012/2013
£000		£000
51,916	Administering Authority	54,388
49,746	Scheduled Bodies	50,875
8,094	Admitted Bodies	8,586
109,756		113,849

Note 9: Payments to and on account of leavers

2011/2012		2012/2013
£000		£000
26,376	Group transfers to other schemes	96
9,448	Individual transfers to other schemes	7,814
15	Refunds of contributions	30
-4	Payments for members joining state schemes	5
35,835		7,945

Surrey Pension Fund Statement of Accounts 2012/13

Note 10: Current assets

2011/2012		2012/2013
£000		£000
1,055	Contributions – employees	2,445
5,650	Contributions - employer	9,239
2,366	Sundry debtors	1,898
9,071		13,582

Analysis of current assets

2011/2012		2012/2013
£000		£000
187	Central government bodies	713
6,727	Other local authorities	10,907
-	- NHS bodies	-
8	Public corporations and trading funds	-
2,149	Other entities and individuals	1,962
9,071		13,582

Note 11: Long term debtors

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the civil service. Terms have been agreed for the transfer of liabilities from all Local Government Pension Scheme (LGPS) to the Principle Civil Service Pension Scheme (PCSPS). Hymans Robertson the fund's actuary has determined the value of the pensioner and deferred liabilities remaining with the fund and has calculated the retained assets to match these liabilities. The actuary has determined that the assets are insufficient to match the liabilities and a balancing payment is now required.

On 11 March 2013 it was agreed that the total value of the payment is £18.15m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount has been recognised as a 'transfer in' during 2012/13 as per the accounting policy to accrue for group transfers. A corresponding debtor has been created. The first instalment of £1.815m was actually received on 26 March 2013, meaning that as the remaining nine instalments are due in excess of one year from the 31 March 2013, the whole of the remaining balance has been included as a long term debtor in the accounts.

2011/2012		2012/2013
£000		£000
-	Central government bodies	16,335
-		16,335

Surrey Pension Fund Statement of Accounts 2012/13

Note 12: Current liabilities

2011/2012		2012/2013
£000		£000
4,527	Sundry creditors	4,257
67	Benefits payable	48
4,594		4,305

Analysis of current liabilities

2011/2012		2012/2013
£000		£000
1,065	Central government bodies	1,157
1,548	Other local authorities	1,592
-	- NHS bodies	-
13	Public corporations and trading funds	-
1,968	Other entities and individuals	1,556
4,594		4,305

Note 13: Administrative expenses

2011/2012		2012/2013
£000		£000
961	Employee related	901
644	Support services	826
40	External audit fee	20
10	Legal and other professional fees	6
61	Actuarial fees	114
1,717		1,867

Note 14: Investment expenses

2011/2012		2012/2013
£000		£000
5,776	Management fees	6,446
254	Custody fees	252
4	Performance measurement services	7
112	Investment consultancy fees	151
4	Interest paid	-
6,150		6,856

Surrey Pension Fund Statement of Accounts 2012/13

Note 15: Investment income

2011/2012		2012/2013
£000		£000
	Fixed interest	
7,757	UK	8,143
2,759	Overseas	3,051
	Index linked	
600	UK	55
	Equities	
18,083	UK	15,636
7,764	Overseas	7,633
5,645	Property unit trusts	4,771
0	Diversified growth	1,118
279	Cash	238
42,887		40,645

Surrey Pension Fund Statement of Accounts 2012/13

Note 16: Reconciliation of movements in investments and derivatives

	Market value at 1 April 2012	Purchases during the year and derivate payments	Sales during the year and derivative payments	Market movements	Market value at 31 Mar 2013
	£000	£000	£000	£000	£000
Fixed interest securities	309,600	209,052	-190,222	19,433	347,863
Index linked securities	79,752	74,945	-64,442	8,845	99,100
Equities	1,510,160	878,231	-1,051,499	237,795	1,574,687
Property unit trusts	120,306	12,745	-8,685	-3,618	120,748
Diversified growth	-	224,025		14,961	238,986
Private equity	84,776	13,283	-17,890	10,167	90,336
Derivatives					
- Futures	126	192	-763	135	-310
- Forex conts	6,525	13,027	-16,271	-8,628	-5,347
	2,111,245	1,425,500	-1,349,772	279,090	2,466,063
Cash	70,564			-105	59,723
Other investment balances	9,984				7,318
	2,191,793			278,985	2,533,104

	Market value at 1 April 2011	Purchases during the year and derivate payments	Sales during the year and derivative payments	Market movements	Market value at 31 Mar 2012
	£000	£000	£000	£000	£000
Fixed interest securities	311,766	222,692	-250,837	25,979	309,600
Index linked securities	59,512	40,563	-33,022	12,699	79,752
Equities	1,520,898	395,688	-369,926	-36,500	1,510,160
Property unit trusts	121,614	31,970	-31,794	-1,484	120,306
Private equity	74,215	23,229	-20,658	7,990	84,776
Derivatives					
- Futures	-205	12,840	-500	-12,009	126
- Forex conts	-5,344	8,426	-1,326	4,769	6,525
	2,082,456	735,408	-708,063	1,444	2,111,245
Cash	55,949			-3	70,564
Other investment alances	2,411				9,984
	2,140,816			1,441	2,191,793

Surrey Pension Fund Statement of Accounts 2012/13

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1.37m (£1.34m 2011/12).

Derivative receipts and payments represent the realised gains and losses on forward foreign exchange contracts. The Fund's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio.

Surrey Pension Fund Statement of Accounts 2012/13

Note 16b: Analysis of investments

	31 Mar 2012	31 Mar 2013
Fixed interest securities		
UK public sector & quoted	173,516	137,890
UK pooled funds	79,064	87,769
Overseas public sector & quoted	48,830	52,316
Overseas pooled fund	8,190	69,888
	309,600	347,863
Index linked securities		
UK public sector & quoted	58,332	2,945
UK pooled funds	21,420	96,155
	79,752	99,100
Equities		
UK quoted	461,924	452,587
UK pooled funds	264,458	209,571
Overseas quoted	395,616	423,779
Overseas pooled funds	388,162	488,750
	1,510,160	1,574,687
Property unit trusts	120,306	120,748
Diversified growth	-	238,986
Private equity		
Limited partnerships	33,336	38,683
Fund of funds	51,440	51,653
	84,776	90,336
Derivatives		
Futures	126	-310
FX forward contracts	6,525	-5,347
	6,651	-5,657
Cash deposits	70,564	59,723
Other investment balances		
Outstanding sales	11,115	5,008
Outstanding purchases	-8,297	-3,810
Accrued income - dividends and interest	7,166	6,120
	9,984	7,318
Total investments	2,191,793	2,533,104

Surrey Pension Fund Statement of Accounts 2012/13

Note 16c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. At 31 March 2013 the fund had one futures contract in place with a net unrealised loss of £310,000 (net unrealised gain of £125,630 at 31 March 2012).

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure	Asset £'000	Liability £'000
Futures	28/06/2013	3 Months	Exchange traded UK government bonds	16,867	0	-310

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 2013 the Fund had forward currency contracts in place with a net unrealised loss of £5,347,000 (net unrealised gain of £6,525,121 at 31 March 2012).

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset £'000	Liability £'000
		Bought	Sold	Bought (000)	Sold (000)		
2	One month	CHF	GBP	106	-74		
1	One month	DKK	GBP	545	-62		
1	One month	EUR	GBP	117	-99		
2	One month	GBP	DKK	10	-88		
2	One month	GBP	EUR	11	-12		
6	Two months	GBP	EUR	70,636	-81,796	1,433	
3	One month	GBP	JPY	234	-33,380		
4	Two months	GBP	JPY	33,187	-4,854,833		-834
1	One month	GBP	MYR	125	-588		
1	One month	GBP	SEK	110	1,083		
3	One month	GBP	USD	472	-715		
9	Two months	GBP	USD	210,711	-329,676		-6,558
1	One month	JPY	GBP	500	-4		
1	One month	JPY	USD	329,446	-3,522	26	-38
1	Four months	USD	EUR	3,207	-2,439	118	-70
1	One month	USD	GBP	221	-146		
1	Two months	USD	GBP	2,623	-1,661	67	
1	Four months	USD	GBP	5,963	-3,704	225	
1	One months	USD	JPY	3,936	-329,446	284	
						2,153	-7,500

Surrey Pension Fund Statement of Accounts 2012/13

Note 16d: Investments analysed by fund manager

Market value 31 March 2012		Manager	Market value 31 March 2013	
£000	%		£000	%
620,606	30.0	Legal & General Investment Management	798,183	32.9
132,786	6.4	Majedie Asset Management	158,471	6.5
84,999	4.1	Mirabaud Asset Management	98,382	4.1
247,300	12.0	UBS Asset Management	198,809	8.2
274,372	13.3	Marathon Asset Management	341,002	14.1
153,498	7.4	Newton Investment Management	190,680	7.9
61,083	3.0	JP Morgan Asset Management	-	-
58,789	2.8	TCW Group	-	-
304,641	14.8	Western Asset Management	202,813	8.4
-	-	Franklin Templeton Investments	67,681	2.8
-	-	Standard Life Investments	143,613	5.9
-	-	Baillie Gifford Life Limited	95,372	3.9
127,229	6.2	CBRE Global Multi-Manager	128,307	5.3
2,065,303			2,423,313	

The table above excludes the private equity portfolio, currency hedge, internal cash and residual cash held by the custodian.

The following investments represent more than 5% of the net assets of the fund

Market value 31 March 2012 £000	% of total fund	Security	Market value 31 March 2013 £000	% of total fund
-	-	Legal & General World Developed Equity Index	366,009	14.3
252,959	11.5	Legal & General UK Equity Index	197,336	7.7
-	-	Standard Life Global Absolute Return Strategies	143,613	5.6

Surrey Pension Fund Statement of Accounts 2012/13

Note 18: 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 2012

As at 31 March 2013

Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000	Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
Financial assets					
309,600			347,863		
79,752			99,100		
1,510,160			1,574,687		
120,306			120,748		
			238,986		
84,776			90,336		
8,065			2,154		
	70,564			59,723	
18,281			11,128		
	9,071			29,916	
2,130,940	79,635		2,485,002	89,639	
Financial liabilities					
-1,414			-7,810		
-8,297			-3,810		
		-4,594			-4,305
-9,711		-4,594	-11,620		-4,305
2,121,229	79,635	-4,594	2,473,382	89,639	-4,305

Surrey Pension Fund Statement of Accounts 2012/13

Note 18b: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The fund's private equity investments are valued using techniques that require significant judgement in determining appropriate assumptions. The value of the investments in private equity are based on valuations provided by the managers of the private equity funds in which the Surrey Pension Fund is invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. Some funds provide valuations quarterly whilst others only half yearly. The accounts include £58 million worth of private equity investments which were valued as at 31 December 2012. Cash flow adjustments have been made to roll forward these valuations to the 31 March 2013.

Surrey Pension Fund Statement of Accounts 2012/13

31 March 2013	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets through profit & loss	2,376,688	17,978	90,336	2,485,002
Loans & receivables	89,639			89,639
Total financial assets	2,466,327	17,978	90,336	2,574,641
Financial liabilities				
Financial liabilities through profit & loss	-11,620			-11,620
Financial liabilities at amortised costs	-4,305			-4,305
Total financial liabilities	-15,925			-15,925
Net financial assets	2,450,402	17,978	90,336	2,558,716

31 March 2012	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets through profit & loss	2,017,344	28,820	84,776	2,130,940
Loans & receivables	79,635			79,635
Total financial assets	2,096,979	28,820	84,776	2,210,575
Financial liabilities				
Financial assets through profit & loss	-9,711			-9,711
Financial liabilities at amortised costs	-4,594			-4,594
Total financial liabilities	-14,305			-14,305
Net financial assets	2,082,674	28,820	84,776	2,196,270

Note 18c: Book cost

The book cost of all investments at 31 March 2013 is £2,107,273,868 (£1,887,182,964 at 31 March 2012).

Note 19: Outstanding commitments

At 31 March 2013 the Fund held part paid investments on which the liability for future calls amounted to £87,524,008 (£74,906,438 as at 31 March 2012).

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 now rests with the newly formed Pension Fund Board having previously been the responsibility of the Investment Advisors Group (IAG). 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 and yield movements and the asset mix.

To mitigate market risk, the pension fund is invested in a diversified 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 diversified 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.

In 2012/13 a decision was made to alter the fund's asset allocation to seek to mitigate the volatility associated with equity holdings. This led to the removal of the dedicated regional equity portfolios, with the assets assigned to two diversified growth funds (DGF), managed by Standard Life and Baillie Gifford. DGFs can invest in a broad range of asset classes, including traditional assets such as bonds and equities, alternative asset classes as well as futures, options and other derivatives in order to restrict volatility.

Surrey Pension Fund Statement of Accounts 2012/13

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

The WM Company has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2012/13 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2013 £000	% Change	Value on increase £000	Value on decrease £000
UK equities	662,158	13.1%	748,702	575,614
Overseas equities	912,529	12.7%	1,028,785	796,273
Total bonds	347,863	5.3%	366,404	329,322
ILG	99,100	8.0%	107,068	91,132
Cash	59,723	0.0%	59,723	59,723
Property	120,748	2.4%	123,586	117,910
Total Assets	2,202,121		2,434,268	1,969,974

Surrey Pension Fund Statement of Accounts 2012/13

Asset type	Value at 31 March 2012 £000	% Change	Value on increase £000	Value on decrease £000
UK equities	726,382	15.6%	839,552	613,212
Overseas equities	783,777	15.4%	904,244	663,310
Total bonds	309,600	5.7%	327,154	292,046
ILG	79,752	7.4%	85,654	73,850
Cash	70,564	0.0%	70,564	70,564
Property	120,306	5.8%	127,320	113,292
Total Assets	2,090,381		2,354,488	1,826,274

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. In February 2013 50% of UK gilts managed by Western were redeemed and the proceeds were invested in Franklin Templeton's Global Total Return Fund. This has a more diversified range of fixed income investment opportunities reducing the overall interest rate risk, as there is less exposure to individual interest rate movements.

The fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2012 £000		As at 31 March 2013 £000
70,404	Cash & cash equivalents	59,380
160	Cash balances	343
309,600	Fixed interest securities	347,863
380,164	Total	407,586

Surrey Pension Fund Statement of Accounts 2012/13

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 variable 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 2013	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	59,380	594	-594
Cash balances	343	3	-3
Fixed interest securities	347,863	3,479	-3,479
Total	407,586	4,076	-4,076

Asset type	Carrying amount as at 31 March 2012	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	70,404	704	-704
Cash balances	160	2	-2
Fixed interest securities	309,600	3,096	-3,096
Total	380,164	3,802	-3,802

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 manage 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.

Surrey Pension Fund Statement of Accounts 2012/13

Currency risk – sensitivity analysis

The WM Company has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2012/13 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2013 (£)	% Change	Value on increase	Value on decrease
Overseas equities	488,369	6.1%	518,170	458,568
Fixed interest	2,207	6.1%	2,342	2,072
Property unit trust	11,432	6.1%	12,130	10,735
Cash	2,701	6.1%	2,866	2,536
Total	504,709	6.1%	535,508	473,911

For comparison last year figures are included below.

Asset type	Value at 31 March 2012 (£)	% Change	Value on increase	Value on decrease
Overseas Equities	445,173	9.8%	488,964	401,383
Fixed Interest	8,320	9.8%	9,138	7,501
Property Unit Trust	16,441	9.8%	18,059	14,824
Cash	3,963	9.8%	4,353	3,573
Total	473,897	9.8%	520,514	427,281

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 institution minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Surrey Pension Fund Statement of Accounts 2012/13

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.

Prior to the 1 April 2011 the fund's internally held cash was comingled with that of Surrey County Council. A separate bank account has been in operation since 1 April 2011. Both the council's and the fund's bank accounts are 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's cash balance is lent to borrowers in accordance with the county council's treasury management strategy, as agreed by the fund's Investment Advisors Group. 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 (LCD) approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund has a call account with NatWest Bank and a money market fund with the Royal Bank of Scotland. In line with the treasury strategy, the maximum deposit level allowed in each account is £20 million. The RBS money market fund has a long term credit rating of AAA (or equivalent) with all three ratings agencies and the NatWest call account has a rating of A (or equivalent) with all three.

Balance at 31 March 2012 £000		Balance at 31 March 2013 £000
	Call account	
15,000	NatWest	15,000
	Money market fund	
13,800	Royal Bank of Scotland	3,910
	Current account	
160	HSBC	343
28,960	Total	19,253

The fund's cash holding under its treasury management arrangements as at 31 March 2013 was £19.2 million (£29.0 million 31 March 2012).

Surrey Pension Fund Statement of Accounts 2012/13

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the fund are managed by Surrey County Council on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

The fund has immediate access to the internally managed cash holdings at NatWest and Royal Bank of Scotland. Whilst fixed term deposits are allowed under the pension fund treasury strategy, no investment of this type has been made since the implementation of the pension fund bank account in April 2011.

The fund is able to borrow cash to meet short-term cash requirements. No such borrowing was undertaken during the 2012/13 financial year.

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. Usage 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

Surrey Pension Fund Statement of Accounts 2012/13

to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

Surrey Pension Fund Statement of Accounts 2012/13

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2012/13 amounted to £55,659,746 (£55,716,313 in 2011/12).

2011/2012 £000		2012/2013 £000
38,055	Employers' current service contributions	37,035
16,058	Lump sum payments to recover the deficit in respect of past service	17,354
1,603	Payments into the fund to recover the additional cost of early retirement liabilities	1,271
<u>55,716</u>		<u>55,660</u>

ii) Surrey Pension Fund paid Surrey County Council £1,537,236 for services provided in 2012/13 (£1,544,808 in 2011/12).

2011/2012 £000		2012/2013 £000
203	Treasury management, accounting and managerial services	198
1,342	Pension administration services	1,339
<u>1,545</u>		<u>1,537</u>

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2013 were £5,866,326 (£740,047 at 31 March 2012).

iv) During the year none of the Investment Advisors Group (IAG) undertook any material transactions with the Surrey Pension Fund.

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.

2011/12 £	Position	2012/13 £	Note
17,553	Chief Finance Officer	19,991	1
68,110	Pension Fund & Treasury Manager	58,456	2
51,769	Senior Accountant	51,994	
<u>137,432</u>		<u>130,441</u>	

Notes

1. 15% of time allocated to pension fund
2. 70% of time allocated to pension fund

Surrey Pension Fund Statement of Accounts 2012/13

Note 23: Custody

Custody arrangements for securities and cash balances are provided by the fund's global custodian, The Northern Trust Company. Custodian arrangements for the managers responsible for private equity are as follows:

BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York
ISIS Capital	Lloyds Banking Group
Standard Life	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America

Note 24 : Actuarial statement for 2012/13 - funding arrangements

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of funding policy

The funding policy is set out in the Surrey Pension Fund's (the Fund) Funding Strategy Statement (FSS), dated 25 March 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- 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 below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 24 years

Surrey Pension Fund Statement of Accounts 2012/13

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,944 million, were sufficient to meet 72.0% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £755 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31 March 2011

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 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current pensioners	21.9 years	24.0 years
Future pensioners*	23.9 years	25.9 years

Surrey Pension Fund Statement of Accounts 2012/13

Copies of the 2010 valuation report and FSS are available on request from Surrey County Council, administering authority to the Fund.

Experience over the year since April 2012

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2013. It showed that the funding level (excluding the effect of any membership movements) increased over 2012/13. The reason for this was the strong investment performance of the Fund's assets over the year, slightly offset by the fall in Government bond yields.

The next actuarial valuation will be carried out as at 31 March 2013. The FSS will also be reviewed at that time.

Barry McKay

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

23 May 2013

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2012/13 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.

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 pension fund account:

- Showing the figure in the net asset 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 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 Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund, which is the remainder of this note.

Surrey Pension Fund Statement of Accounts 2012/13

Balance sheet

Year ended	31 March 2013	31 March 2012
	£m	£m
Present value of promised retirement benefits	3,982	3,346

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £2,034m in respect of employee members, £770m in respect of deferred pensioners and £1,178m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of members may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. 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 as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £452m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2013	31 March 2012
Inflation/pension increase rate	2.8%	2.5%
Salary increase rate*	5.1%	4.8%
Discount rate	4.5%	4.8%

*Salary increases are 1% p.a. nominal until 31 March 2015 reverting to long term rate thereafter

Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the funds VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2007. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Surrey Pension Fund Statement of Accounts 2012/13

	Males	Females
Current pensioners	21.9 years	24.0 years
Future pensioners*	23.9 years	25.9 years

*Future pensioners are assumed to be aged 45 at the last valuation date

This assumption is the same as at 31 March 2012.

Commutation assumption

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.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' dated April 2013. The covering report identifies the appropriate reliances and limitations for the use of figures in this paper, together with further details regarding the professional requirements and assumptions.

Julie Morrison FFA

17 May 2013

For and on behalf of Hymans Robertson LLP

Note 26: Statement of investment principles

Full details of the fund's investment policy are documented in the Statement of Investment Principles. This is published in the pension fund's full annual report and on the Surrey Pension Fund website.

Note 27: Annual report

The Surrey Pension Fund Annual Report 2012/2013 provides further details on the management, investment performance and governance of the Fund.



**Surrey County Council
County Hall
Kingston-upon-Thames**

Contents

Contents	2
Leader's statement.....	3
Chief Finance Officer's report.....	5
Annual Governance statement.....	10
Financial Summary including the main accounting statements	11
Income and Expenditure statement.....	11
Balance Sheet as at 31 March 2013	13
Cash Flow.....	14
Movement in reserves	15
Other financial information	20
Revenue efficiencies.....	20
Council Travel Expenses 2012/13 – 2010/11	20
Salary Transparency.....	21
Council business consultancy fees 2012/13 and 2011/12.....	22
General Information	23
Members allowances and travel expenses (2012/13 and 2011/12), and 2012/13 attendance.....	23
Complaints	32

Leader's statement

To be signed off by David Hodge

[signature]

David Hodge

Leader of the Council

Chief Finance Officer's report

1. Introduction

The Annual Report contains the draft income and expenditure for the year and the draft value of the council's assets and liabilities for the financial year ended 31 March 2013, subject to statutory audit. This audit will be carried out during the summer and the auditor's opinion given to us in September. This Annual Report provides a general guide to the financial statements and highlights some of the more significant matters that have determined this position.

Private sector company accounts comprise an income and expenditure statement, a balance sheet and a cash flow statement. However, because local authorities are tax raising bodies (through the council tax) they have to produce an additional statement that sets out the movement in reserves.

2. Budgeted Income and Expenditure

The council set its budget for the 2012/13 financial year in the context of the government's austerity programme, reduction in public sector budgets and expenditure, and rising demand for its services. As a part of the budget, services developed plans for efficiencies and reductions in expenditure totalling £71m.

The outturn position for 2012/13 provides a clear indication of the council's financial stewardship during the year. The requirement to conform with internationally accepted accounting standards means that the accounting surplus provided in the income & expenditure statement is different. This reflects the statutory changes a local authority must make so that the impact on the local council tax payer is visible.

The updated revenue budget for the 2012/13 financial year, including schools, was £1,536million, to be funded as follows:

Pie chart on funding - Comms will do this when publishing the final report)

In developing the financial plan for the five years to 2018 (known as the Medium Term Financial Plan), the authority took a multi-year approach to its budget setting: approving the use of £11m to support the 2013/14 financial year when it set the budget in February 2013, and a further £1m in March 2013. The cabinet has also approved £8m of service budgets to be rolled forward to ensure funding is available for schemes, projects and commitments that need to be funded in the new financial year.

The final outturn for the authority funded net revenue budget is an underspending of -£3m. In addition there was an underspending on the Dedicated Schools Grant (DSG) funded services of -£12m, of which -£9m related to schools' delegated budgets.

A reconciliation of the budget outturn figures to the service expenditure figures contained in the Income and Expenditure statement is on page 11. The outturn position is more important to residents because it records only those expenses which statute allows to be charged against the County Council's annual budget and the amounts to be collected from council tax. The amounts which are charged to the Income and Expenditure Statement (IES) for items such as depreciation, impairment, capital grants and pension charges.

	Full year budget £m	Actual income & spend £m	Approved carry forward £m	Council variance £m	DSG Variance £m
Adult Social Care	337.4	339.3		1.9	
Children, Schools & Families	274.7	265.4	3.1	-3.0	-3.2
Schools	540.7	531.4		0.0	-9.3
Customers & Communities	73.8	72.4	0.9	-0.5	
Environment & Infrastructure	130.3	131.0	0.9	1.6	
Change & Efficiency	88.4	83.4	1.3	-3.7	
Chief Executive's Office	14.0	13.9	0.1	0.0	
Central Income & Expenditure	67.3	60.8	1.7	-4.8	
Net service expenditure	1,526.6	1,497.6	8.0	-8.5	-12.5
Budget equalisation reserve	9.0	12.0	2.5	5.5	
Net revenue expenditure	1,535.6	1,509.6	10.5	-3.0	-12.5
% revenue expenditure variance against budget				0.2%	

The underspending of £3m against planned expenditure arose in service areas and against centrally controlled budgets. The table above provides a comparison of the outturn position for each of the council's directorates against the overall net budget. The 2012/13 Outturn report, which was presented to Cabinet on 28 May 2013, provides more details on the reasons for these variances and the evidence to support the approved carry-forward of funding to future years.

Spider diagram with net revenue expenditure to be designed by Comms

Since December 2011 the council has performed a quarterly hard close, which is reported in accordance with accounting standards, for which it won an award for transparency in 2012. These quarterly reports are published to aid transparency and ease comparisons with other private and public sector entities on financial performance in the public interest.

The Council reports on budget monitoring forecasts within around 3 weeks and is looking to also bring forward its audited accounts publication date. The timeliness of this reporting means variations from the budget are considered early and management action can be put in place promptly.

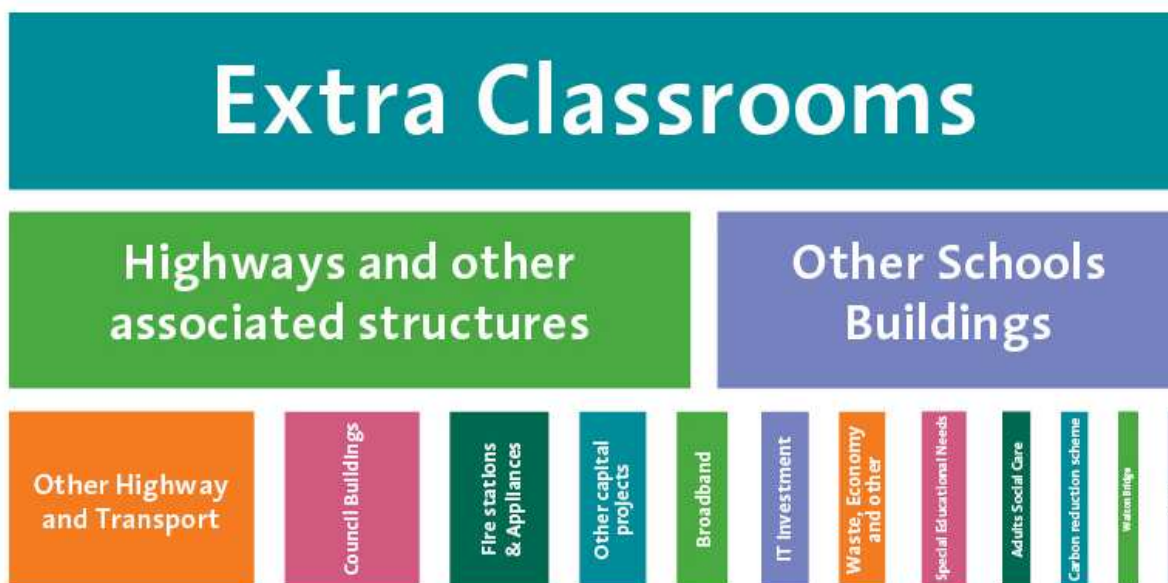
3. Capital expenditure

In agreeing significant capital investment as part of the MTFP for 2012-17 in February 2012, the Council demonstrated its firm long term commitment to stimulating economic recovery in Surrey. The total capital programme was £685m over the 5 year MTFP (2012/17) period, with £156m planned in 2012/13. The table below shows the 2012/13 capital budget and actual in-year expenditure for each directorate.

	Final Full Year Budget £m	Full Year spend £m	Approved Re-profile to future years £m	Net Variance £m
Adult Social Care	1.7	1.3	0.4	0.0
Children, Schools & Families	13.2	12.5	1.6	+0.9
Customers & Communities	5.4	2.3	3.1	0.0
Environment & Infrastructure	52.1	50.0	2.2	+0.1
Schools Basic Need	32.0	27.5	4.4	0.0
Change & Efficiency *	50.9	64.7	11.0	+11.4
Chief Executive's Office	10.2	0.4	9.8	0.0
Corporate adjustment	-9.5	0.0	0.0	+9.5
Total	155.9	158.6	32.6	+21.9

* The amount included within the Change and Efficiency Directorate includes capital expenditure on all property assets, including schools.

Each directorate has specific capital projects. The rectangle below illustrates the relative size of various projects ie: the larger the box, the larger the project.



The resources used to fund the capital expenditure incurred in 2012/13 is as follows:

Pie chart on funding - Comms will do this when publishing the final report)

4. Levels of reserves and balances

The council's general revenue fund balance (i.e. money for unplanned events) stands at £32m. Earmarked reserves (i.e. reserves for specific revenue and capital expected events) have increased from £162m to £181m. This was planned to enable the council to meet future liabilities and commitments. Included within these balances are £53m of schools' reserves and £8m to support future years' capital programmes. Full details on the movement in useable reserves can be found in the Movement in reserves (page 14).

The council's capital general reserves were £17m (capital receipts reserve). There is also £66m of specific and earmarked reserves (£8m – earmarked capital reserve and £58m - capital grant unapplied from central government). These capital reserves (£83m) are held to support future years' capital programmes and are already included to fund the five year capital programme.

5. Borrowing

Long-term borrowing held on the balance sheet relates to the funding of capital expenditure incurred in previous years. The balance currently stands at £238m. This is a decrease of £68m since 2011/12, due to the planned repayment of £68m of borrowing in 2013/14. This has been transferred to short-term borrowing, which also includes the balance which the authority holds on behalf of Surrey Police Authority.

When undertaking borrowing, the Council ensures that its plans are prudent and affordable in the long term and that its borrowing is in accordance with its approved Treasury Management Strategy.

6. Looking forward to 2013/14 and beyond

The current challenges facing the public sector look set to continue for the foreseeable future. Local authorities continue to experience budget cuts and at the same time Surrey County Council, continues to face unprecedented growth in demand for its services. Having a robust medium term financial plan is essential in these challenging times.

The government has changed the way that local authorities are funded and added significant uncertainty to the level of funding that the Council can count on through the introduction of partial local retention of business rates and localisation of council tax support from April 2013.

Surrey County Council has successfully delivered significant savings over recent years and did so again in 2012/13. Continued year on year savings are becoming increasingly challenging to deliver. The Council feels the following mitigate against these risks and uncertainties for 2013/14:

- increased level of risk contingency
- levels of balances and reserves
- planned review of the 2013-18 MTFP after quarter one of 2013/14
- robust and timely monitoring processes.

From April 2013, local authorities will be provided with a ring-fenced public health grant to discharge the new public health responsibilities being transferred from primary care trusts.

With a longer-term view, the Council has created a revolving investment and infrastructure fund to cover the borrowing costs of capital spend on long-term capital investments which will improve the financial resilience of the authority in the future.

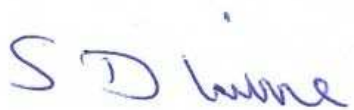
Further Information

Additional information on the authority's overall revenue and capital budget outturn position and achieved efficiencies for 2012/13 can be found in the '2012/13 Outturn report' considered by the Cabinet on 28 May 2013.

The accounts are currently being audited, but further information on these accounts can be found at.....

The Medium Term Financial Plan 2013 -2018 can also be found on our website at:

Further information on the substance of the financial statements presented in this report can be obtained from Nikki O'Connor, Finance Manager (Assets & Accounting) (nicola.oconnor@surreycc.gov.uk).



Sheila Little BA CPFA
Chief Finance Officer and Deputy Strategic Director for Business Services

Annual Governance statement

Chief Executive Officer and Leader

To be approved

Financial Summary including the main accounting statements

Income and Expenditure statement

This statement shows the true economic accounting cost in year of providing services in accordance with generally accepted accounting practices rather than the amount to be funded from taxation. The surplus on the provision of services for 2012/13 was £2.2m (£32.2m 2011/12). This represents the accounting surplus on the provision of services in accordance with International Financial Reporting Standards (IFRS), not a surplus in funding raised over what has been spent.

The accounts are waiting to be audited, but further information and explanatory notes can be found within the Audit & Governance Committee Papers on 24 June 2013.

	2012/13 Unaudited £m	2011/12 Final £m
<u>Income:</u>		
Council tax income	-580.2	-556.2
Formula grant	-149.6	-152.5
Schools & other general and specific grants	-777.4	-828.8
Total income	-1,507.2	-1,537.5
<u>Net directorate revenue expenditure:</u>		
Fees, charges & other service income	-186.4	-164.8
Staffing	750.1	756.8
Non staffing	940.5	953.0
Total net directorate revenue expenditure	1,504.2	1,545.0
Outturn (-) surplus/ deficit	-3.0	7.5
<u>Other expenditure:</u>		
Adjustments between accounting basis and funding basis under regulations (e.g. depreciation, revaluation losses, gain on disposal of assets, de-recognition of Academies) (further explanation in the Statement of Accounts Note 29)	0.8	-39.6
	0.8	-39.6
Total expenditure	1,505.0	1,505.4
 Gross surplus before accounting adjustments	 -2.2	 -32.1
<u>Technical adjustments:</u>		
(-) Surplus on revaluation of non-current assets (eg: buildings)	-22.5	-16.4
Actuarial (-) gains/losses on pension assets / liabilities	134.1	115.2
 Net deficit on income and expenditure statement	 109.4	 66.7

Balance Sheet as at 31 March 2013

This statement shows the value as at the balance sheet date of the assets and liabilities recognised by the authority. The net liability of the authority totals -£39.2m (2011/12 assets of £70.2m. The reason the authority has negative net assets as at the 31 March 2013 is due to the pension liability. This does not need to be met within the next year, but over the lifetime of the scheme members.

The accounts are waiting to be audited, but further information and explanatory notes can be found within the Audit & Governance Committee Papers on 24 June 2013.

	As at 31.03.2013 £m	As at 31.03.2012 £m
Property, plant & equipment	1,280.0	1,257.8
Heritage assets (historical collections and notable paintings)	0.7	0.7
Intangible assets (IT software & licences)	5.9	7.1
Long term investments	0.2	0.2
Long term debtors	8.8	0.5
Long term assets	1,295.6	1,266.3
Short term investments	104.2	100.0
Assets held sale	15.3	4.6
Inventories (eg: salt and grit store)	1.3	1.4
Short term debtors	141.5	100.8
Cash & cash equivalents	114.1	109.8
Current assets	376.4	316.6
Short term borrowing	-82.1	-15.1
Short term creditors	-234.3	-195.0
Short term provisions (eg: staff cost relating to untaken leave)	-3.3	-2.6
Capital grants, receipts in advance	-0.8	-1.4
Current liabilities	-320.5	-214.1
Long term provisions (eg: insurance)	-7.2	-7.9
Long term borrowing (eg: capital loans)	-238.1	-306.2
Other long term liabilities (eg: pension fund)	-1,145.4	-984.5
Long term liabilities	-1,390.7	-1,298.7
Net liabilities	-39.2	70.2
<u>Funded by:</u>		
Usable reserves (eg: general balances, earmarked reserves)	-288.4	-269.1
Unusable reserves (eg: pension, capital & revaluation reserves)	327.6	198.9
Net reserves	39.2	-70.2

Cash Flow

This shows the changes in cash and cash equivalents during the financial year. The total increase in cash and cash equivalents for this authority during 2012/13 was £4.3m (2011/12 +£31.8m) which is shown in the cash flow statement and note 20. The statement shows how an authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities:

- Operating activities - the amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of an authority are funded by way of taxation, grant income or from recipients of services provided by an authority.
- Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the future service delivery (note 27).
- Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to an authority (note 28).

The accounts are waiting to be audited, but further information and explanatory notes can be found within the Audit & Governance Committee Papers on 24 June 2013.

	2012/13 £m	2011/12 £m
Net surplus on the provision of services	2.2	32.2
Adjustments to net surplus on the provision of services for non-cash movements (eg: Depreciation)	131.4	134.1
Adjustments for items included in the net surplus on the provision of services that are investing and financing activities (eg: Revenue funded capital items)	15.9	23.9
Net cash flows from operating activities	149.6	190.2
Investing activities		
(eg: purchasing property, plant and equipment)	-140.5	-154.2
Financing activities (eg: PFI payments)	-4.8	-4.2
Net increase in cash & cash equivalents	4.3	31.8
Cash and cash equivalents at the beginning of the reporting period	109.8	78.0
Cash and cash equivalents at the end of the reporting period	114.1	109.8

Movement in reserves

Movement in Reserves Statement shows the movement during the 2012/13 financial year on the different reserves held by an authority, analysed into usable reserves and other unusable reserves.

Usable reserves are where money is set aside to fund future expenditure plans or reduce taxation whilst unusable reserves reflect the difference between the surplus or deficit made on the true economic cost of providing an authority's services and the statutory amounts required to be charged to the general fund balance for council tax setting purposes (i.e. adjustments between accounting basis and funding basis under regulations). The total increase in this authority's reserves during 2012/13 reflected on the balance sheet is £109.4million (a decrease of £19.3m in usable reserves, offset by an increase of £128.7m in unusable).

The accounts are waiting to be audited, but further information and explanatory notes can be found within the Audit & Governance Committee Papers on 24 June 2013.

	Balance 01-Apr-12	Movement	Balance 31-Mar-13
	£m	£m	£m
General fund balance	-28.8	-3.0	-31.8
Earmarked reserves ^a	-161.9	-19.1	-181.0
Capital receipts reserve	-11.7	-5.7	-17.4
Capital grants and contributions unapplied	-66.7	8.5	-58.2
Total usable reserves	-269.1	-19.3	-288.4
Total unusable reserves ^b	198.9	128.7	327.6
Net reserves	-70.2	109.4	39.2

Note A: Earmarked usable reserves

The table below shows the council's usable reserves classified in accordance with CIPFA's accounting code of practice for International Financial Reporting Standards. These include in following broad categories;

- earmarked reserves - providing financing for future expenditure plans, commitments and possible liabilities;
- general balances – available balances to cushion the impact of uneven cash flow and a contingency for unexpected events;
- capital receipts - the balance of proceeds from the sale of assets not used in-year to fund new capital expenditure but set aside to fund future capital expenditure in accordance with the council's Medium Term Financial Plan and asset management strategy;
- capital government grants unapplied – the balance of grants received from central government that have not been used in-year to fund new capital expenditure.

The 2013 – 2018 MTFP plans to use £12m of general balances to support the 2013/14 financial year. Therefore on 1 April 2013, general balances stood at £19.8m

	Opening balance 01/04/12 £m	Transfers from reserves £m	Transfers in to reserves £m	Closing balance 31/03/13 £m
Earmarked revenue reserves				
Schools balances	49.8		3.0	52.8
Investment renewals reserve	11.1	-2.9	5.1	13.3
Equipment replacement reserve	1.1	-2.9	4.8	3.0
Vehicle replacement reserve	4.4		0.7	5.1
Waste site contingency reserve	0.3			0.3
Budget equalisation reserve	32.0	-32.0	25.0	25.0
Financial investment reserve	9.5		1.6	11.1
PFI reserve	4.6		1.2	5.8
Insurance reserve	7.2	-0.3	0.5	7.4
Severe weather reserve	5.0			5.0
Eco park sinking fund	3.0		5.0	8.0
Investment reserve	5.0			5.0
Child protection reserve	1.3		2.3	3.6
Revenue grants unapplied reserve	19.2	-20.1	21.3	20.4
Interest rate reserve	0.0		3.2	3.2
Economic downturn reserve	0.0		4.4	4.4
General capital reserve	8.4	-0.9	0.1	7.6
Total earmarked reserves	161.9	-59.1	78.2	181.0

Note to describe the earmarked reserves

Investment and 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.

Vehicle replacement reserve: Enables the future cost of vehicle replacement to be spread over the life of existing assets via annual contributions from revenue.

Waste sites contingency reserve: Held to meet as yet unquantifiable liabilities on closed landfill sites, arising from the Environmental Protection Act 1990.

Budget equalisation reserve: The Budget Equalisation Reserve was set up to support future years' revenue budgets from unapplied income and budget carry forwards. The balance includes £11m approved in the MTFP to support the 2013/14 budget, £8m service budget carry forwards, £1m from the Olympic games contingency, and £2m to be approved to support 2014/15 financial year and £3m to assist in managing the uncertainty to council funding do to the transfer of schools to academy status.

Financial investment reserve: The Financial Investment Reserve was also set up in 2008/09 to mitigate against any potential future losses due to the failure of banks and financial institutions with which the Council has deposits (specifically Icelandic Banks). During 2012/13 it has been determined that all of the outstanding money will be returned to the Council, albeit over a number of years, and this reserve will be converted to the Revolving Investment & Infrastructure Fund.

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

Insurance : This reserve also holds the balance resulting from an temporary surplus or deficit on the council's self insurance fund and is assessed by an actuary for the possible liabilities the council may face. It specifically holds £2.4m to cover potential losses from the financial failure of Municipal Mutual Insurance (MMI) in 1992. The company had limited funds to meet its liabilities, consequently, future claims against policy years covered by MMI may not be fully paid, so would be funded from this reserve. The balance on this reserve represents the latest assessed possible liability.

Severe weather/ civil emergency reserve: This reserve enables the Council to act decisively and with real urgency in the event of a serious incident.

Eco park sinking fund: To fund the future of the council's waste disposal project from surpluses in the initial years.

Investment reserve: As a part of the council's financial strategy this reserve was to provide funds for the council to acquire properties and respond quickly and to take advantage of changes in the property market to fund its capital programme. From 2013/14 this reserve will be converted to the Revolving Investment & Infrastructure Fund.

Child protection reserve: This reserve is to provide funding for additional staffing costs as a result of the increase number of children subject to a child protection order. This reserve is to fund the costs until 2015/16, when the base budget will be increased to cover these costs

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

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

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

Note B: Unusable reserves.

Certain 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 authority and are not backed by cash balances.

Unusable reserves	Balance at 1 April 2012 £m	Movement £m	Balance at 31 March 2013 £m
Revaluation reserve	-235.1	-16.5	-251.6
Capital adjustment account	-494.1	-4.8	-498.9
Financial instruments adjustment account (£37,000)	0	0	0
Pensions reserve	919.3	151.4	1,070.7
Collection fund adjustment account	-6.4	0.2	-6.2
Accumulated absences account	15.2	-1.6	13.6
Total unusual reserves	198.9	128.7	327.6

Revaluation reserve: The revaluation reserve contains the gains made by the authority 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, or
- 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.

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 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 authority as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the authority.

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.

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.

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 Authority accounts for post employment benefits in the Income and Expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the authority makes employer's contributions to pension funds or 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 authority 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.

Collection fund adjustment account: The collection fund adjustment account manages the differences arising from the recognition of council tax income in the 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.

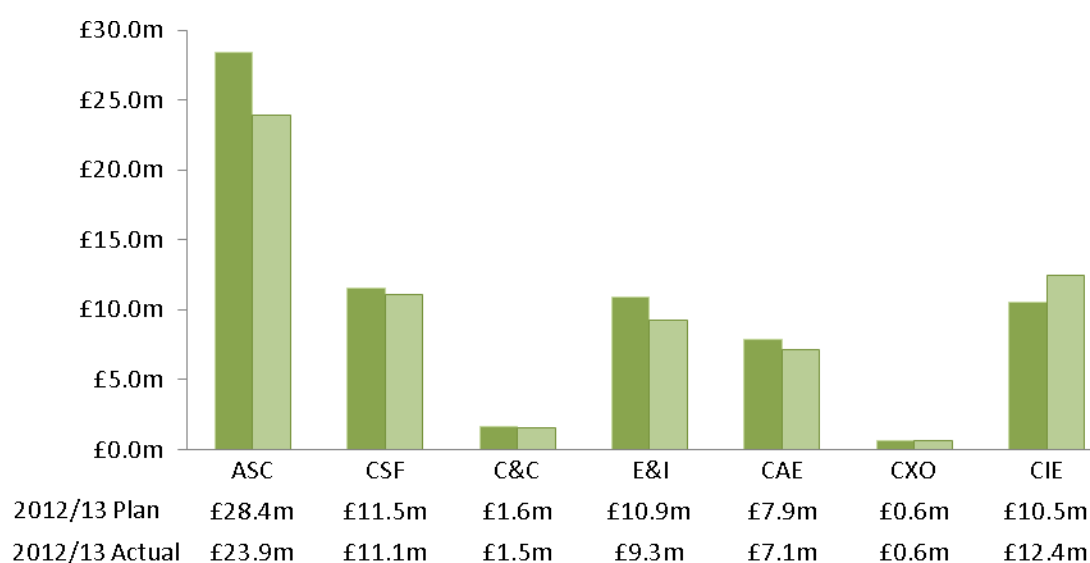
Accumulated absences account: The accumulated absences account absorbs the differences that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

Other financial information

Revenue efficiencies

1. The revenue statement provides details of the income and expenditure; however the services have absorbed a high level of demand pressures to ensure that their positions are maintained. Services outlined in Medium Term Financial Plan £71.1m of efficiencies for 2012/13. The graph below illustrates the directorate's final position on planned efficiencies. The overall amount achieved is £66.0m, with the remainder being met through one-off savings.

2. Directorate Efficiencies target and achieved 2012/13



Council Travel Expenses 2012/13 – 2010/11

3. Travel expenses are incurred through staff and members' journeys on council business. Included within travel expenses are some employees, who due to extensive travel (over 1,500 miles per year), have a lump sum travel allowance as well as mileage expenses. The current system does not distinguish between travel expenses for training or service delivery. Toward the end of 2011/12, the council choose to relinquish a lease to a key office building and utilise other office space across the county. The increase in travel expenses is due to the increased travel of staff across the county to get satellite offices.

	Travel Expenses		
	2012/13	2011/12	2010/11
Adults Social Care	£1.5m	£1.3m	£1.4m
Children, Schools & Families	£2.2m	£2.2m	£1.9m
Schools	£0.0m	£0.0m	£0.0m
Customer & Communities	£0.3m	£0.3m	£0.3m
Environment & Infrastructure	£0.3m	£0.2m	£0.2m
Change & Efficiency	£0.2m	£0.2m	£0.2m
Chief Executive Office	£0.1m	£0.1m	£0.1m

Total	£4.6m	£4.3m	£4.1m
Overall Expenditure	£1,695.7m	£1,670.3m	£1,702.9m
% of total overall expenditure	0.3%	0.3%	0.2%

Salary Transparency

4. Every year we publish information on the external website information on salary policy and transparency. This can be found by Your council, Council Tax & Finance, Localism and transparency.
5. The People, Performance and Development Committee (PPDC) acts as the County Council's Remuneration Committee under delegated powers, in accordance with the constitution of the County Council. All Surrey Pay and terms and conditions are determined by the PPDC, including the remuneration of Chief Officers and specific appointments to posts with salaries of £100,000 or more.

Salary Transparency

6. The County Council is committed to being at the forefront of openness and transparency to demonstrate to its residents and local taxpayers that it delivers value for money. As part of the national and local government transparency agenda, it already publishes information on its external website detailing Surrey Pay ranges, expenditure over £500 and contracts with a value of £50,000 or more.
7. To continue that progress and in line with the Code of Recommended Practice for Local Authorities on Data Transparency 2011, the Council has published details of salaries paid to senior staff on-line, with effect from 30 March 2012. This information is updated on a regular basis and covers all positions with annual salaries of £58,200 and above.
8. This is a summary of the bandings from the information on the website. This is different to the statutory accounts bandings (note 35 – Salary Bandings Statutory Accounts). The information below is a point in time (1 March 2013) of the number of officers on what band where as the statutory accounts are banding the annual salary paid for the year 2012/13 including schools and leavers. This information is also on a headcount basis ie: what an individual is paid rather than a full time equivalent. Within the Outturn report (28 May 2013), the staffing figures are presented. The authority had 7,361 full time equivalent posts at the end of March 2013 (7,168 - March 2012).

Salary band (£)	Total numbers of officers paid as at 1 March 2013
60,000-64,999	61
65,000-69,999	36
70,000-74,999	6
75,000-79,999	39
80,000-84,999	6
85,000-89,999	9
90,000-94,999	6
95,000-99,999	4
100,000-104,999	5
105,000-109,999	3
110,000-114,999	1
115,000-119,999	1
120,000-124,999	0
125,000-129,999	1
130,000-134,999	1
135,000-139,999	1

140,000-144,999	2
150,000-209,999	0
210,000-214,999	1
Total	183

Council business consultancy fees 2012/13 and 2011/12

9. Consultancy, contractors and contractor services come in to support the organisation, often to help deliver projects. Over the past twelve months the council has assessed its definition of business consultancy to ensure the council makes the correct decision when buying these services there is an agreed definition of what consultancy services are. This definition will be applied, by Human Resources, to all requests for consultancy requirements.

10. The definition is:

"A person, firm or company that is selling skills, knowledge and/or professional expertise to the Council."

<u>Business consultancy</u>	2012/13	2011/12
	£m	£m
Adult Social Care	0.1	0.2
Children, Schools & Families	0.1	0.2
Customer & Communities	0.0	0.1
Environment & infrastructure	0.5	0.4
Change & Efficiency	1.6	0.6
Chief Executive Office	0.0	0
Total business consultancy	2.3	1.5
Overall Expenditure	1,695.7	1,670.3
% of total overall expenditure	0.1%	0.1%

General Information

Members allowances and travel expenses (2012/13 and 2011/12), and 2012/13 attendance

Allowances, travel expenses and attendance

Members received an allowance rather than a salary for services carried out by them on behalf of the council. Each member has a specific public interest and will attend meetings regarding this interest outside of committee and council time. Also members will have constituency business like surgeries and parish council meetings to attend.

If a member has not attended a meeting for a period of six consecutive months, unless the failure to attend was due to a reason approved by the authority during those six months, the member ceases to hold office. This is resolution under section 85 of the Local Government Act 1972. On the external website, current year attendance can be accessed by the following menu selections - Your council, Councillors and committees, Surrey County Councillors, Member attendance summary.

The list below only includes the county councillor members that were standing as at 31 March 2013. It has not been updated for the local elections.

	Members Allowances		Travel & subsistence expenses	
	2012/13	2011/12	2012/13	2011/12
	£	£	£	£
<u>By District</u>				
Elmbridge	130,319	138,780	5,035	5,637
Epsom & Ewell	64,955	64,955	714	762
Guildford	131,864	119,237	6,095	5,285
Mole Valley	107,491	107,015	7,815	5,797
Reigate & Banstead	156,640	176,152	12,335	14,901
Runnymede	135,380	118,302	8,420	8,073
Spelthorne	97,268	120,007	3,372	8,763
Surrey Heath	94,939	93,419	4,990	6,952
Tandridge	127,472	112,117	11,007	9,714
Waverley	179,216	180,991	22,254	22,892
Woking	105,134	87,920	3,595	1,532
Current Members by district	1,330,678	1,318,894	85,632	90,308
Stood down members	0	11,791		
Standard Committee	833	1,500		
Employer NI & pension contributions	233,353	235,900		
Total expenditure	1,564,864	1,568,085	85,632	90,308

Members allowances and travel expenses (2012/13 and 2011/12)

			Continuing / New member after May election	2012/13 Allowances £	2011/12 Allowances £	2012/13 Travel & subsistence expenses £	2011/12 Travel & subsistence expenses £
Districts	Elected						
Mr Victor Agarwal	Spelthorne	2003	Robert Evans	11,791	11,791	366	486
Mr Mohammed Amin	Woking	2009	Colin Kemp	11,791	11,791	0	120
Mrs Mary Angell	Runnymede	2005	Yes	28,291	28,291	2,752	3,434
Mr William Barker	Guildford	1997	Yes	14,791	14,791	835	591
Mr Ian Beardsmore	Spelthorne	2001	Yes	11,791	11,791	198	73
Mr Mike Bennison	Elmbridge	2005	Yes	17,791	17,468	552	379
Mrs Elizabeth Bowes	Woking	2009	Yes	20,541	17,146	221	98
Mr Mark Brett Warburton	Guildford	2009	Yes	20,791	20,468	563	1,205
Mr John Butcher	Elmbridge	2009	Mary Lewis	11,791	11,791	323	304
Mr Ben Carasco	Woking	2009	Yes	11,791	11,791	0	0
Mr William Chapman	Surrey Heath	2009	Yes	11,791	15,017	842	859
Mrs Helyn Clack	Mole Valley	2001	Yes	28,291	20,673	4,500	2,566
Mrs Carol Coleman	Spelthorne	2005	Yes	11,791	12,866	476	717
Mr Stephen Cooksey	Mole Valley	2005	Yes	11,791	11,791	929	821
Mr Nigel Cooper	Elmbridge	2009	Stuart Selleck	11,791	11,791	0	0
Mr Stephen Cosser	Waverley	2009	Yes	21,791	21,038	1,895	1,929
Mrs Clare Curran	Mole Valley	2009	Yes	27,076	20,468	942	594
Mr Tony Elias	Tandridge	2009	Helena Windsor	11,791	11,791	239	262
Mr Graham Ellwood	Guildford	2009	Yes	11,791	11,791	14	127
Mr Melville Few	Runnymede	2009	Yes	22,017	14,791	1,671	1,828
Mr William Forster Warner	Woking	2009	Yes	11,791	11,791	303	466
Mrs Angela Fraser	Reigate & Banstead	1989	Bob Gardner / Ken Gulati	11,791	12,436	950	867
Mr Christopher Frost	Epsom & Ewell	1997	Tina Mountain	11,791	12,436	384	492
Mrs Patricia Frost	Waverley	2005	Yes	17,791	17,791	2,043	2,085
Mr Denis Fuller	Surrey Heath	2009	Yes	14,199	11,791	1,255	1,461

			Continuing / New member after May election	2012/13 Allowances £	2011/12 Allowances £	2012/13 Travel & subsistence expenses £	2011/12 Travel & subsistence expenses £
	Districts	Elected					
Mr John Furey	Runnymede	2009	Yes	28,291	21,170	107	225
Mr Simon Gimson	Guildford	2011	George Johnson	11,791	10,555	868	218
Mr David Goodwin	Guildford	2005	Yes	11,791	11,791	284	588
Mr Michael Gosling	Reigate & Banstead	2005	Yes	28,791	28,781	3,515	3,633
Dr. Zulema Grant Duff	Reigate & Banstead	2009	Yes	20,791	19,823	960	1,029
Dr. Lynne Hack	Reigate & Banstead	2005	Jonathan Essex	11,791	20,657	646	1,221
Mr Timothy Hall	Mole Valley	2005	Yes	14,541	28,291	0	0
Mrs Kay Hammond	Reigate & Banstead	1997	Yes	28,291	28,291	4,091	5,228
Mr David Harmer	Waverley	2005	Yes	14,888	11,791	2,151	1,440
Mr Nick Harrison	Reigate & Banstead	2005	Yes	20,791	20,791	763	855
Miss Marisa Heath	Runnymede	2006	Yes	21,791	22,436	1,131	1,192
Mr Peter Hickman	Elmbridge	2005	Yes	11,791	12,114	246	276
Mrs Margaret Hicks	Elmbridge	1989	Yes	11,791	12,866	1,051	843
Mr David Hodge	Tandridge	2005	Yes	42,291	36,818	3,502	2,688
Mr David Ivison	Surrey Heath	2005	Yes	18,291	15,163	2,355	2,177
Mrs Linda Kemeny	Woking	2011	Yes	25,638	10,206	2,271	0
Mrs Frances King	Reigate & Banstead	2005	Barbara Thompson	8,843	11,791	169	84
Mr Eber Kington	Epsom & Ewell	2009	Yes	12,404	17,146	191	270
Mr Ian Lake	Elmbridge	1997	Christian Mahne	11,791	26,290	0	2,639
Mr Peter Lambell	Reigate & Banstead	2009	Natalie Bramhall	11,791	11,791	253	274
Mrs Yvonna Lay	Runnymede	2005	Yes	14,199	11,791	1,645	330
Ms Denise Le Gal	Waverley	2009	Yes	28,291	22,245	4,078	2,065
Mr Stuart MacLeod	Surrey Heath	2009	Mike Goodman	12,076	11,791	438	409
Mr Ernest Mallett	Elmbridge	2005	Yes	13,491	13,491	0	90
Mrs Sally Marks	Tandridge	2001	Yes	22,017	13,210	1,773	1,970

				2012/13	2011/12	2012/13	2011/12
	Districts	Elected	Continuing / New member after May election	Allowances £	Allowances £	Travel & subsistence expenses £	Travel & subsistence expenses £
Mr Geoffrey Marlow	Woking	2001	Richard Wilson	11,791	13,404	514	459
Mr Peter Martin	Waverley	2005	Yes	34,291	31,277	4,578	4,838
Mrs Janet Mason	Epsom & Ewell	2001	Yes	11,791	11,791	0	0
Mrs Marsha Moseley	Guildford	2006	Yes	11,791	11,791	0	0
Mr David Munro	Waverley	1997	Yes	16,791	17,329	4,050	3,344
Mrs Caroline Nichols	Spelthorne	2009	Tim Evans	11,791	11,791	0	0
Mr Christopher Norman	Runnymede	2009	Yes	20,791	19,823	1,114	1,064
Mr John Orrick	Tandridge	2009	Yes	11,791	11,791	696	802
Mr Tom Phelps-Perry	Elmbridge	2005	Rachael Lake	11,791	11,791	0	0
Mr Chris Pitt	Surrey Heath	2005	Yes	11,791	12,866	0	0
Dr. Andrew Povey	Waverley	1993	Victoria Young	11,791	27,927	371	4,199
Mr Steven Renshaw	Waverley	2009	Nikki Barton	21,791	21,038	2,492	2,339
Mrs Dorothy Ross-Tomlin	Reigate & Banstead	2001	Yes	13,760	21,791	988	1,710
Mrs Denise Saliagopoulos	Spelthorne	2001	Yes	11,909	28,958	0	5,560
Mr Anthony Samuels	Elmbridge	2010	Yes	28,291	21,178	2,863	1,106
Mrs Lavinia Sealy	Surrey Heath	1997	Adrian Page	26,791	26,791	100	2,046
Mrs Pauline Searle	Guildford	2005	Yes	11,791	11,791	23	89
Mr Nicholas Skellett	Tandridge	1993	Yes	21,791	21,361	2,580	2,455
Mrs Diana Smith	Woking	2004	Saj Hussain	11,791	11,791	286	389
Mr Michael Sydney	Tandridge	2009	Yes	17,791	17,146	2,217	1,537
Mr John Taylor	Epsom & Ewell	2001	Stella Lallement	11,791	11,791	0	0
Mr Keith Taylor	Guildford	2009	Yes	14,791	14,468	1,128	1,210
Mr Christopher Townsend	Mole Valley	2009	Yes	11,791	11,791	657	653
Ms Denise Turner	Spelthorne	2005	Daniel Jenkins	21,689	20,791	1,574	1,262
Mr Richard Walsh	Spelthorne	2009	Yes	16,506	22,019	758	665

				2012/13	2011/12	2012/13	2011/12
	Districts	Elected	Continuing / New member after May election	Allowances £	Allowances £	Travel & subsistence expenses £	Travel & subsistence expenses £
Mrs Hazel Watson	Mole Valley	1993	Yes	14,001	14,001	787	1,163
Mrs Fiona White	Guildford	2005	Yes	11,791	11,791	1,806	1,257
Mr Keith Witham	Guildford	03/05/2012	Yes	10,745		574	
Mr George Wood	Epsom & Ewell	2009	John Beckett	17,178	11,791	139	0
Mr Alan Young	Waverley	2011	Yes	11,791	10,555	596	653
Total				1,330,678	1,318,894	85,632	90,308

2012/13 Members attendance

	Districts	Elected	Continuing after May election	Council	Cabinet	Cabinet Member	Select Committee	Local Committee	2012/13 Overall total	2011/12 Overall total
Mr Victor Agarwal	Spelthorne	2003	No	3/7			6/7	5/6	14/20	14/19
Mr Mohammed Amin	Woking	2009	No	0/7			0/0	2/5	2/12	7/19
Mrs Mary Angell	Runnymede	2005	Yes	7/7	10/11	3/3		3 /4	23/25	23/29
Mr William Barker	Guildford	1997	Yes	7/7			15/15	5/5	27/27	22/24
Mr Ian Beardsmore	Spelthorne	2001	Yes	6/7			11/12	6/6	23/25	24/25
Mr Mike Bennison	Elmbridge	2005	Yes	6/7			14/16	4/5	24/28	23/26
Mrs Elizabeth Bowes	Woking	2009	Yes	6/7			4/7	5/5	15/19	14/18
Mr Mark Brett Warburton	Guildford	2009	Yes	6/7			16/20	5/5	27/32	23/28
Mr John Butcher	Elmbridge	2009	No	7/7			8/10	4/5	19/22	14/18
Mr Ben Carasco	Woking	2009	Yes	4/7			2/5	4/5	10/17	14/23
Mr William Chapman	Surrey Heath	2009	Yes	6/7			16/18	4/5	26/30	28/30
Mrs Helyn Clack	Mole Valley	2001	Yes	7/7	11/11			4/4	22/22	27/32
Mrs Carol Coleman	Spelthorne	2005	Yes	6/7			6/6	6/6	18/19	16/21
Mr Stephen Cooksey	Mole Valley	2005	Yes	7/7			25/29	4/4	36/40	31/34
Mr Nigel Cooper	Elmbridge	2009	No	5/7			10/12	4/4	19/24	15/20
Mr Stephen Cosser	Waverley	2009	Yes	6/7			16/18	5/5	27/30	30/30
Mrs Clare Curran	Mole Valley	2009	Yes	5/7			15/16	4/4	24/27	24/25
Mr Tony Elias	Tandridge	2009	No	1/7			4/9	2/5	7/21	12/18
Mr Graham Ellwood	Guildford	2009	Yes	4/7			0/7	4/5	8/19	11/19
Mr Melville Few	Runnymede	2009	Yes	7/7			24/25	4/4	35/36	32/41
Mr William Forster Warner	Woking	2009	Yes	7/7			7/9	5/5	19/21	21/21
Mrs Angela Fraser	Reigate & Banstead	1989	No	7/7			11/12	4/5	22/24	25/32
Mr Christopher Frost	Epsom & Ewell	1997	No	7/7			7/9	6/6	20/22	25/28
Mrs Patricia Frost	Waverley	2005	Yes	6/7			8/9	5/5	19/21	17/20
Mr Denis Fuller	Surrey Heath	2009	Yes	5/7			18/21	3/5	26/33	27/28

	Districts	Elected	Continuing after May election	Council	Cabinet	Cabinet Member	Select Committee	Local Committee	2012/13 Overall Total	2011/12 Overall total
Mr John Furey	Runnymede	2009	Yes	7/7	11/11	11/11		4/4	33/33	32/43
Mr Simon Gimson	Guildford	2011	No	7/7			8/9	4/5	19/21	17/20
Mr David Goodwin	Guildford	2005	Yes	7/7			7/9	4/5	18/21	19/20
Mr Michael Gosling	Reigate & Banstead	2005	Yes	5/7	9/11	2/2		4/5	20/25	25/27
Dr. Zulema Grant Duff	Reigate & Banstead	2009	Yes	6/7			15/17	5/5	26/29	25/28
Dr. Lynne Hack	Reigate & Banstead	2005	No	7/7			19/24	5/5	31/36	24/27
Mr Timothy Hall	Mole Valley	2005	Yes	6/7	1/1	2/2	7/9	3 /4	19/22	38/40
Mrs Kay Hammond	Reigate & Banstead	1997	Yes	7/7	9/11	4/4		3/5	23/27	18/24
Mr David Harmer	Waverley	2005	Yes	7/7			15/16	5/5	27/28	20/20
Mr Nick Harrison	Reigate & Banstead	2005	Yes	7/7			9/9	5/5	21/21	20/20
Miss Marisa Heath	Runnymede	2006	Yes	5/7			12/13	4/4	21/24	22/30
Mr Peter Hickman	Elmbridge	2005	Yes	7/7			5/6	4/5	16/18	23/23
Mrs Margaret Hicks	Elmbridge	1989	Yes	7/7			15/19	5/5	27/31	29/32
Mr David Hodge	Tandridge	2005	Yes	7/7	11/11	4/4		3/5	25/27	29/30
Mr David Ivison	Surrey Heath	2005	Yes	7/7			4/7	5/5	16/19	21/25
Mrs Linda Kemeny	Woking	2011	Yes	7/7	8/10	8/8	2/2	5/5	30/32	26/34
Mrs Frances King	Reigate & Banstead	2005	No	3/3			7/7	2/2	12/12	4/4
Mr Eber Kington	Epsom & Ewell	2009	Yes	6/7			10/11	5/6	24/24	24/28
Mr Ian Lake	Elmbridge	1997	No	6/7			0/3	5/5	11/15	24/31
Mr Peter Lambell	Reigate & Banstead	2009	No	7/7			4/6	2/5	13/18	16/19
Mrs Yvonna Lay	Runnymede	2005	Yes	6/7			4/7	4/4	14/18	18/23
Ms Denise Le Gal	Waverley	2009	Yes	7/7	10/11	4/4	3/9	3/5	27/36	20/25
Mr Stuart MacLeod	Surrey Heath	2009	No	3/7			3/3	1/5	7/15	21/27
Mr Ernest Mallett	Elmbridge	2005	Yes	7/7			15/17	4/5	26/29	25/32
Mrs Sally Marks	Tandridge	2001	Yes	7/7			13/14	4/5	24/27	24/33

	Districts	Elected	Continuing after May election	Council	Cabinet	Cabinet Member	Select Committee	Local Committee	2012/13 Overall Total	2011/12 Overall total
Mr Geoffrey Marlow	Woking	2001	No	7/7			12/15	5/5	24/27	21/29
Mr Peter Martin	Waverley	2005	Yes	7/7	9/11	1/1		5/6	22/24	30/31
Mrs Janet Mason	Epsom & Ewell	2001	Yes	6/7			6/7	6/6	18/20	19/20
Mrs Marsha Moseley	Guildford	2006	Yes	6/7			4/6	4/5	14/18	17/19
Mr David Munro	Waverley	1997	Yes	5/7			11/12	5/5	21/24	35/43
Mrs Caroline Nichols	Spelthorne	2009	No	5/7			5/11	4/6	14/24	15/25
Mr Christopher Norman	Runnymede	2009	Yes	5/7			15/16	4/4	24/27	25/27
Mr John Orrick	Tandridge	2009	Yes	5/7			6/7	5/5	16/19	15/18
Mr Tom Phelps-Penry	Elmbridge	2005	No	7/7			9/9	5/5	21/21	18/19
Mr Chris Pitt	Surrey Heath	2005	Yes	6/7			5/5	4/5	15/17	13/19
Dr. Andrew Povey	Waverley	1993	No	4/7			3/6	2/5	9/18	21/28
Mr Steven Renshaw	Waverley	2009	No	5/7			17/20	5/5	27/32	27/28
Mrs Dorothy Ross-Tomlin	Reigate & Banstead	2001	Yes	5/7			2/2	4/5	11/14	30/34
Mrs Denise Saliagopoulos	Spelthorne	2001	Yes	5/7			5/12	6/6	16/25	21/25
Mr Anthony Samuels	Elmbridge	2010	Yes	6/7	8/11	7/7		2/5	23/30	24/25
Mrs Lavinia Sealy	Surrey Heath	1997	No	7/7				4/5	11/12	12/17
Mrs Pauline Searle	Guildford	2005	Yes	7/7			6/7	5/5	18/19	17/18
Mr Nicholas Skellett	Tandridge	1993	Yes	6/7			15/17	5/5	26/29	25/27
Mrs Diana Smith	Woking	2004	No	7/7			4/7	5/5	17/19	21/30
Mr Michael Sydney	Tandridge	2009	Yes	5/7			12/17	5/5	22/29	22/29
Mr Colin Taylor	Epsom & Ewell	2001	No	6/7			12/19	6/6	24/32	30/36
Mr Keith Taylor	Guildford	2009	Yes	7/7			17/18	5/5	29/30	28/33
Mr Christopher Townsend	Mole Valley	2009	Yes	7/7			13/17	4/4	24/28	25/28
Ms Denise Turner	Spelthorne	2005	No	6/7			15/16	4/6	25/28	33/41
Mr Richard Walsh	Spelthorne	2009	Yes	6/7			16/18	6/6	29/31	27/31

			Continuing after May election	Council	Cabinet	Cabinet Member	Select Committee	Local Committee	2012/13 Overall Total	2011/12 Overall total
	Districts	Elected								
Mrs Hazel Watson	Mole Valley	1993	Yes	7/7			10/11	4/4	21/22	25/25
Mrs Fiona White	Guildford	2005	Yes	7/7			11/12	5/5	23/24	28/34
Mr Keith Witham	Guildford	03/05/2012	Yes	3/7			8/11	3/5	14/23	n/a
Mr David Wood	Epsom & Ewell	2009	No	6/7			12/19	6/6	24/32	24/34
Mr Alan Young	Waverley	2011	Yes	7/7			8/12	3/5	18/24	13/20

Complaints

Due to the different nature of the functions within the county council, there are separate procedures for dealing with different types of complaints. These procedures ensure a consistency of approach and clear, timely outcomes. Each procedure has its own characteristics and response standards, before referral to the Local Government Ombudsman.

Members:

Complaints about members are governed by the arrangements in the Localism Act 2011:

<http://www.surreycc.gov.uk/your-council/complaints,-comments-and-compliments/how-to-complain-about-a-county-councillor>

Over the last year (2012/13) there were four complaints to the council about elected Members that were investigated by the Monitoring Officer, who in Surrey's case is the Head of Legal and Democratic Services.

Complaint 1 (December 2012) alleged that several Members had pre-determined an outcome before they had properly considered their decision. The Monitoring Officer did not accept this particular complaint amounted to a breach of the Members' Code of Practice, even if it were proven. The complainant was informed of the decision and the matter was closed.

Complaint 2 (March 2013) alleged that an elected Member failed to observe high standards of conduct in a meeting with representatives from partner organisations. The complainant and Member both agreed to mediation. The complainant withdrew their complaint prior to the mediation meeting.

Complaint 3 (March 2013) related to misleading publicity. The Monitoring Officer consulted the Independent Person appointed by the Council, and conducted a preliminary investigation. This established that the Member had published a correction to the initial publicity and distributed it to people who may have been affected by the issue in question. The Monitoring Officer concluded that the alleged behaviour would not therefore amount to a breach of the Members' Code of Conduct.

Complaint 4 (March 2013) was about failure to show respect to an officer of the council, contrary to the Member/Officer Protocol. A letter of apology was sent by the Member, which was accepted by the complainant and the complaint was closed.

In addition to the above, two complaints received at the end of 2011/12 were referred to the Member Conduct Panel during the 2012/13 year. These complaints were partially upheld and, after consultation with the Independent Person, reports of each breach were made to the council.

Corporate

Other non statutory functions (Corporate) operate a good practice system in dealing with complaints. The policy is to encourage customers, residents and service users to complain if they are dissatisfied with the service they have received, so that if the council has done something wrong, the council can put it right and avoid repetition.

In most cases, complaints are dealt with locally by the team that provided the service within ten working days – This is called stage 1. Anyone who complains but is dissatisfied with the response at stage 1 may contact Customer Relations and request further investigation - This is called stage 2. If after that they are still dissatisfied, they may complain to the LGO.

	2011/12	2012/13
Number of complaints received (stage 1)	635	688
% responded to within 10 working days*	94%	95%
Number requesting a stage 2	104	156
Number with fault found at stage 2	40	23
Number of complaints received by LGO	14	18
Number where the LGO found failure	0	0

* The council's target is to respond to 90% of stage 1 complaints within 10 working days.

If you would like further information on the services receiving complaints this can be found at <http://www.surreycc.gov.uk/your-council/complaints,-comments-and-compliments/customer-relations-performance>

Children, Schools & Families Directorate

Complaints about social care provision for Children and Young People are managed by the Children's Rights Service and are usually responded to in line with statutory requirements governed by specific regulations. This process has three stages and the Local Government Ombudsman usually requires all stages to have been exhausted before they will consider a referral.

Complaints that are not about social care provision but relate to other services within the Children Schools and Families Directorate , for example Schools Admissions, Special Educational Needs or Outdoor Learning for Young People, are also managed by the Children's Rights Service. These are usually responded to in line with the Council's corporate complaint process which is a two stage process.

In either case the initial response is dealt with locally at operational level by the appropriate Team Manager. If the complainant remains dissatisfied with the Stage 1 response they can then contact the Children's Rights Service and seek to escalate the complaint to the next stage.

The Children's Rights Service publishes Annual Complaint Reports which are available on the Council's Web Pages.

Further information on this can be found at <http://www.surreycc.gov.uk/your-council/complaints,-comments-and-compliments/comments-compliments-and-complaints-about-social-care-services/social-care-annual-complaints-reports>.

Adult Social Care

Adult Social Care has its own separate statutory complaints procedure for all complaints relating to Adult Social Care services. This is made up of one stage and then referral to the Local Government Ombudsman for any complainants who remain dissatisfied with the Department's response.

Further information on this can be found on the external website <http://www.surreycc.gov.uk/your-council/complaints,-comments-and-compliments/comments-compliments-and-complaints-about-social-care-services/how-to-make-a-complaint-about-adult-social-care>)



AUDIT & GOVERNANCE COMMITTEE
24 June 2013

TREASURY MANAGEMENT OUTTURN REPORT 2012/13

SUMMARY AND PURPOSE:

This report summarises the council's treasury management activity during 2012/13, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential Indicators for 2012/13, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities.

RECOMMENDATIONS:

It is recommended that:

- 1) the Committee note the content of the Treasury Management Annual Report for 2012/13;
and
- 2) adopt the Treasury Management Risk Register shown in Annex 4.

BACKGROUND:

1. Treasury management is defined as the management of the organisation's cash flows, banking, money market and capital market transactions, the effective management of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

TREASURY MANAGEMENT ANNUAL REPORT 2012/13:

2. **Key Prudential Indicators and compliance issues**
Under CIPFA's Prudential Code, the council is required to report on its actual Prudential Indicators after the year end. Annex 1 Table 12 provides a schedule of all of the council's mandatory Prudential Indicators relating to treasury management, as agreed at the budget meeting of 7 February 2012. Key indicators that provide either an overview or a limit on treasury activity are summarised in the following paragraphs.

3. The Capital Financing Requirement (CFR) shows the council's underlying need to borrow for capital purposes. To ensure that, over the medium term, borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the short-term, exceed the total CFR at the end of the previous year plus any increase in the CFR anticipated at the end of the current and next two financial years. The council has complied with this requirement as shown in Table 1:

Table 1: Borrowing Position against CFR

	£m
Total Borrowing at 31 March 2013	314
Investments at 31 March 2013	240
Net borrowing position at 31 March 2013	76
CFR 2012/13	541
CFR 2013/14	560

4. The Authorised Limit is the council's "affordable borrowing limit" required by section 3(1) of the Local Government Act 2003. This represents the limit beyond which borrowing/external debt is prohibited. The limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. Table 2 demonstrates that during 2012/13, the council has maintained gross borrowing within its Authorised Limit.
5. The Operational Boundary is the probable external borrowing position of the council during the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an indicator to ensure that the Authorised Limit is not breached.

Table 2: Borrowing against Authorised Limit & Operational Boundary

	£m
Authorised Limit	662
Operational Boundary	602
Highest gross borrowing position during 2012/13	341

6. Capital financing costs incurred by the council during 2012/13 are detailed as follows:

Table 3: Capital Financing Costs 2012/13

Description	Original Estimate £000	Outturn £000
Minimum Revenue Provision (MRP)	22,629	21,429
Interest on long-term borrowing	12,901	12,901
Interest on short-term cashflow	(992)	(1,494)
Total	34,5385	32,836

7. Interest on long-term borrowing has been to budget, as no further borrowing has been made during the year. Net interest received on short-term cashflow is higher than the estimate due to higher levels of cash on deposit than originally expected.

Treasury Management Activity during 2012/13

8. The treasury position at 31 March 2013 compared with the end of the last financial year is shown in Table 4. The council's credit rating criteria effective at 31 March 2013 are shown at Annex 2 Table 12.

Table 4: Investment and Borrowing Position 2012/13

	31 March 2012		31 March 2013	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Rate Debt*	305	4.20%	305	4.20%
Variable Interest Rate Debt**	-	-	-	-
Total Debt	305	4.20%	305	4.20%
Fixed Interest Investments	229	0.70%	240	0.55%
Total Investments	229	0.70%	240	0.55%
NET BORROWING	76		65	

*Excludes Office of the Police and Crime Commissioner for Surrey debt

9. The treasury management gross borrowing position has not changed in 2012/13 as a result of continuing the strategy of internal borrowing. The authority judges as a prudent strategy the utilisation of existing cash held in earmarked reserves and provisions, rather than entering into new external borrowing arrangements and incurring interest expenses. In doing so, the authority does not avert the need for the funds it is holding for these purposes, but it is simply adopting an efficient and effective treasury management strategy.
10. The increase in investment balances is the result of higher cash balances at the end of 2012/13 compared with 2011/12.
11. The average interest rate paid on debt has remained static (as the debt portfolio has remained the same), while the decrease in investment interest is due to the general interest rates available for deposits being low, and the short term outlook continuing to undermine the rates available.

Borrowing position

12. The interest rate on PWLB debt from 2003/04 onwards is shown in Table 5.

Table 5: Interest on PWLB debt

Financial Year	% Interest on Debt
2003/04	5.46
2004/05	4.96
2005/06	4.86
2006/07	4.73
2007/08	4.45
2008/09	3.59
2009/10	4.20
2010/11	4.20
2011/12	4.20
2012/13	4.20

13. The increase in the weighted average interest rate paid on the debt portfolio (from 3.59% in 2008/09 to 4.20% in 2009/10) was attributable to the repayment of £88m of low interest debt (1.17%) taken out for one year, while rescheduling the debt in the portfolio in 2008/09. Since then there has been no change in the borrowing position.
14. All of the council's current long-term borrowing has been taken from the Public Works Loan Board (PWLB), whose purpose is to provide loans to local authorities in order to finance capital spend, apart from a £10m market loan taken from Barclays. A summary showing the lack of movement of long-term borrowing during 2011/12 and 2012/13 is as follows:

Table 6: Long-Term Borrowing Position

Long-term Borrowing	1 April 2011 to 31 March 2012 £000	1 April 2012 to 31 March 2013 £000
Total debt outstanding at 1 April	305,230	305,230
Loans raised	0	0
Loans repaid	0	0
Total debt at period end	305,230	305,230

15. The council is able to undertake temporary borrowing for cash flow purposes, although none was required for this purpose at any time during 2012/13. The council also manages cash on behalf of the Office of the Police and Crime Commissioner for Surrey, which is classified as temporary borrowing as detailed below.

Table 7: Temporary Borrowing Position

Temporary Borrowing at 31 March 2013	£000
Short-term borrowing for cash flow purposes	-
Office of the Police and Crime Commissioner for Surrey	8,575
Total	8,575

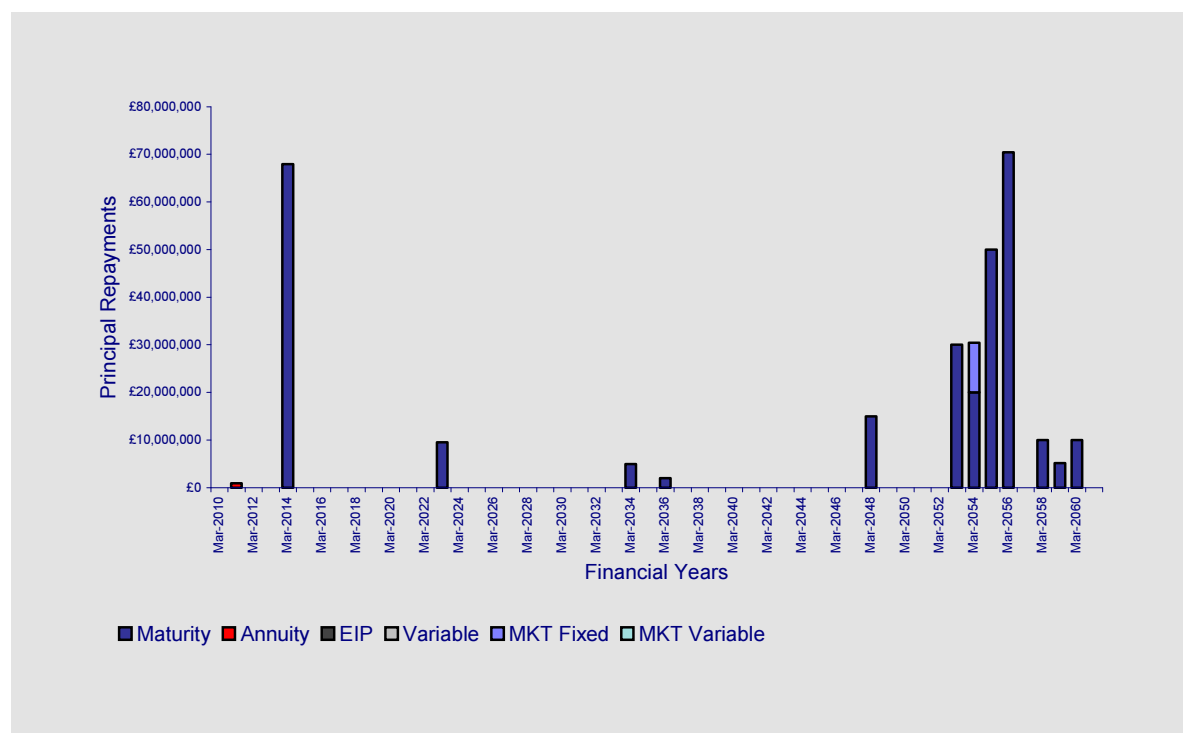
16. The council has limited its exposure to large fixed rate loans maturing in any one year by setting gross limits for its maturity structure of borrowing in accordance with the Prudential Code.

Table 8: Debt Maturity Profile as at 31 March 2013

Maturity Profile	Upper Limit	Lower Limit	Actual
Under 12 months*	50%	0%	24.4%
1 year and within 2 years	50%	0%	0.0%
2 years and within 5 years	50%	0%	0.0%
5 years and within 10 years	75%	0%	3.0%
10 years and above	100%	25%	72.6%

* Includes balances held on behalf of the Office of the Police and Crime Commissioner for Surrey and Trust Funds.

17. The debt maturity profile of the council's long-term debt is shown on the following chart:



Investment Position

18. Investment returns from 2003/2004 onwards are shown in Table 9.

Table 9: Return on Investments

Financial Year	% Return on Investments
2003/2004	3.73
2004/2005	4.65
2005/2006	4.75
2006/2007	4.90
2007/2008	5.78
2008/2009	4.38
2009/2010	1.01
2010/2011	0.75
2011/2012	0.70
2012/2013	0.55

19. The deterioration in the ratings of the majority of banks, coupled with the Bank of England base interest rate sustained at 0.5%, has resulted in very low rates available with a small number of institutions. It is likely that rates will remain low over the coming year, and will lead to overall returns for the year being lower than 2012/13 (below 0.5%).
20. All cash held by the council is aggregated for the purpose of treasury management and daily surpluses are invested temporarily until required to meet daily outgoings. For 2012/13, such monies include funds held on behalf of schools and the Office of the Police and Crime Commissioner for Surrey. Since 1 April 2011, the Pension Fund balances have been held in a separate bank account and are no longer comingled with the council funds for investment purposes.
21. In 2012/13 nearly 350 schools chose to have their cash balances incorporated within the council's balances, earning interest on an agreed basis. Under this arrangement, these schools receive interest on their balances at a rate of 0.50% below base rate.
22. In 2012/13, the council applied the average return of its whole investment portfolio to all of the funds that were held on behalf of the Office of the Police and Crime Commissioner for Surrey (as per the current service level agreement).
23. Money brokers are used to facilitate investment dealing and loans are only made to institutions that meet the council's approved counterparty criteria. In addition to dealing through brokers, short-term investments are also made by dealing direct with some approved institutions, including banks, building societies and money market funds.
24. Due to frequent action on the part of credit ratings agencies, the council's credit rating criteria, investment limits and resultant counterparty list have been under continual scrutiny. The counterparty criteria set out for the period 1 April 2012 to 31 March 2013, which was affirmed at the Audit and Governance meeting of 9 February 2012, is shown in Annex 2, with investment limits effective during that period.
25. During 2012/13, the council maintained an investment portfolio with a daily average balance of £307m (£278m in 2011/12) and received an average return of 0.55%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.39% for the period. The council therefore outperformed its benchmark by 0.16%.
26. A summary of the economic background throughout 2012/13 can be found in Annex 3

Icelandic Deposits

27. An area of concern in relation to the treasury strategy is the Council's £20m deposits with two failed Icelandic banks: Glitnir and Landsbanki. Of this £20m, the Council's exposure is £18.5m with £1.5m attributable to the Office of the Police and Crime Commissioner for Surrey. The Audit & Governance Committee receives regular reports on the prospects for recovery of the deposits that are at risk and the efforts being made by the Local Government Association (LGA) and its legal advisors in this regard.
28. To be prudent, the Council had impaired £1.5m. This is based upon the latest estimates in the guidance issued from CIPFA. On 28 October 2011, the Supreme Court of Iceland upheld the District Court judgment in favour of local authority depositors, deciding by a 6-1 majority that local authorities' claims are deposits that qualify in full for priority in the bank administrations. These decisions are now final and there is no further right of appeal
29. The current position is that 50% of Landsbanki and over 84% of Glitnir deposits have been repaid, with expected recovery rates now at 100% for both banks (subject to exchange rate fluctuations). The balance owed on each deposit is shown in the table below.

Counterparty	Period	Principal £000	Rate	Principal Repaid £000	Principal Outstanding £000
Glitnir	364	5,000	6.25%	4,192	808
Glitnir	366	5,000	6.20%	4,193	807
Landsbanki	732	10,000	5.90%	4,992	5,008
		20,000		13,377	6,623

Member and Officer Training

30. Officers and members involved in the governance of the council's treasury management function are required to participate in training. Officers are also expected to keep up to date with matters of relevance to the operation of the council's treasury function. Officers continue to keep abreast of developments via the CIPFA Treasury Management Forum as well as through two local authority networks. Sector provides daily, weekly and quarterly newsletters and update meetings are held with Sector twice a year. Member training events are planned for 2013/14.

Treasury Management Advisors

31. The Council uses Sector as its treasury management advisor. The company provides a range of services including:
- technical support on treasury matters, capital finance issues and reports;
 - economic and interest rate analysis;
 - debt services, which includes advice on the timing of borrowing;
 - debt rescheduling advice surrounding the existing portfolio;
 - generic investment advice on interest rates, timing, and investment instruments;
 - credit ratings/market information service comprising the three credit rating agencies.

Risk

32. A development in the revised CIPFA Code on Treasury Management, which is intended to improve the reporting of treasury management activities, is the consideration, approval and reporting on security and liquidity benchmarks. Yield benchmarks are already widely used to assess investment performance, while discrete security and liquidity benchmarks are new reporting requirements. A Treasury Management Risk Register is included as Annex 4.

Security: The Council analyses the investment portfolio at year end against historic default rates to estimate the maximum exposure to default as shown in Table 10 below:

Liquidity: The Council currently restricts termed deposits to less than one year, and ensures the minimum level of cash available each day stands above £15m. This provides a safety margin to help ensure the Council does not need to borrow to fund treasury activity. During 2012/13, available cash balances did not fall below the £15m minimum level.

Yield: The Council currently reports the overall return in interest against the 7-Day LIBID rate. The overall return in 2012/13 on deposits was 0.55%, compared with the benchmark of 0.39%, a margin of 0.16%.

Table 10: Benchmarking deposits against default rates at 31 March 2013

Deposits with banks and financial institutions	Amount £000	Historical experience of default %	Estimated maximum exposure to default £000
	(a)	(b)	(a x b)
AAA rated counterparties*	113,750	0.00%	0
AA rated counterparties	20,000	0.03%	80
A rated counterparties	100,000	0.08%	6
Other counterparties**	0		0
Total	240,373		86

* includes £65.2m with other Local Authorities that do not have credit ratings but are backed by central government.

** includes £6.6m of deposits placed in Icelandic institutions whose credit ratings have reduced since the date of placing the deposit.

Value for Money

33. SCC participates in CIPFA's Treasury Management Benchmarking Club, which compares the performance of 55 local authorities. The report for 2012/13 shows that the average interest received by Surrey CC was below the benchmarking club average (0.57% compared with a benchmarking club average of 1.13%). This was mainly due to the council holding high balances and a risk-averse strategy, which resulted in large amounts being held in shorter-term, low interest rate investments. On interest paid, Surrey CC outperformed the average, paying average interest on the debt portfolio of 4.2% compared to the peer average of 4.4%.

34. The survey also compares the costs of maintaining a treasury management function. The Council significantly outperforms the peer group average in terms of the costs per £m investments managed, with costs of £100 per £m invested (£120 per £m in 2011/12) compared with a peer group average of £540 per £m invested (£660 per £m in 2011/12). The decrease in costs per £m invested over the previous year was due to the council holding higher average balances compared to 2011/12 (while the actual costs remained the same over the two years). For debt management, Surrey CC had a cost of £20 per £m, compared to an average of £420 per £m (no change from 2011/12). This places Surrey CC among the top performers, when compared with the peer group.

Regulatory Framework, Risk and Performance

35. The council's treasury management activities are regulated by statute. The DCLG has also issued investment guidance to regulate the Council's investment activities.
- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Act permits the Secretary of State to set limits either on the council or nationally on all local authorities, restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2012/13);
 - Statutory Instrument (SI) 3146 2003, as amended, specifies the controls and powers within the Act. The SI requires the council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The SI also requires the council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
 - Under section 238(2) Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices.
36. The council has complied with all of the above relevant statutory and regulatory requirements, which require the council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management ensures that capital expenditure is prudent, affordable and sustainable, and treasury practices demonstrate a low risk approach.

The council is aware of the risks of passive management of the treasury portfolio and, with the support of the council's advisors, has proactively managed the debt and investments. The council has utilised historically low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio, as it consists of predominantly fixed long-term loans, with the capacity for repayment of any shorter dated debt. Shorter term interest rates and likely future movements in these rates predominantly determine the council's investment return. These returns can be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

Risk Register

37. A risk register for the Treasury Management operation is shown in Annex 4.

38. The Committee is invited to comment on the register and propose amendments as appropriate.

IMPLICATIONS:

- A) Financial
There are no direct financial implications.
- B) Equalities
There are no direct equality implications.
- C) Risk management and value for money
See paragraphs 32 and 33.

WHAT HAPPENS NEXT:

- i. The Pension Fund & Treasury Team will monitor the UK and overseas banking sector and will continue to update this Committee as appropriate.
- ii. In line with the requirements of CIPFA's Code of Practice for Treasury Management, this committee will receive a half year report on the council's treasury management position in December, and a full-year report for 2012/13 at the meeting in June 2014.
- iii. The Pension Fund & Treasury Team will prepare the annual Treasury Management Strategy, which will be presented as part of the MTFP presented to Council in February 2014.

REPORT AUTHOR:

Phil Triggs, Pension Fund & Treasury Manager, and
Charles Phipp, Senior Finance Officer

CONTACT DETAILS:

Phil Triggs 020 8541 9894 – phil.triggs@surreycc.gov.uk
Charles Phipp 020 8541 9224 – charles.phipp@surreycc.gov.uk

Sources/background papers:

Capital Budget and Treasury Management Strategy 2011/12
Prudential Indicators and Treasury Management Strategy 2011/12 to 2013/14
CIPFA Code of Practice for Treasury Management in the Public Services (Revised)
CIPFA Treasury Management Benchmarking Club Report 2011/12

Annex 1

Table 11: Summary of Prudential Indicators for 2012/13

Prudential Indicator	Maximum Position 2012/13 £000	Limit 2012/13 £000
Maximum net borrowing incurred against the Capital Financing Requirement (CFR)	109,814	541,000
Maximum gross borrowing incurred against the Authorised Limit	334,810	662,000
Maximum gross borrowing incurred against the Operational Boundary	334,810	602,000
Ratio of financing costs to net revenue stream	4.5%	N/A
Limits on fixed interest rates	100%	100%
Limits on variable interest	0%	0%
Maturity structure of fixed rate borrowing (<i>maximum position during the year</i>)		
Under 12 months	24.4%	0% - 50%
12 months to 2 years	0%	0% - 50%
2 years to 5 years	0%	0% - 50%
5 years to 10 years	3.0%	0% - 75%
10 years and above	72.6%	25% - 100%
Maximum principal funds invested for more than 365 days	(0%)	35% of value of investments held

In addition to the above the council is required as a Prudential Indicator to:

- i) Adopt the CIPFA Code of Practice.
- ii) Ensure that over the medium term borrowing will only be for a capital purpose (i.e. net external borrowing is less than the CFR).

Table 12: Effective counterparty limits 1 April 2012 to 31 March 2013

Type	Fitch				Moody's			S&P		Maximum Value
	ST	LT	Via	Sup	ST	LT	FSR	ST	LT	
Bank / BS	F1	A-	bb+	3	P-1	A3	C	A1	A-	£20m
Bank / BS	F1+	AA-	a-	2	P-1	Aa3	B	A1+	AA-	£25m
Bank / BS	F1+	AA	a-	1	P-1	Aa2	B	A1+	AA	£35m
MMF	AAA				AAA			AAA		£20m
DMADF	-				-			-		Unlimited
Supranational	-				-			-		£10m
Local Authority	-				-			-		£20m

- i) Deposits are permitted with UK banks that do not comply with the council's credit rating criteria subject to the following:
 - a) That they have been nationalised or part nationalised by the UK government;

and/or
 - b) That they have signed up to the UK government financial support package.
- ii) The use of Money Market Funds is restricted to Funds with three AAA ratings up to a maximum of £100m (with a maximum of £20m per Money Market Fund).
- iii) An additional £20m is made available to invest in overnight high interest call accounts with both RBS and Lloyds (making a total of £40m limit with each). This will be maintained while they remain part nationalised.
- iv) Deposits with foreign banks are now permitted, on the condition that they meet our minimum criteria, and that the country in which the bank is domiciled is "AAA" rated with all three ratings agencies (Fitch, Moody's and Standard and Poor's).

GLOSSARY

MMF = Money Market Fund; DMADF = Debt Management Account Deposit Facility at the Bank of England; BS = Building Society. ST = Short-Term; LT = Long-Term; Ind = Individual rating; Sup = Support rating; FSR = Financial Strength Rating.

- F1 Indicates the strongest capacity for timely payment of financial commitments; an added "+" denotes any exceptionally strong credit feature.
- P-1 Indicates superior credit quality and a very strong capacity for timely payment of short-term deposit obligations. No enhanced rating available.
- A- Indicates a strong capacity to meet financial commitments; an added "+" denotes a capacity to meet financial commitments as extremely strong.

Economic Review

Sovereign Debt Crisis

The European Union sovereign debt crisis was an ongoing saga during the year. However, the European Central Bank (ECB) statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries provided a major boost in confidence that the Eurozone was (at last) beginning to get on top of its problems. This was followed by the establishment of the Outright Monetary Transactions Scheme in September 2012. During the summer, a €100bn package of support was given to Spanish banks. The crisis over Greece blew up again as it became apparent that the first bailout package was insufficient. An eventual very protracted agreement of a second bailout for Greece in December 2012 was then followed by a second major crisis, this time over Cyprus, towards the end of the financial year. In addition, the Italian general election in February 2013 resulted in the new Five Star anti-austerity party gaining a 25% blocking vote; this has the potential to make Italy almost ungovernable if the grand coalition formed in April 2013 proves unable to agree on individual policies. This could then cause a second general election – but one which could yield an equally ‘unsatisfactory’ result. This result emphasises the dangers of a Eurozone approach heavily focused on imposing austerity, rather than promoting economic growth, reducing unemployment, and addressing the need to win voter support in democracies subject to periodic general elections. This weakness leaves continuing concerns that this approach has merely postponed the ultimate debt crisis, rather than provide a conclusive solution. These problems will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population.

Government Policy

The UK Coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed its rating on negative watch, after the Budget statement in March 2013. Key to retaining the AAA rating from Fitch and S&P will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe.

UK Growth

2012/13 started the first quarter with negative growth of -0.4%. This was followed by an Olympics boosted +0.9% in the next quarter, then by a return to negative growth of -0.3% in the third quarter and finally a positive figure of +0.3% in the last quarter. This weak UK growth resulted in the Monetary Policy Committee (MPC) increasing quantitative easing (QE) by £50bn in July 2012 to a total of £375bn on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases. In the March 2013 Budget, the Office of Budget Responsibility yet again cut its previously over optimistic growth forecasts, for both calendar years 2013 and 2014, to 0.6% and 1.8% respectively.

UK CPI Inflation

Inflation has remained stubbornly high and above the 2% target, starting the year at 3.0% and still being at 2.8% in March 2013; however, it is forecast to fall to 2% in three years time. The MPC has continued its stance of looking through temporary spikes in inflation by placing more importance on the need to promote economic growth.

Gilt Yields

Yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into/out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically low levels.

Bank Rate

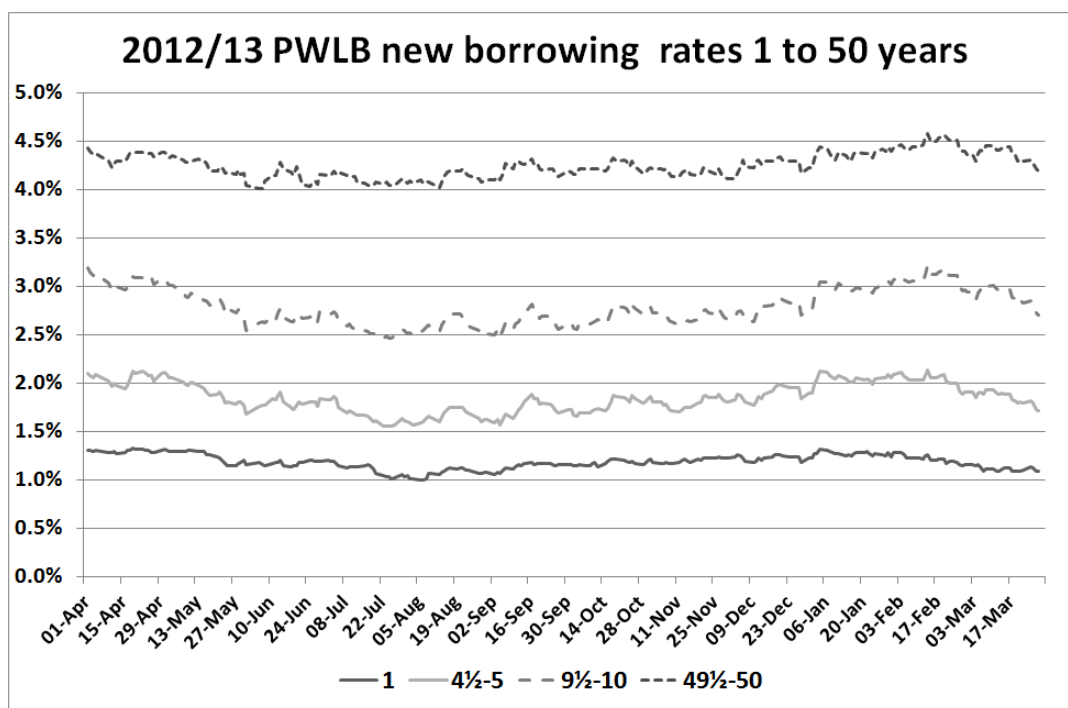
The rate was unchanged at 0.5% throughout the year, while expectations of when the first increase would occur were pushed back to Q1 2015 at the earliest.

Deposit Rates

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

PWLB Borrowing Rates

The graphs and table for PWLB maturity rates below and, in Annex 3 show, for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.



This page is intentionally left blank

Risk Group	Risk Ref.	Risk Description	Impact			Likelihood	Total risk score	Mitigation actions
			Financial	Reputation	Total			
Financial	1	Credit and Counterparty Risk Failure by a counterparty to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, resulting in a detrimental effect on the Council's capital or revenue resources.	1	3	4	1	4	As part of the Treasury Management Strategy, counterparty criteria has been set at a level to allow only the most financially secure banks and other counterparties within the lending list, which is maintained and updated as and when changes occur to the ratings.
Financial	2	Exchange Rate Risk Failure to adequately protect the Council against fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances.	1	1	2	1	2	As part of the Treasury Management Strategy, all treasury activity is restricted to banks with offices in the UK, and in Sterling amounts only. This restriction is factored into the lending list.
Operational	3	Fraud Error and Corruption Failure to adequately protect the Council against the risk of loss through fraud, error, corruption or other eventualities in treasury management dealings, or failure to employ suitable systems and procedures and maintain effective contingency management arrangements.	4	4	8	1	8	Ongoing internal audit advice will ensure that the Council identifies the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, the Council will employ and maintain suitable systems and procedures, and will maintain effective contingency management arrangements. Adherence will be made to the CIPFA Code of Practice. Advice will be taken from CIPFA and the TM advisors.
Financial	4	Interest Rate Risk (Investments) Failure to adequately protect the Council against the risk that fluctuations in the levels of interest rates, creating an unexpected or unbudgeted burden on the Council's finances.	2	1	3	2	6	As part of the Treasury Strategy, all investments will be kept with counterparties with a high rating, on a short term basis of one year or less maximum, minimising any interest rate risks. These risks will be assessed on a daily basis.
Financial	5	Interest Rate Risk (Borrowing) Failure to adequately protect the Council against the risk that fluctuations in the levels of interest rates (gilt yield) create an unexpected or unbudgeted burden on the Council's finances.	4	1	5	3	15	As part of the Treasury Management Strategy, the TM function will continually monitor ongoing and likely future interest rates available to ensure any borrowing is prudent, and at an affordable level.
Operational	6	Legal and Regulatory Risk Failure to adequately protect the Council against the risk that financial losses occur, should the Council itself, or a third party with which it is dealing, fails to act in accordance with its legal powers or regulatory requirements.	1	4	5	1	5	The Treasury Management function will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. Relevant updates from CIPFA and from the treasury advisors will be scrutinised.
Operational	7	Liquidity Risk Failure to adequately protect the Council against ineffective management of liquidity, creating additional unbudgeted costs, compromising the Council's business/service objectives.	1	1	2	1	2	As part of the Treasury Management Strategy, a minimum cash balance of £15m will be maintained. In the event of unforeseen circumstances leading to a negative balance, borrowing is available on a short term basis from both the money market and from other local authorities.
Financial	8	Market Risk Failure to adequately protect the Council against adverse market fluctuations which will affect the value of the principal sums (typically UK gilts and corporate bond pooled funds) in which a Council invests.	1	1	2	2	4	The Treasury function will seek to ensure that its adopted treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums in which it invests. It will accordingly seek to protect itself from the effects of such fluctuations by adhering to maximum approved levels where a degree of volatility is possible.
Financial	9	Refinancing Risk Failure to adequately protect the Council against the risk that maturing borrowings cannot be refinanced on the original terms that reflect the budgetary provisions made by the Council for that refinancing, leading to a budget overspend, or cash deficit.	1	1	2	1	2	As part of the Treasury Management Strategy, levels of borrowing that are due for refinancing and flagged and well anticipated in the cashflow forecasts. The PWLB is available as a lender of last resort should other refinancing not be available in the market.
Operational	10	Financial Failure of SCC's Main Bankers The collapse of the council's main bankers, leading to a total shutdown of banking services, leading to an inability to pay invoices or bank income, and a possible loss of balances held.	4	4	8	1	8	The UK Government has implied by its part nationalisation of both Lloyds TSB and RBS that it will not allow a major UK financial institution to fail. The council will ensure its banking services will remain with a highly rated UK financial institution.
Operational	11	Theft of Intellectual Property and Confidential Information Failure to adequately protect the Council against unauthorised access to offices or computer systems, leading to theft of private data, causing reputational and financial damage.	2	4	6	1	6	Clear desk policy. Ensure all sensitive data is locked away. Challenge any unknown visitors.

This page is intentionally left blank



AUDIT & GOVERNANCE COMMITTEE

24 June 2013

RISK MANAGEMENT ANNUAL REPORT

SUMMARY AND PURPOSE:

This annual risk management report has been produced to enable the committee to meet its responsibilities for monitoring the development and operation of the council's risk management arrangements. It also presents the latest Leadership risk register.

RECOMMENDATIONS:

Members are asked to:

- a) consider the contents of this report and confirm they are satisfied with the risk management arrangements;
- b) approve the Risk Management Policy Statement and Strategy for inclusion in the Constitution (Annex C); and
- c) review the Leadership risk register (Annex D) and determine whether there are any matters that they wish to draw to the attention of the Chief Executive, Cabinet, specific Cabinet Member or relevant Select Committee.

INTRODUCTION:

1. The terms of reference of the Audit and Governance Committee include the requirement to monitor the effective development and operation of the council's risk management arrangements.
2. This report summarises the risk management activity since April 2012 and outlines future activity and development.

BACKGROUND:

3. The strategic lead for risk management for the majority of the year was split between the Assistant Chief Executive and the Strategic Director for Business Services.

4. The Assistant Chief Executive chaired a Risk and Resilience Steering Group (RRSG) that brought together all elements of risk. Membership included risk practitioners¹, directorate risk leads and specific service representatives. Following a review of the strategic risk arrangements in February 2013, the Strategic Risk Forum (SRF) was re-established to ensure a continued focus on risk.
5. The Council Risk and Resilience Forum (CRRF), jointly chaired by the Deputy Head of Emergency Management and Risk and Governance Manager, is made up of representatives who coordinate risk registers and business continuity plans for their service. The Health and Safety operations team, made up of service health and safety co-ordinators, meets quarterly and is chaired by the Deputy Head of HR. The risk management governance structure can be seen at Annex A.
6. The Leadership risk register continues to be reviewed by Corporate Board on a monthly basis. The majority of service and directorate risk registers continue to be regularly reviewed by management teams.

KEY ACTIVITY SUMMARY:

7. A summary of key risk activity is outlined below and Annex B shows more detailed activity that has taken place since April 2012.

Risk and Resilience Steering Group (to February 2013)

8. The RRSG met four times in the period and the meetings focused on:
 - identifying and planning for potential impacts on business as usual during the Olympic period;
 - ensuring coordinated planning and communication for known events such as industrial action and drought;
 - impacts on the council due to changes to Public Health;
 - continuity of service during implementation of Making a Difference ie. staff moving out of Conquest House; and
 - reviewing the Leadership risk register.

Strategic Risk Forum (from March 2013)

9. The SRF is chaired by the Chief Finance Officer and Deputy Director for Business Services, and membership consists of directorate risk leads, Risk and Governance Manager, Chief Internal Auditor, Deputy Head of HR and Organisational Development and Head of Emergency Management. The SRF is responsible for:
 - reviewing, challenging and moderating strategic director risk registers;
 - identifying and escalating common themes and issues;
 - making recommendations to the Corporate Board on changes to the Leadership risk register and key Health & Safety considerations.

¹ Risk and Governance Manager, Senior Health and Safety Manager, Insurance Services Group Manager and representatives from the Emergency Management Team.

10. The SRF agreed its terms of reference at its inaugural meeting in April 2013 and also fully reviewed the Leadership risk register. At the meeting in May 2013, the key directorate risks were reviewed and the Leadership risk register was updated. Following both meetings, the Chief Finance Officer presented a risk update to Corporate Board that included proposed changes to the Leadership risk register. The SRF will meet quarterly, in line with the performance reporting timetable, with ad hoc meetings as required.
11. The re-establishment of the SRF has been seen as a positive step and the members are showing their commitment to the new arrangements through attendance at the SRF meetings, even at short notice. Corporate Board have also welcomed the renewed focus on strategic risk.

Operational risk groups

Council Risk and Resilience Forum

12. The CRRF meets formally twice a year and quarterly workshops are held to brief reps on current and emerging risks and update them on projects that are helping to improve resilience across the council. Each workshop focuses on a specific key dependency that impacts on services and desktop exercises are used to draw out inter-dependencies and identify any gaps in arrangements. Over the period the CRRF has worked on:
 - testing business continuity plans through exercises and workshops;
 - understanding business impact analyses and business continuity plans, particularly around ensuring the outputs are fed into risk registers and monitored;
 - understanding IT resilience and the impacts of the new data centre both during and post migration.
13. A new expectation set was been agreed by all members of CRRF to ensure a consistent understanding of roles and responsibilities. Feedback on the CRRF new way of working has been positive but attendance levels remain a concern.

Health and Safety operations team

14. The Health and Safety operations team has monitored health and safety events and information recorded by services in order to identify areas of best practice and ensure statutory reporting is completed promptly. They continue to review corporate guidance and arrangements such as the safe use of IT equipment, flexible working and wellbeing.

Risk Network

15. A risk network event was held in November 2012 for all officers involved in risk activity. Risk reps took part in an interactive 'risk challenge' to raise awareness of risk management and help them understand their role and responsibilities. Another event will be held in November 2013 to build on the work that has taken place throughout the year.

Business Continuity

16. A new e-learning business continuity package has been designed to deliver the key messages for staff around what business continuity is, how it is managed in Surrey County Council and what is expected of staff. The package is available to all staff through the Portal and takes approximately 25 minutes to complete. Take up and success rates will be monitored and reported through the appropriate channels.
17. The council's business continuity arrangements were reviewed by the Council Overview and Scrutiny Committee at their meeting on 17 April 2013. It was reported that business continuity had become embedded across the council, that the Emergency Management Team were consulted by services on a regular basis and that the business continuity approach had become more proactive over the past year.

<u>ASSURANCE:</u>

Internal audit review

18. Internal audit provides an annual independent assessment of the risk management arrangements. Initial findings from the 12/13 review highlight the absence of an up to date directorate risk register for Environment and Infrastructure, lack of implementation of the Risk Management Policy and out of date guidance on the S:net. The outcome of the 2012/13 review will be reported to the Committee at the September meeting.

Benchmarking

19. The council takes part in the risk management benchmarking club run by CIPFA (the Chartered Institute of Public Finance and Accountancy) and ALARM (the public risk management association). Data was submitted on 10 May 2013 for the 2012/13 financial year. The questionnaire is based on the ALARM National Performance Model for Risk Management and the draft results show that the council is at level 4 (out of 5) 'Embedded and Integrated.'
20. The output from the internal audit review and the benchmarking will be reported to the risk groups in order to develop action plans and monitor any improvement areas.

<u>FOCUS FOR 2013/14:</u>

Documents and guidance

21. The Risk Framework will be fully reviewed and updated to include risk escalation procedures and cross-referencing of risk registers. Relevant risk guidance will also be updated and appropriate referencing to other risk areas included.

Communication and awareness

22. Continue to clarify and improve understanding of the risk management policy statement and strategy, the risk framework, business continuity plans and templates and Health & Safety expectations through risk groups and strategic meetings, such as the risk network, the SRF and Corporate Board.

Risk registers

23. Work with the risk reps to improve co-ordination of the risk registers through clear referencing and ensuring cross-cutting risks are identified and monitored. Ensure the key risks identified via the business impact analyses, business continuity plans and Health & Safety reporting are included on risk registers and reported through the risk groups.
24. Monitor service risk registers on a quarterly basis and report on an exception basis to the SRF to ensure risk registers are updated and available to staff and members. Also ensure that the Environment and Infrastructure directorate risk register is finalised and published as this has been outstanding for over a year.

Snet and website

25. The risk management, business continuity and health & safety pages on the snet, although in the main are up to date, will be reviewed to ensure links and documents are available, easy to navigate and communicated.
26. The Risk and Governance Manager will endeavour to keep risk registers on the snet up to date and will also encourage the risk reps to take more responsibility by keeping risk registers on their own service snet pages.

RISK MANAGEMENT POLICY STATEMENT AND STRATEGY:

27. The risk management policy statement provides an overarching vision and direction for risk management (Annex C). The Risk Management Strategy has been updated and is attached at Annex D.
28. The policy statement was presented to the Committee last year but was never formerly implemented. The recent renewed focus on risk through the SRF will provide the appropriate leadership to enable full implementation and communication of the policy statement and strategy.

LEADERSHIP RISK REGISTER:

29. The Leadership risk register (Annex E) is owned by the Chief Executive and shows the council's key strategic risks.
30. The key changes made to the Leadership risk register during 2012/13:
 - the finance risk was split into Future Funding (L14) and Medium Term Financial Plan (L1);
 - the Business Continuity and Emergency Planning risk (L3) residual risk level was reduced from high to medium;
 - a new risk was included on Welfare Reform (L15); and
 - the Major Change Programme risk (L2) was updated to focus on staff.

Risks that have been deleted:

- 2012 command, control, coordination and communication (L13)
- Learners with learning difficulties and disabilities (LLDD) budget transfer (L12)
- Resource allocation system in Adults personalisation (L6)
- 2012 project management (L10).

<u>IMPLICATIONS:</u>

Financial

31. Ineffective risk management arrangements may lead to increased costs or inefficiencies due to poor controls or lack of timely action.

Equalities

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

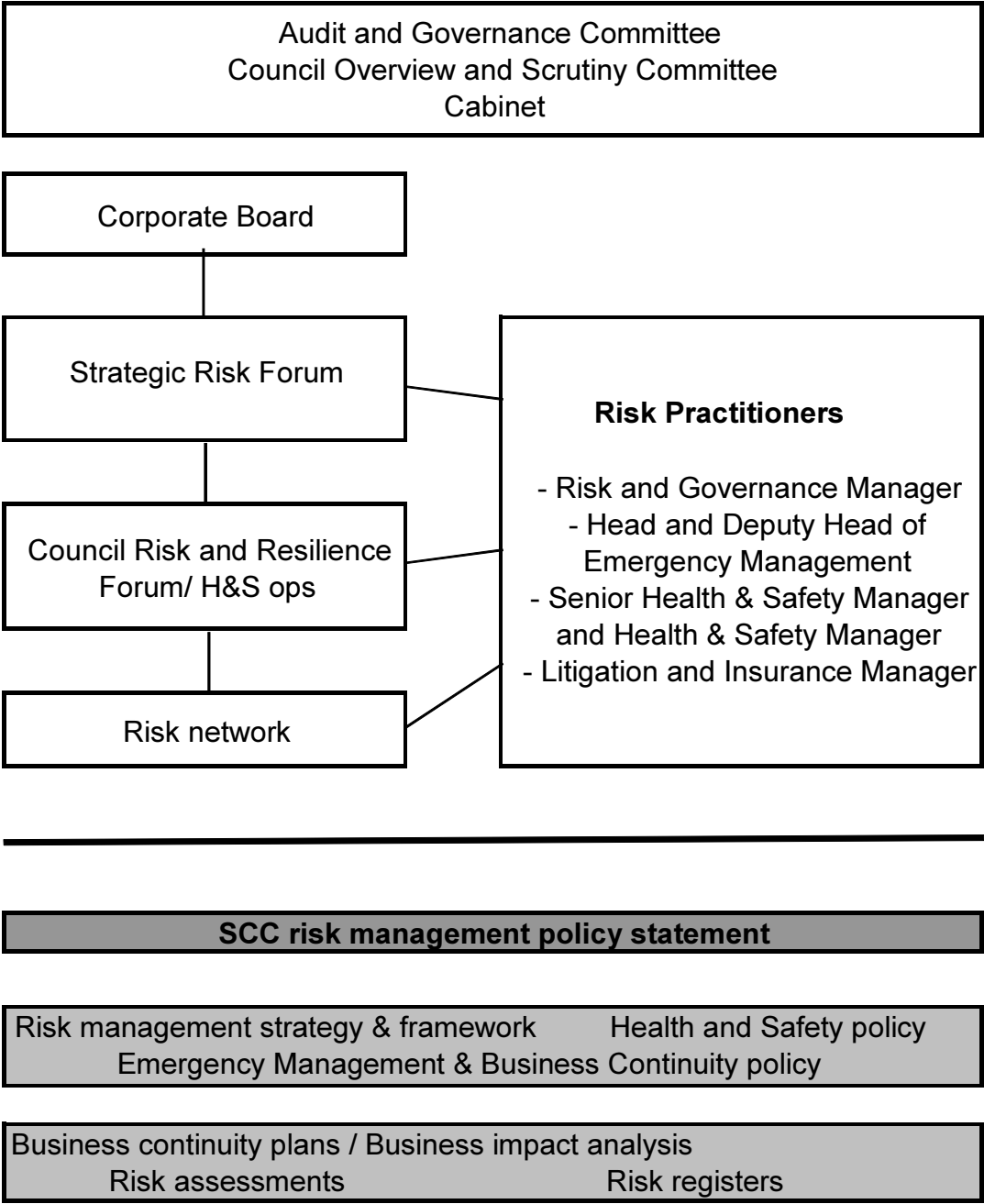
Risk management

33. Embedded risk management arrangements will lead to improved governance and effective decision-making.

REPORT AUTHOR: Cath Edwards, Risk and Governance Manager

CONTACT DETAILS: 020 8541 9193 or cath.edwards@surreycc.gov.uk

Sources/background papers: Risk Management half year report, agendas and minutes.



Strategic risk meetings:

- Risk and Resilience Steering Group (April - February)
- Strategic Risk Forum (From March)

Operational risk meetings:

- Bi-annual Council Risk and Resilience Forum meetings
- Quarterly Health & Safety operations team meeting
- Quarterly Central Joint Safety Committee meetings

Risk reporting:

- Leadership risk register reported to Corporate Board (monthly), Audit and Governance Committee and Cabinet (quarterly)
- Business continuity report to Council Overview and Scrutiny Committee

Training and events:

- Risk network event
- Council Risk and Resilience Forum quarterly workshops
- Olympic business continuity workshops
- New business continuity e-learning package developed
- Activities and training during Business Continuity Awareness Week

Support and integration:

- Regular meetings with directorate and service risk representatives
- Meetings with colleagues from Policy & Performance and Change Team
- Business continuity exercises
- Supported health and safety service training courses
- Business continuity exercise worksheets disseminated to services and summary sheet produced
- Business resilience reviews with IMT, Public Health and Property from January 2013
- Business continuity surgeries
- New business impact analysis and business continuity plan templates developed and launched through CRRF

Introduction

The vision for risk management is to maximise opportunities and minimise exposure to ensure the residents of Surrey remain healthy, safe and confident about the future.

How successful the council is in dealing with the risks it faces can have a major impact on the achievement of our key priorities, goals and service delivery to the community. The Risk Management Strategy supports and underpins the council's Corporate Strategy: One County One Team, and the six key areas of focus - residents, value, partnerships, quality, people and stewardship.

The focus of good risk management is the identification and treatment of risks and opportunities. It increases the probability of success and reduces the likelihood of failure and the uncertainty of achieving objectives. Risk management should be a continuous and evolving process, which runs throughout the council's strategies and service delivery.

Learning lessons from past activities helps inform current and future decisions by reducing threats and optimising the uptake of opportunities. Celebrating and communicating successful risk management in turn encourages a more bold but calculated approach.

Risk Management principles

The council's approach to risk management is built on the following principles:

- **Alignment with objectives**
Enhancing opportunities for success and eliminating or minimising the threat of failure will enable the council to determine risk appetite and tolerance levels to support the achievement of objectives.
- **Clear guidance**
Effective management of risk is encouraged through an open and transparent approach that is suitably resourced and consistently applied.
- **Informs decision making**
Risk information is used to objectively inform decision-making and the achievability of desired outcomes.
- **Achieves measurable value**
Benchmarks and measures are used to monitor and report on how risk management contributes added value to the organisation.
- **Facilitates continuous improvement**
Significant events and incidents are reviewed to ensure lessons are learnt and actions for improvement are identified and implemented.

Benefits

The following benefits are realised through the above principles:

- Improved organisational resilience
- Proactive management
- Improved identification of threat and opportunity events
- Enhanced health and safety performance
- Improved governance
- Stakeholder confidence and trust

Realisation

The realisation of the principles and benefits will be achieved through the operation of the council's risk approach and arrangements.

The Risk Framework contains specific information on the council's risk arrangements and the risk process and procedures.

Compliance with these documents will ensure that the council achieves excellence in its approach to and management of risk.

1. Introduction

- 1.1 Risk management is an integral part of good management practice and a key part of corporate governance. This strategy outlines the arrangements put in place to ensure the council identifies and deals with the key risks it faces.
- 1.2 The council has adopted proactive risk management arrangements to enable decisions to be based on comprehensively assessed risks, ensuring the right actions are taken at the right time.
- 1.3 How successful the council is in dealing with the risks it faces can have a major impact on the achievement of its key strategies, priorities and service delivery to the community. The Risk Management Strategy helps to support and underpin the council's corporate strategy, One County One Team.

2. Objectives

- 2.1 The objectives of this strategy are to:
 - Fully integrate risk management into the culture of the Council and its strategic and service planning processes;
 - Ensure that the risk management framework is implemented and understood by all staff who have a direct operational responsibility for managing risk;
 - Communicate the Council's approach to risk management to stakeholders;
 - Ensure the benefits of risk management are realised through maximising opportunities and minimising threats;
 - Ensure consistency throughout the Council in the management of risk.

3. Risk Management

- 3.1 The focus of good risk management is the identification and treatment of risks. It increases the probability of success and reduces the likelihood of failure and the uncertainty of achieving objectives. Risk management should be a continuous and evolving process, which runs throughout the Council's strategies and service delivery.
- 3.2 Learning lessons from past activities helps inform current and future decisions by reducing threats and optimising the uptake of opportunities. Celebrating and communicating successful risk management in turn encourages a more daring but calculated approach.

4. Integrated Risk Management

- 4.1 In order to create an integrated risk management culture that is embedded into medium term planning, a collaborative approach to risk is undertaken. Service plans, financial budgets and risk registers are developed using a five-year business planning cycle and these are regularly reviewed using an iterative process.

4.2 There are a number of levels of risk register:

- Leadership risk register – owned by the Chief Executive
- Directorate risk registers – owned by individual Strategic Directors
- Service risk registers – owned by individual Heads of Service.

5. Roles and responsibilities

5.1 All employees and members involved in managing risk should be aware of their risk management responsibilities. However, the ultimate responsibility for risk management lies with the Leader of the Council and the Chief Executive.

5.2 Responsibilities for risk management are shown in the table below.

ROLE	RESPONSIBILITIES
The Cabinet	<ul style="list-style-type: none"> • Overseeing effective risk management across the council. • Ensuring that key risks are identified, effectively managed and monitored. • Appointing a member risk champion.
Portfolio Holders	<ul style="list-style-type: none"> • Ensuring that risks within their portfolio are identified and effectively managed through discussions with Strategic Directors and Heads of Service. • Facilitating a risk management culture across the council. • Contributing to the Cabinet review of risk and being proactive in raising risks from the wider Surrey area and community.
Members of Select Committees	<ul style="list-style-type: none"> • Monitoring and challenging key risk controls and actions. • Facilitating a risk management culture across the council.
Audit & Governance Committee	<ul style="list-style-type: none"> • Providing independent assurance to the council on the effectiveness of the risk management arrangements.
Corporate Leadership Team (CLT)	<ul style="list-style-type: none"> • Ensuring effective implementation, monitoring and review of the council's Risk Management Strategy. • Identifying and managing the key risks facing the council and owning risks and action on the Leadership risk register • Ensuring regular review of the Leadership risk register as part of wider council performance
Strategic Directors	<ul style="list-style-type: none"> • Ensuring that risk management within their directorate is implemented in line with the council's Risk Management Strategy. • Ensuring that risks within their directorate are identified and effectively managed by owning their Directorate risk registers • Ensuring regular review of directorate risk registers as part of wider council performance. • Challenging Heads of Service on relevant risks relating to their services. • Proactively raising risks issues at CLT and with Portfolio Holders
Heads of Service	<ul style="list-style-type: none"> • Ensuring that risk management within their service is implemented in line with the council's Risk Management Strategy. • Owning their Service risk register and identifying risks arising from their areas of responsibility and prioritising and initiating action on them. • Ensuring regular review of their Service risk register as part of wider Council performance. • Reporting to Strategic Directors on any perceived new risks or failures of existing control measures. • Supporting and having a regular dialogue with their dedicated risk champion. • Challenging risk owners and actions to ensure that controls are being put in place and monitored.
Managers	<ul style="list-style-type: none"> • Communicating the risk management arrangements to staff. • Co-operating and liaising with the risk champion.

	<ul style="list-style-type: none"> • Taking accountability for actions and reporting to their Head of Service. • Reporting any perceived new risks or failure of control measures to their manager.
Staff	<ul style="list-style-type: none"> • Assessing and managing risks effectively in their job and reporting risks to their manager.
Risk and Governance Manager	<ul style="list-style-type: none"> • Co-ordinating and facilitating the implementation of the risk management arrangements. • Moderating and challenging risks across the organisations. • Providing training and communication. • Centrally holding and publishing all council risk registers. • Facilitating the review and challenge of the Leadership risk register.
Strategic Risk Forum	<ul style="list-style-type: none"> • Reviews Directorate risk registers through challenge and moderation; • Makes recommendations to the Corporate Board on changes to the Leadership risk register and key Health & Safety considerations; • Identifies and escalates common themes and risk management issues across the council; • Promotes the sharing of learning and best practice on risk management; • Considers information and recommendations from the Council Risk and Resilience Forum.
Internal Audit Team	<ul style="list-style-type: none"> • Auditing the Council's risk management process. • Using risk information to inform the annual internal audit plan. • Ensuring that internal controls are robust.

5.3 Other officer groups deal with specific areas of risk management and these include the Health & Safety operations team and the Council Risk and Resilience forum. These groups are represented on the Strategic Risk Forum so that their work can be coordinated with the overall management of the risks facing the council.

6. Risk Management framework

6.1 Effective risk management requires an iterative process of identifying, measuring, managing and monitoring risks.

Risk Identification

6.2 Cabinet Members, the CLT, Heads of Service and managers continually undertake risk identification as part of strategic and service planning and delivery. Focus for risk identification should be at a level that is material to strategic / service objectives, targets and service sustainability.

Risk Assessment

6.3 Risk assessment ensures that risks are judged on a uniform scale across the organisation, enabling risks to be objectively scored and compared across services.

6.4 The outcome of service level risk assessment is the categorisation of risks according to their impact (financial, service level, reputation) and likelihood. It assesses the relative importance of the identified risks so as to allow risk owners, where necessary, to prioritise action to mitigate them.

- 6.5 The output from the risk assessment is a consolidated risk register. The total risk scores are assigned into bands (red, amber or green) according to the severity of the risk.

Risk Control and reporting

- 6.6 Actions to address significant risks need to be specified and regularly reviewed. These mitigating actions should be focused on reducing the impact or likelihood of risks.

Leadership risk register as at 17 May 2013

Owner: David McNulty

Ref	Directorate register ref	Description of the risk	Inherent risk level (no controls)	Controls	Risk owner – Officer	Risk owner – Member	Residual risk level (after existing controls)
L14	ASC5 BS21 CAC1 CSF22	Future Funding - Erosion of the council's main sources of funding: <ul style="list-style-type: none"> council tax – through legislative controls on levels of increase central government grants – through further austerity cuts, policy changes and diversion of grants to LEP's and failure to generate new income streams e.g. trading lead to lack of financial resilience and failure to deliver statutory and essential services.	High	- More robust quarterly monitoring to Corporate Board and Cabinet of actual funding (eg council tax and business rate collection levels) achieved through close working with district and borough colleagues - Continued horizon scanning of the financial implications of existing and future government policy changes - Development of alternative / new sources of funding (e.g. bidding for grants). Notwithstanding actions above, there is a high risk of central government policy changes /austerity measures impacting on the council's long term financial resilience.	Corporate Leadership Team / Sheila Little	David Hodge	High
L1	ASC2 BS9 CAC8,15 CSF4	Medium Term Financial Plan (2013-18) - Failure to achieve the MTFP which could be as a result of: <ul style="list-style-type: none"> not achieving savings additional service demand and/or over optimistic funding levels lead to lack of financial resilience and failure to deliver statutory and essential services.	High	- Monthly reporting to Corporate Board and Cabinet on the forecast outturn position will be clear on the impacts on future years and enable prompt management action (that will be discussed with informal Cabinet/Corporate Leadership Team). - As recommended in the Chief Finance Officers statutory budget report (Sec25), the review of the MTFP will be carried out in quarter 1 of 2013/14. - Clear management action reported promptly detailing alternative savings / income if original plans become non deliverable or funding levels alter in year - Increased risk contingency (up from £8m to £13m) for 2013/14. - Monthly tracking of actual demand compared to budgeted. - Monthly formal budget reports will focus on funding levels comparing actuals to forecasts. Finance to sustain pro-active horizon scanning for insight into potential funding change.	Corporate Leadership Team / Sheila Little	David Hodge	High

Leadership risk register as at 17 May 2013

Owner: David McNulty

Ref	Directorate register ref	Description of the risk	Inherent risk level (no controls)	Controls	Risk owner – Officer	Risk owner – Member	Residual risk level (after existing controls)
L7	BS12	Waste - Failure to deliver key waste targets (including key waste infrastructure) leads to increased cost to residents and tax payers and impacts on the environment.	High	- Strong resourcing and project planning monitored by the Waste Board - Further work with the Districts and Boroughs continue, to review waste plans to achieve the targeted increase in recycling. - Notwithstanding the controls above, there is still a risk that delivery could be delayed by external challenge and levels of recycling are strongly influenced by district and borough collection arrangements which are not within SCC's direct control. Although the council continues to work in partnership to achieve the desired outcome.	Trevor Pugh	John Furey	High
L15	ASC5 CSF22	Welfare Reform Multiple central government welfare reform changes impact adversely on Surrey residents and put additional pressure on all public services.	High	- Effective horizon scanning to ensure thorough understanding of intended changes - Implementation of a welfare reform programme including districts and boroughs covering: <ul style="list-style-type: none"> • Advice and information • Financial resilience • Emergency assistance • Localisation of council tax support • Housing and homelessness • Employment training and support - Taking opportunities to influence central government e.g. via the LGA.	Corporate Leadership Team	David Hodge	High
L11	ASC12 CEO7 CSF18	Information Governance - Failure to effectively act upon and embed standards and procedures by the council leads to financial penalties, reputational damage and loss of public trust.	High	- Encrypted laptops - Secure environment through the Egress encrypted email system - Internal Audit Management Action Plans in place that are monitored by Audit & Governance Committee and Select Committees - Ongoing communications campaign and training - Despite the actions above, there is a continued risk of human error that is out of the council's control.	Corporate Leadership Team	Denise Le Gal	High

Leadership risk register as at 17 May 2013

Owner: David McNulty

Ref	Directorate register ref	Description of the risk	Inherent risk level (no controls)	Controls	Risk owner – Officer	Risk owner – Member	Residual risk level (after existing controls)
L3	ASC18 CAC2,5 CEO3	Business Continuity, Emergency Planning - Failure to plan, prepare and effectively respond to a known event or major incident results in an inability to deliver key services	High	- The Council Risk and Resilience Forum reviews, moderates, implements and tests operational plans. - Close working between key services and the Emergency Management Team to update plans and share learning - Continued consultation with Unions and regular communication to staff. - External risks are assessed through the Local Resilience Forum.	Corporate Leadership Team	Kay Hammond	Medium
L2	ASC4,9 BS1,2 CAC13 CSF20	Major change programmes - Staff do not feel engaged or able to support proposed major changes, affecting timescales, delivery and outcomes of the change programme	High	- Communication, consultation and engagement is a priority for the Council with an emphasis placed on thoroughly addressing the concerns of staff and their representatives - Training and development, where appropriate, supports the changes affecting staff. - Questions in the Staff Survey provide a measure of the staff satisfaction with the council and its management of change. - Staff are encouraged to get involved in finding innovative solutions to redesign services.	Corporate Leadership Team	Cabinet	Medium
L9	ASC11 CSF8	NHS Reorganisation - The Health and Well Being Board does not provide the necessary whole system leadership to implement the Health and Social Care Act.	High	- SCC identified as a National Leader in implementing the Health and Social Care Act. - Transition to new system is being managed well with strong joint leadership arrangements in place	Sarah Mitchell	Michael Gosling	Medium
L4	ASC19 BS5,20	IT systems - major breakdown and disruption of systems leads to an inability to deliver key services	High	- Additional resilience has been brought about by the go-live of the Primary and Secondary Data Centres. - Design and implementation of a new 64 bit Citrix farm is in progress that will bring resilience and performance enhancements. - Work in progress to increase the performance of login/logout times. - The new UNICORN Network will provide further	Julie Fisher	Denise Le Gal	Medium

Leadership risk register as at 17 May 2013

Owner: David McNulty

				resilience going forwards.			
Ref	Directorate register ref	Description of the risk	Inherent risk level (no controls)	Controls	Risk owner – Officer	Risk owner – Member	Residual risk level (after existing controls)
L5	ASC7,16 CSF6,16	Safeguarding - avoidable failure in Children's and/or Adults care leads to serious harm or death	High	- Appropriate and timely interventions by well recruited, trained, supervised and managed professionals, with robust quality assurance and prompt action to address any identified failings.	Sarah Mitchell / Caroline Budden	Michael Gosling/ Mary Angell	Medium

Key to references:

ASC = Adult Social Care

CAC = Customers and Communities

CAE = Change and Efficiency

CEO = Chief Executive's Office

CSF = Children, Schools and Families

EAI = Environment and Infrastructure

Movement of risks

Ref	Risk	Date added	Residual risk level when added	Movement		Current residual risk level
L1	Medium Term Financial Plan	Aug 12	High	-	-	High
L2	Major change programmes	May 10	High	Jan 12	↓	Medium
L3	Business Continuity and Emergency Management	May 10	Medium	Aug 12	↓	Medium
L4	IT systems	May 10	Medium	-	-	Medium
L5	Safeguarding	May 10	Medium	-	-	Medium
L6	<i>Resource Allocation System in adults personalisation</i>	<i>May 10</i>	-	<i>Aug 12</i>	*	-
L7	Waste	May 10	High	-	-	High
L8	<i>Integrated Childrens System</i>	<i>May 10</i>	-	<i>Feb 11</i>	*	-
L9	NHS reorganisation	Sep 10	High	Jan 12	↓	Medium
L10	<i>2012 project management</i>	<i>Sep 10</i>	-	<i>Aug 12</i>	*	-
L11	Information governance	Dec 10	High	-	-	High
L12	<i>LLDD budget transfer</i>	<i>May 11</i>	-	<i>Mar 12</i>	*	-
L13	<i>2012 command, control, coordination and communication</i>	<i>Dec 11</i>	-	<i>Sep 12</i>	*	-
L14	Future funding	Aug 12	High	-	-	High
L15	Welfare reform	Feb 13	High	-	-	High

* Removed from the risk register

This page is intentionally left blank



AUDIT & GOVERNANCE COMMITTEE
24 June 2013

INTERNAL AUDIT ANNUAL REPORT 2012/13

SUMMARY:

This report summarises the work of Internal Audit for the period 1 April 2012 to 31 March 2013, identifying the main themes arising from the audit reviews and the implications for the County Council. The Chief Internal Auditor reports key findings and recommendations arising from audits undertaken as part of regular reporting to this Committee on completed audits.

A list of all Internal Audit reports issued in the period is attached at Annex A for information. In response to member interest in management action taken to implement Internal Audit recommendations this report also provides, at Annexes B and C, details of progress made to date for those audit reports previously presented to this Committee.

This report also provides an update at Annex D, on progress made to date on implementing the recommendations arising from the 2012/13 review of the effectiveness of the system of Internal Audit which was presented to this Committee in March 2013.

RECOMMENDATION:

Members are asked to note the work undertaken and performance of Internal Audit in 2012/13 and determine whether there are any matters that the Committee wishes to draw to the attention of the Cabinet or the County Council.

INTRODUCTION

- 1 The Accounts and Audit Regulations require every local authority to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. Within Surrey County Council the Internal Audit function, which sits within the Policy and Performance Service, carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

- 2 Best practice requires the Chief Internal Auditor to produce an annual report that:
- (a) provides an opinion on the overall adequacy and effectiveness of the organisation's control environment
 - (b) discloses any qualifications to that opinion, together with reasons for the qualification
 - (c) presents a summary of the audit work from which the opinion is derived
 - (d) draws attention to any issues of particular relevance
 - (e) compares the work actually undertaken against the work that was planned
- 3 This report fulfils the requirements above and represents the Internal Audit Report for the period 1 April 2012 to 31 March 2013. This report informs the 2012/13 Annual Governance Statement and provides an overview of the key findings arising from the audit reviews and the implications for the County Council. Taking account of the issues described the Committee will need to consider whether any matters should be referred to the Cabinet or the County Council.

BACKGROUND TO THE YEAR 2012/13

- 4 Internal Audit is one of three teams, the others being Performance and Change; and, Policy and Strategic Partnerships; within the Policy and Performance service. As such Internal Audit is well placed to respond to new policy initiatives and help drive innovation and improvement across the council.
- 5 The Internal Audit team underwent a small restructure during the year which saw the deletion of one Lead Auditor position and the creation of an Information Management Technology (IMT) Auditor position. Successful recruitment into this IMT Auditor position means the team is now well positioned to undertake highly technical reviews of the council's IT systems and infrastructure and can develop a programme of data interrogation as part of proactive counter fraud activity planned for 2013/14.
- 6 New Public Sector Internal Audit Standards, developed through collaboration between CIPFA and the Institute of Internal Auditors (IIA) were published during the year and this Committee has adopted them as best practice to be complied with from 2013/14. The 2012/13 review of the Effectiveness of Internal Audit assessed the council's readiness for these new standards and concluded that Internal Audit in the council is well led and is given a high priority by those charged with good governance.
- 7 Following a procurement exercise by the Audit Commission, Grant Thornton was appointed as the council's External Auditor and took over this role from the Audit Commission in November 2012. When on-site, the External Auditors are now physically located alongside the Internal Audit team in County Hall.
- 8 Throughout the year the Chief Internal Auditor has attended the regular Statutory Officers meeting with the Monitoring Officer, the S151 Officer and the Chief Executive; and has continued to meet regularly on a one to one basis with the Chief Executive to brief him on governance issues.

- 9 During 2012/13 the Chief Internal Auditor has continued to undertake the following responsibilities:
- member of the Investment Panel which reviews business cases in advance of them being presented to Cabinet for approval
 - member of the Governance Panel
 - the council's Money Laundering Regulatory Officer
- In addition the Chief Internal Auditor is now a member of the newly formed Strategic Risk Forum, chaired by the S151 Officer. All the aforementioned roles complement the work of Internal Audit.
- 10 The high profile of Internal Audit reports has been maintained throughout 2012/13 with the Audit and Governance Committee and Council Overview and Scrutiny Committee in particular showing a strong interest in what action officers have taken in response to Internal Audit recommendations. Full copies of all Internal Audit reports are provided to the Leader of the Council and a new on-line library means all elected members can access reports as they wish.

INTERNAL AUDIT OPINION

- 11 The overall audit opinion, based on the reviews completed during the period, on the governance and internal control environment during 2012/13 is **Some Improvement Needed**. A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
- 12 In forming this opinion, the Chief Internal Auditor can confirm that Internal Audit activity throughout 2012/13 has been independent of the rest of the organisation and has not been subject to interference in the level or scope of audit work completed.
- 13 This overall audit opinion is largely a reflection of the system and procedural controls around the County's key financial systems that are subject to annual review by Internal Audit. However a number of areas were identified in which specific weaknesses meant that control in those particular areas did not provide reasonable assurance that risks are being managed so that objectives would be met. The following table shows the spread of audit opinions for the 64 standard audit reports issued in the period 2012/13 with comparative information for 2011/12.

Audit Opinion	2012/13		2011/12	
	No of Audit Reports	%	No of Audit Reports	%
Effective	14	22	10	15
Some Improvement Needed	39	61	50	74
Major Improvement Needed	8	12	5	7
Unsatisfactory	2	3	1	1
n/a	1	2	2	3
Total	64	100	68	100

- 14 The key issues arising from audit work completed during 2012/13 are set out in the Key Audit Findings section of this report.

MANAGEMENT ACTION PLAN (MAP) PROGRESS UPDATE

- 15 In December 2012 a report was presented to this Committee that assessed progress made for all audits completed in the period February – August 2012. This information is summarised at Annex B and includes the latest position for those audits not assessed as “Green” at that time.
- 16 A more detailed summary of progress made on implementing audit recommendations for those audits completed since August 2012 is attached at Annex C. This shows progress to date in implementing audit recommendations for audit reports issued in the period August 2012 - January 2013

PERFORMANCE SUMMARY

- 17 The audit plan for 2012/13 was approved by this Committee on 5 April 2012. The table below shows actual performance against the original plan for the year.

Audit Area	Plan Days (whole year)	Actual Days	% Actual to planned
Corporate Governance Arrangements	40	25	62%
Key Financial Systems	200	157	79%
Grants	30	42	140%
Contract reviews	110	105	95%
Service reviews (systems and projects)	990	863	87%
Follow-up Audits	50	58	116%
Client Support and Service liaison	136	135	99%
PVR Recommendations follow-up	50	8	16%
Special reviews not included in the original audit plan. NFI and other fraud prevention Irregularity investigations	301	298	99%
Audit planning and management, corporate and member support	294	292	99%
Total days	2201	1983	90%
Figures as shown in 2011/12 report (for comparison)	2401	2051	85%

- 18 The Internal Audit team establishment for 2012/13 comprised 12 full time equivalent (FTE) staff. The difference in total number of actual auditor days against planned for 2012/13 is due to a number of factors including:
- more cross service/directorate work undertaken than planned
 - more time spent on personnel related activities including 1-2-1s
 - one post being vacant for the last 4 months of the year
 - sickness absence levels higher than anticipated

19 The Internal Audit team have, nonetheless, had a productive year with 64 audits reports issued (as detailed at Annex A). This compares with 68 reports issued in 2011/12.

20 2012/13 Annual Audit Plan Completion

Annex E provides an analysis of completion of the 2012/13 Internal Audit programme of work. Further information is set out below.

Deferred/Cancelled Audits - The following audits, which were included in the 2012/13 annual audit plan, were cancelled/deferred for the following reasons:

- Personalisation (AIS & SWIFT) – this audit was cancelled as controls around SWIFT Financials, as well as migration of assessments to the new SWIFT assessment module were reviewed as part of the audit of Financial Assessments and Benefits (report issued February 2013). In addition the follow-up audit of Direct Payments (report issued November 2012) reviewed key personalisation risks.
- Home Collect – this audit was cancelled as a full audit of Social Care Debt is included in the 2013/14 Annual Audit plan and the Home Collect process will be considered for inclusion within the scope of this broader review.
- Serious Untoward Incidents – following discussion with the Adult Social Care (ASC) this audit was cancelled, however an audit of ASC Serious Case Review – Recommendation Tracking is included in the 2013/14 Annual Audit plan.
- AIS assessment module – this audit was deferred to 2013/14 to work in tandem with and complement an ASC review of the assessment process.
- Procurement Standing Orders – this audit was cancelled, as reasonable assurance was obtained that recommendations arising from an earlier (October 2011) audit review were being implemented. In addition, a number of audits completed during 2012/13 will have included checks on compliance with procurement standing orders as a matter of course.
- Property Asset Management - implementation of the Property Asset Management system was delayed and as a result this audit has been deferred to 2013/14 to allow time for the new processes to bed in.
- Shared Services Partnership Arrangements – this audit was deferred to 2013/14 when the new arrangements come into effect.
- Asset Management Planning – this audit was deferred to 2013/14 to take account of Operation Horizon which aims to deliver a fixed five year major maintenance programme for Surrey's roads.
- Transportation Coordination Centre (PVR) – this audit was cancelled. Following an earlier audit, the system in place has been reviewed and a tendering exercise completed to replace the system. Implementation of the new system is planned for autumn 2013.

In addition, as shown in Annex E a small number of audits relating to 2012/13 are still in progress.

21 Grants

Four grant audits were completed in the year as follows:

Local Transportation Block Grant; Roma Routes (EU) Grant; Walton Bridge; and, Sport England Grant.

In addition some preliminary work was completed on the Teachers' Pensions and Troubled Families grants.

22 Fraud and Irregularity and Special Reviews

The 2012/13 audit plan included specific time for Irregularity and Special Investigations (audits which, although not in the annual plan, take place as a result of concerns being raised directly with Internal Audit by Members or officers). Much of the time (129.9 days) was spent on irregularity investigations. The Council's Financial Regulations require all matters involving, or thought to involve, corruption or financial irregularity in the exercise of the functions of the County Council to be notified to the Chief Internal Auditor who will decide whether an audit investigation is appropriate.

A separate report has been produced for this Committee which provides more information on the irregularity investigations undertaken by Internal Audit during 2012/13.

Also included in this is time spent on fraud awareness work (including promoting use of the fraud awareness e-learning package and circulating fraud alerts received from such audit networks as the National Anti-Fraud Network and the County Chief Auditor's Network).

23 Customer Satisfaction Survey (CSQ)

The Internal Audit team is continually aiming to improve the service it provides and as such, on completion of each review the auditee is asked to complete a Customer Satisfaction Survey (CSQ) to provide feedback on a number of aspects of the audit – from planning through to reporting. The CSQ also asks for an overall rating on the added value of the audit on a scale of 1 to 4, where 1 is **not very** useful and 4 is **very** useful.

The following table shows the breakdown of CSQ scores received during the period 2012/13 (previous year figures in brackets for comparative purposes):

CSQ Overall Rating	No of CSQs	%
4 – very useful	12 (14)	40 (52)
3	16 (12)	54 (44)
2	1 (1)	3 (4)
1 – not very useful	1 (0)	3 (0)
Total	30 (27)	100

EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT
--

- 24 An external assessment of the effectiveness of the system of Internal Audit was completed in March 2013 and presented to this Committee on 18 March. In line with best practice, this annual report includes an update on progress made in implementing the recommendations arising from that review.

- 25 Detail of progress against each recommendation, including a Red/Amber/Green (RAG) assessment can be found at Annex D. This shows that a significant number of recommendations have already been implemented and the Chief Internal Auditor is confident that all recommendations will be implemented so that full compliance with the Public Sector Internal Audit Standards is achieved before the year end.

KEY AUDIT FINDINGS

- 26 The key audit findings arising from completion of the 2012/13 Internal Audit plan are summarised under the 14 headings as set out below:

1. Capital Monitoring

- 27 An audit of **Capital Monitoring** concluded that performance on spending in line with the capital programme had improved compared with the previous year. Although there was a significant underspend on the Superfast Broadband Project this was offset just after the year end by a number of investment and economic regeneration property acquisitions.
- 28 The council is reviewing its long term capital asset strategy and has established a Capital Innovation Group which will help identify investment options to help ease future budget pressures. Going forward, the council is likely to borrow significantly over a 3-4 year period through a revolving fund to fund new investment and regeneration expenditure that will form part of the 2013/14 capital programme. The council will need to closely monitor the wider economic situation to ensure the asset investment strategy delivers the anticipated return on investment.
- 29 An audit of **Capital Programme Management – Schools Basic Need** completed in December 2012 identified that cutting the cost of Schools Basic Need places is a key part of the council's financial strategy. Since then an unexpected spike in predicted demand for schools places has caused the council to re-examine its delivery and funding options for Schools Basic Need places and capital expenditure and a Cabinet review is planned for Quarter 2 2013/14.

2. Project Management

- 30 With the continuing need for Surrey County Council to deliver improved outcomes for residents with fewer resources it is apparent that project management will become an increasingly important tool in controlling and delivering these changes.
- 31 As part of a joint exercise with the Performance and Change team, Internal Audit undertook a review of the maturity of project management across Surrey County Council. This review found that the extent to which effective project management disciplines and practices had been applied to projects was inconsistent. It found that business cases may not clearly link with strategic objectives; can lack a clear financial rationale; and, are not routinely updated as live documents. While project benefits may be listed in the business case, there may not be robust processes to manage them through the extended lifecycle of the project to ensure their realisation. Stakeholder engagement and communication planning can be under-developed and while project risk management is more advanced, evidence suggests all three are not systematically used to maximise the likelihood of project success.

3. Commercial Services

- 32 **Commercial Services (CS)** provides four separate trading businesses providing catering in schools; civic catering in four council buildings; cleaning in schools and council offices; and, maintenance of gym and other equipment in schools. An audit review of this area found weaknesses in fundamental governance arrangements and concluded that a combination of inadequate reporting arrangements and position in the council means that CS operates with minimal visibility. Reporting was focussed on pupil statistics, detracting from important information regarding the commercial aspect of their work. A CS Business Plan is produced each year but is not shared with senior management or members. The audit opinion following this review was “Major Improvement Needed”.

4. Direct Payments (DPs)

- 33 A follow-up audit review of **Direct Payments** completed in November 2012 found that while substantial improvements had been made to the Direct Payments framework, including updated procedures and cross departmental training, the benefit of these improvements had not yet been fully realised. Audit testing revealed that:

- 26% of DP recipients had not received a Social Care Review (SCR) in the last 12 months (the council commits to a minimum of annual review) and 292 DP recipients had not received a review in over 18 months.
- DP Account Reconciliations – at the time of the audit 45% of DP recipients were more than 3 months overdue in submitting reconciliation documentation. Audit testing identified one individual who had received two annual payments of approximately £12,500 yet had not submitted any supporting paperwork

- 34 In addition where monitoring paperwork had been fully completed, it was apparent that issues raised from these reviews by ASC staff were not always resolved in an appropriate and timely manner.

5. Health and Safety

- 35 Surrey County Council has structures in place to ensure the council can demonstrate compliance with health and safety legislation and an audit of Health and Safety (H&S) Compliance completed in August 2012 noted that there had been further improvements in a number of areas; notably:

- a higher overall level of review and closure of H&S incidents on the OSHENS system;
- the creation of a Compliance Team within Estates Planning and Management (EPM) which will help ensure safe H&S practice by contractors whilst working on council premises; and
- increased numbers of staff receiving H&S training via new e-learning materials

- 36 Action taken at a small number of schools on following up H&S incidents and on fire risk assessments needs corporate monitoring and supportive follow-up.

6. Information Governance

- 37 An audit of **Data Protection Compliance** concluded that the council has appropriate policies and procedures in place to ensure compliance with data protection requirements although it concluded that more work was required to define working practices around taking sensitive data out of council premises. It was also noted that, unlike Freedom of Information requests, there is no central monitoring of timeliness of responses to Subject Access Requests (SARs) and it was apparent that, in Children's Services in particular there were a small number of long outstanding SARs. This audit also highlighted problems in locating paper files within Children's Services as file movements were not always properly recorded.
- 38 In response to an Internal Audit recommendation, the Governance Panel, which includes the Chief Internal Auditor, reviewed a report from the Corporate Information Governance Manager of data protection breaches in the period January – December 2012. This report showed that 68 breaches had been reported, the majority of these were classified as "Disclosed in error eg Email/letter/fax sent to the wrong person". Assurance was taken that a detailed action plan is in place in order to minimise the risk of further breaches and an internal communications campaign will take place in the autumn of 2013.
- 39 An audit of **Records Management** completed in the year attracted an "Effective" audit opinion and overall the results of audit testing regarding the security of records were positive. All areas visited by the auditor had retention schedules in place as required by the corporate policy for records management.
- 40 An audit review of **SAP Application Controls** found that the risk of users inappropriately accessing, modifying and deleting data within the system has decreased significantly since the last significant technical review in 2010/11. Likewise the risk of users significantly impacting the integrity and stability of the system has significantly reduced. The audit concluded that the security model for the vast majority of SAP users is appropriate and secure although there remains room for improvement, particularly in regards to applying the 'least privilege' security model to power users and administrators.

7. Contract Management

- 41 During 2012/13 Internal Audit reviewed the operation of seven key contracts. Six of these were rated "Some Improvement Needed" suggesting that in general contract management controls are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met. One contract reviewed – the Highways Contract – attracted a "Major Improvement Needed" audit opinion.
- 42 The audit of the **Highways Contract** completed in May/June found that engineering staff believe that the contract is achieving higher quality of repairs and better levels of productivity than the previous arrangements. However the audit identified a number of issues relating to the use of Maximo (May Gurney's works management system) and compliance with Financial Regulations and Instructions. The contract exit plan was not agreed as required by the contract. In addition delays in scheme design through limited resources and lack of defined prioritisation has led to significant variations across the different geographical areas in the levels of local Integrated Transport Schemes being completed to plan, eg in one area only 25% of planned schemes were completed.

- 43 A follow-up audit of the **Manpower Contract** found that many of the earlier audit recommendations had been implemented. The audit concluded that further action was required to agree key performance indicators for customer service and it was noted that the share of profits due to Surrey County Council in respect of additional business with other public sector bodies that Manpower has obtained through the council's framework arrangement, had not yet been received.
 - 44 An audit of **Babcock4S Contract Governance** attracted an effective audit opinion and concluded that the governance arrangements at Babcock4S, as a subsidiary of the Babcock Group, provide reasonable assurance that the organisation will achieve its objectives. The council has a representative on the board of directors to ensure its interests are properly represented.
 - 45 An audit of **Waste Contract Management** completed in August 2012 found overall monitoring of the contract was satisfactory.
 - 46 An audit of **LASER Contract Governance** suggests the contract offers value for money. It was noted however that there was little opportunity for member scrutiny of the council's energy procurement through LASER and in view of the significant annual costs involved, it was recommended that an annual report on energy usage and costs be presented to the Council Overview and Scrutiny Committee.
 - 47 An audit of **Residential Block Contracts** found evidence that services were being delivered in accordance with the contracts and to agreed quality standards. Residential care homes were found to be inspected on a regular basis by the Quality Assurance Team. It was noted that although there were dedicated contract managers for the specific contracts there was no single overarching contract manager. The audit recommended that formal risk registers are implemented for these key contracts.
 - 48 An audit of the **Street Lighting (Illuminated Street Furniture) Contract** found the contract was running smoothly with the contractor achieving the targets set within the contract. Management had also been successful in negotiating a reduction in the contractor's rates following a benchmarking exercise with other local authorities.
- 8. Corporate Purchase Cards**
- 49 An audit of **Corporate Purchase Cards** completed in November 2012, concluded that card use was found to be generally in line with the purchasing card rules and guidance. The audit attracted a Major Improvement Needed audit opinion however as it was apparent that management checks of expenditure were not being carried out consistently across the organisation as required and in some areas examples of inappropriate expenditure were identified. In one case formal disciplinary action was taken as a result of inappropriate card use.
 - 50 New rules and guidance on the use of purchasing cards are in place for 2013/14 which address a number of the concerns raised by the audit. In particular, the new process requires on-line management approval of transactions.

9. Transport for Education

- 51 The annual budget for Home to School Transport is £20m for children with Special Educational Needs (SEN) and £10m for children in mainstream education. Transport provided on an on-going basis for children with SEN should be reviewed by the school at least annually. An audit of **Transport for Education** identified that these reviews are not always completed in a timely manner; that a member of the Schools and Learning Service team is not always present at the review and that schools do not robustly review the need for the transport to continue. In addition management information regarding transport costs is not sufficiently detailed for the budget holders to be confident of the costs they have been recharged. The audit opinion following this review was "Major Improvement Needed".

10. Looked After Children (LAC) Health and Dental Checks- Data Quality

- 52 An audit of this area found that the profiling of target completion rates for LAC health and dental checks was not aligned with the established pattern of performance. As a result interim targets were missed and a substantial proportion of checks were completed in the final quarter of the year. The auditor concluded that the way that the indicator is calculated masks the completion rates between health and dental checks, although officers in Children's Services were aware that particular effort was required to improve health check completions. Audit testing found that documentary evidence of completion of health checks could not be found in 16 of the 80 files sampled. The audit opinion following this review was "Major Improvement Needed".

11. Residential Care Homes – Managing Residents' Monies

- 53 An audit of **Residential Care Homes – Managing Residents' Monies** was completed in September 2012. This audit found that guidance relating to personal accounts was both out of date and no longer available, resulting in local procedures being developed at each home. Not all homes carried out regular reconciliations increasing the risk of errors going unnoticed. 45 personal accounts had overdrawn balances (totalling £3,380) and it was common practice for staff to take cash from residents' accounts with no record of consent from the resident. While it was apparent that officers were acting with good intentions and with the interests of residents in mind, the weaknesses in the system of internal control were such that the auditor could provide no assurance that misappropriation or mismanagement of residents' money will not occur. The audit opinion following this review was "Major Improvement Needed".

12. Honoraria Payments in Schools

- 54 An audit of **Honoraria Payments in Schools** completed in July 2012 identified some £120,000 paid to teachers in 2011/12 as honoraria. National guidance makes it clear that the payment of bonuses and honoraria to teachers is not permitted in any circumstances. In some cases these payments may in fact have been legitimate payments which were incorrectly coded as honoraria and would not therefore have been properly treated for superannuation purposes. This matter was referred to the External Auditor and featured in their Annual Governance Report for 2011/12. The Management Action Plan progress update presented as part of the Chief Internal Auditor's Half Year report to Audit and Governance Committee in December 2012 assessed implementation of the audit recommendations as "Green" and it is therefore reasonable to expect that a more robust system of control was in place for the greater part of 2012/13 thus significantly reducing the risk of further incorrect payments.

13. Special Schools – Funding of Residential Provision

- 55 An audit of Funding of Residential Provision in Special Schools found that most schools visited by the auditor were not offering to pupils the full number of residential places for which they had been given funding of £4.1m by the council in the 2011/12 academic year. Four of the schools visited filled less than 50% of their funded places. This poses a risk for 2013/14 when a change to central government funding will see only filled residential places eligible to be funded. This risk is exacerbated by a lack of clear management information within the Schools and Learning Service on the level of residential provision in Surrey's special schools. In view of the funding arrangements for residential provision being unsustainable, with no clear thread connecting strategic objectives to operational practice, the audit opinion following this review was "Unsatisfactory".

14. Risk Management

- 56 An audit of **Risk Management Arrangements** recognised that the Leadership Risk Register has a high profile and is subject to regular review by key officers and Members. However the audit identified a number of areas of concern including the absence of an up to date directorate risk register for Environment and Infrastructure, despite repeated requests (including from this Committee) for a copy. The Risk Management Policy had not been implemented since being approved by this Committee on 21 May 2012 and Risk Management Guidance on the S:Net was not up to date. Four services did not provide the auditor with a recent risk register and many of the service risk registers held on S:Net appeared to be out of date. The Risk and Resilience Steering Group chaired by the Assistant Chief Executive focused on the 2012 Olympics for the first half of 2012/13, and was disbanded in February 2013. The recent reintroduction of the Strategic Risk Forum, chaired by the Chief Finance Officer, should help re-establish a focus on Risk Management across the organisation during 2013/14.

IMPLICATIONS:

- 57 There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report, would be progressed through the agreed audit reporting policy.
- 58 Terms of Reference for all audit reviews include the requirement to specifically consider value for money; risk management; and, equalities and diversity.

WHAT HAPPENS NEXT:

- 59 The Chief Internal Auditor will continue to update Members on the progress of issues within this report that have not been fully concluded.

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor

CONTACT DETAILS: telephone: 020 8541 9190
e-mail: sue.lewry-jones@surreycc.gov.uk

Sources/background papers: Internal Audit reports

ANNEX A

Audit Reports issued in 2012/13

Direct Payments	Data Quality - LAC Health and Dental checks	Illuminated Street Furniture contract
Accounts Receivable	Integrated Children's System	Asset Management ICT
Risk Management Arrangements	16-19 Education	TravelSmart Programme
General Ledger	Telecare Project Management	Building Maintenance
Capital Monitoring	Carbon Reduction Scheme Return and Green House Gases	Members' Disclosures and Declarations
Payroll	Residential Care Homes - Managing Residents' Monies	Corporate Governance Policies - Control Risk Self Assessment 2012/13
Academies	Recruitment Procedures	Financial Assessments and Benefits
VCFS Framework	Special Residential Schools - Teachers' additional payments	Network Controls
Agency Staff Contract	Local Safeguarding Children Board	Corporate Training Management
Accounts Payable	Overtime	Transport for Education
Highways Contract Management	Performance Management - Data Quality	General Ledger
SFRS - PVR	Review of Concessionary Fares	Rental Income Follow-up audit
Treasury Management	Review of Social Media	Residential Block Care Contracts
Arval Fuel Cards	Materials Testing Laboratory	Registration Service
Honoraria Payments in Schools	Follow-up review of Direct Payments Audit	CRB Clearance (Disclosure and Barring Service)
Data Protection Compliance	LASER Contract Governance	S106 and Community Infrastructure Levy
Surrey Educational Trust	Unofficial School Funds	Nursery Education Funding
Retiring Head Teachers' Payments	Corporate Purchasing Cards	Review of Commercial Services
Babcock 4S Contract - Governance	Capital Programme Management - Schools Basic Need	Making a Difference Programme
SFRS - Fire Stations	Records Management	Revenue Budgetary Control
Health and Safety Compliance	Superfast Broadband	
Waste Contract Management	Special Schools - Funding of Residential Provision	

This page is intentionally left blank

Report Date	Audit	Last Follow/up	Latest position	RAG
Feb-12	Heritage PVR (Feb 12)	Three Amber rated actions reported to A&G Committee in Dec 2012: <ul style="list-style-type: none"> Review of Heritage Enterprise (HE) staffing model Recommend a larger annual operating surplus to ensure the team delivers a cost zero operation PVR to provide clarity of purpose and expectation for HE 	Revised structure for Heritage (including Heritage Enterprise) in process of being decided. Heritage Enterprise to report to Communities Select Committee in June 2013 on income achieved in 2012/13, and options for the future.	A
Feb-12	Social Care Debt (Feb 12)	Reported as Green to A&G Committee in Dec 2012.		G
Feb-12	Pensions Administration	Reported as Green to A&G Committee in Dec 2012.		G
Feb-12	EBulk CRB	Reported as Green to A&G Committee in Dec 2012.		G
Feb-12	Data Centre Operations	Reported as Green to A&G Committee in Dec 2012.		G
Feb-12	SAP Applications and Controls	Reported as Green to A&G Committee in Dec 2012.		G
Feb-12	School Governors' Financial Skills	Reported as Green to A&G Committee in Dec 2012.		G
Feb-12	Review of Rental Income	One Amber rated action (related to the need for PAMS)	PAMS implementation is in phases with the first phase on Reactive Maintenance going live on 2 April 2013. The	A

		to hold details of all areas generating income) reported to A&G Committee in Dec 2012.	Rental Income module is currently being tested and is expected to go live in July 2013.	
Feb-12	Disposals and Acquisitions	One Amber rated action (related to the need to update the Asset Management Plan) reported to A&G Committee in Dec 2012.	Adopted and issued per Property Services.	G
Feb-12	Review of Utility Payments	One Amber rated action (related to the need to ensure utility payments are authorised by EMT before payment and the need for reconciliation between Systems Link and SAP data) reported to A&G Committee in Dec 2012.	Utility invoices are checked and approved (except for schools and direct debit accounts) by the EMT prior to paying and recording on the energy database, SystemsLink. This validation process has been fully operational since Q4 2012/13. The link between SystemsLink and SAP data is part of an ongoing discovery project with IMT due for completion in July 2013. The commissioning of the PAMS software has made provision for a link with SystemsLink to transfer key energy data.	G A
Feb-12	Children in non-maintained /independent SEN provision	No Red or Amber rated actions reported to A&G Committee in Dec 2012.		G
Mar-12	Project Management - Walton Bridge	Reported as Green to A&G Committee in Dec 2012.		G
Mar-12	Follow-up of Section 76 arrangements audit	No Red or Amber rated actions reported to A&G Committee in Dec 2012.		G
Mar-12	Traffic Signal Management	One Amber rated action (related to the completeness of risks identified for traffic signal management) reported to A&G Committee in Dec		G

		2012.		
Mar-12	Children's Service's Deep Dive Process	Reported as Green to A&G Committee in Dec 2012		G
Mar-12	Schools – Benchmarking Information	Reported as Green to A&G Committee in Dec 2012		G
Mar-12	AIS/SWIFT Systems	Reported as Green to A&G Committee in Dec 2012		G
Mar-12	Pension Fund Investments	Reported as Green to A&G Committee in Dec 2012		G
Mar-12	ASC Commissioning	One Amber rated action (related to the new framework for monitoring arrangements) reported to A&G Committee in Dec 2012	The number of individual schemes has been reduced by 15% and over 70% of grants and contracts are now subject to regular monitoring. This is prioritised based on strategic value and size of the schemes. Further, a new Contract Management System is being piloted over the summer and, if successful, this will be rolled out for all grants and contracts.	G
Mar-12	Revenue Budgetary Control	Reported as Green to A&G Committee in Dec 2012		G
Apr-12	Accounts Receivable	Reported as Green to A&G Committee in Dec 2012		G
Apr-12	Direct Payments	Two Amber rated actions reported to A&G Committee in Dec 2012: <ul style="list-style-type: none"> • Comply with stated policy regarding annual social care review • Install a reasonable/ achievable reconciliation system 	A follow up audit review of the initial report was carried out in Nov 2012. Audit testing indicated that progress has been made in reducing the number of overdue Social Care Reviews (732 reduced to 292) although the impact of amendments to the reconciliation procedure had not yet been felt as these remained at a similar level (40-50% of service users failing to provide reconciliations in a timely manner). A further follow up is planned Qtr2 2013/14	A
Apr-12	Payroll	Reported as Green to A&G		G

		Committee in Dec 2012		
Apr-12	Capital Expenditure Monitoring	One Red rated action (related to profiled spend of Superfast Broadband Project) reported to A&G Committee in Dec 2012	Due to delays in receiving EU approval for State Aid and the lead time between Surveys and the commencement of service delivery, there was minimal delivery of SFBB in 2012/13 and consequentially, very limited spend. However, by April 2013, all the planned surveys will have been complete by the end of May and this means that delivery can begin in Qtr1 of 2013/14.	A
Apr-12	General Ledger	Reported as Green to A&G Committee in Dec 2012		G
Apr-12	Risk Management Arrangements	Two Amber rated actions reported to A&G Committee in Dec 2012: <ul style="list-style-type: none"> • Seek guidance regarding the nature/definition of the council's risk tolerance. • Improve referencing on S:net across Risk Management; Emergency Planning; and; Health & Safety 	A summary of strategic director risk registers has been developed that provides an overview of risk appetite and tolerance across the organisation through showing residual risk levels for directorate risks. This will aid strategic risk discussions and assist with consistent application of risk levels.	G
			There are some document links between the different areas of the S:net but more work is required to improve the content referencing to make it more explicit.	A
May-12	Academies	Reported as Green to A&G Committee in Dec 2012		G
May-12	VCFS Framework	Two Amber rated actions reported to A&G Committee in Dec 2012: <ul style="list-style-type: none"> • Progress against a new framework reported to the 	The VCFS Framework has been refreshed with support and input from the Funding Review Group and the Policy & Public Affairs Group. Progress was reported to the Communities Select Committee in January 2013, and the final Framework published in March 2013. A single set of	

		<p>relevant committee on an annual basis</p> <ul style="list-style-type: none"> Need for guidance on use of contracts/grants 	<p>outcomes and measures are in the process of being developed to monitor performance through a 'Dashboard' approach.</p> <p>Formal guidance for commissioners to consider when awarding a grant or contract has been produced by Legal Service/Procurement, and went live from April 2013.</p>	G
May-12	Agency Staff Contract	<p>One Red rated action (relating to framework rebates) and</p> <p>One Amber rated action (relating to auto approval of timesheets for payment) reported to A&G Committee in Dec 2012.</p>	<p>Procurement have confirmed receiving around £50k from Manpower for the period January 2011 to September 2012 (in SAP on 13.02.2013) but the figures for the 6 months to 31 March 2013 are still outstanding. Furthermore, these are figures provided by Manpower but not verified as accurate by anyone in SCC.</p> <p>Auto approval statistics is now part of the monthly KPIs sent by Manpower to all the service co-ordinators. The information is broken down by Directorate.</p>	A
May-12	Accounts Payable (AP)	Reported as Green to A&G Committee in Dec 2012.		G
May-12	Highways Contract Management	One Amber rated action (related to improvements to the Maximo system) reported to A&G Committee in Dec 2012.	Audit were advised of improvements made to Maximo as a result of the audit report, however, operational problems with the system at the time of an audit follow up visit precluded testing to confirm this. Will be covered in full Lot 1 follow up report due to be issued in June 2013.	A
May-12	Surrey Fire and Rescue – PVR	<p>Three Amber rated actions due to changed completion dates reported to A&G Committee in Dec 2012:</p> <ul style="list-style-type: none"> Show costs of changes to governance 	<p>Initial work has been completed on financial arrangements for any change of governance</p> <p>Income from services is being aligned to a regional standard</p> <p>A sponsorship officer has now been appointed to identify</p>	G

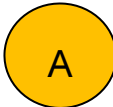
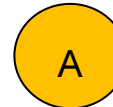



		arrangements <ul style="list-style-type: none"> Maximise income from services provided Consider implications of shortfall in sponsorship and service charging 	income streams and increase income	
May-12	Treasury Management	Reported as Green to A&G Committee in Dec 2012		G
Jul-12	Arval Fuel Cards	Reported as Green to A&G Committee in Dec 2012		G
Jul-12	Honoraria Payments in Schools	Reported as Green to A&G Committee in Dec 2012		G
Jul-12	Data Protection Compliance	Two Amber rated actions reported to A&G Committee in Dec 2012: <ul style="list-style-type: none"> Assess take up by locums of data protection training Develop a performance report on meeting Subject Access Request deadlines 	Internal Audit are advised that this has been actioned.	G
			Corporate IG have newly recruited an IG officer post to the team. This task will be allocated to the officer to set up the reporting process in conjunction with IMT.	A
Aug-12	Surrey Education Trust	Reported as Green to A&G Committee in Dec 2012		G
Aug-12	Retiring head teachers' pay	One Amber rated action (related to follow up of a specific example identified as part of the audit) reported to A&G Committee in Dec 2012.	The specific example has been reviewed with the school's governing body and the matter is resolved	G
Aug-12	Babcock4S Contract	Reported as Green to A&G Committee in Dec 2012		G
Aug-12	Fire Station Audits	One Amber rated action	An Asset Management System now in place. A	G

		(related to marking equipment to ease identification) reported to A&G Committee in Dec 2012.	procurement exercise is under way to optimise the system through adding further functionality.	
Aug-12	Health & Safety	Two Amber rated actions reported to A&G Committee in Dec 2012: <ul style="list-style-type: none"> • User training for OSHENS • Deliver a programme of regular fire risk assessments 	Being addressed by additional support where required. Done	G
Aug-12	Carbon Reduction Commitment (CRC) & Green House Gases Annual Report	One Amber rated action (related to the treatment of street lighting energy consumption) reported to A&G Committee in Dec 2012.	This issue is resolved by a change in the rules relating to when a CRC levy is payable on street lighting.	G

This page is intentionally left blank

Management Action Plan – Progress update

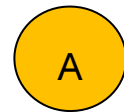


Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Waste Contract Management (Aug 12)	Some Improvement Needed	<p>The checking processes delayed due to the re-structure should be completed and the outstanding issues should be resolved with SITA Surrey Ltd as soon as possible. (M)</p> <p>The Waste Operations Team should ensure that all Deeds of Variation are clearly drawn up to cover all aspects, signed, sealed and accessible but securely held. A log should be maintained of all variations in date order with a brief summary of the content of each variation to assist the service to manage this long term contract and retain knowledge through times of change. (M)</p> <p>The Finance, Change & Performance Group Manager should follow-up on the outcome of the recommendations and take necessary actions to complete the project in a timely manner. (M)</p> <p>Benchmarking with recent information should be used as part of the initiatives on waste minimisation (M)</p> <p>Service and directorate risk registers should be published and the progress on the Eco Park developments should be clearly documented for future reference and reporting to the Cabinet as required. (M)</p>	<p>The checking process and some outstanding issues were resolved, but some longer term issues need to be resolved as part of the current contract variation negotiations.</p> <p>Eco Park Deed of Variation has not yet been signed but a report is due to go to Cabinet at the end of June 2013. The Deed of Variation to add all 4 SCC transfer stations to the Epsom waste contract with AEB for Energy from Waste has been agreed. A log of variations is in place, numbered with status noted.</p> <p>The contract for the Waste Data System for use by SCC and all districts and boroughs (Surrey Waste Partnership) will be signed at the end of June 2013 with Opensky Data Systems.</p> <p>Benchmarking has been done and continues as the SE7 Waste Partnership continues.</p> <p>Service risk registers only are published on S:net. The Eco Park is a directorate priority and has been subject to monthly progress reports to the Cabinet Member for E&I and quarterly reports to the Corporate Board. In 2013/14, there will be monthly reports to CLT based on project milestones rather than KPIs.</p>	    

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress





Management Action Plan – Progress update

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Data Quality - LAC Health and Dental checks (Aug 12)	Major Improvement Needed	<p>Consider undertaking an in-depth examination of potential areas of improvement related to this indicator including costings of suggested remedial actions. (H)</p> <p>The service should consider changing the target profile for this indicator to relate more closely to the existing performance pattern. (H)</p> <p>Considering including a holding document (eg email) on the child's file pending receipt of the written health check summary document. (H)</p>	<p>Review delayed as a result of change from Primary Care trusts to Clinical Commissioning Groups (CCGs). Guildford & Waverley CCG now appointed to lead on Children's health. They are currently working with Children's Service commissioning team to review issues related to the indicator.</p> <p>Target revised for 2012/13.</p> <p>Evidence trail kept in ICS of date of check and name of person in Health who provided notification.</p>	  

Management Action Plan – Progress update


Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Integrated Children's System (Aug 12)	Some Improvement Needed	<p>CSS should consider how Business Improvement Group (BIG) can engage information technology support through a formal change process to provide Chronologies functionality which meets Service needs. (M)</p> <p>CSS should consider systematically reviewing all perceived data issues in ICS and formulate a response detailing how they can be corrected or mitigated against. (M)</p> <p>CSS should consider building on existing data quality resources to create a system which reflects the 'plan-do-review-revise' cycle of assurance and improvement. (M)</p>	<p>New Chronology functionality now implemented.</p> <p>Data Quality (DQ) project established, as part of which the Service conducted an audit of DQ issues in ICS, and began work on corrective action.</p> <p>BIG is assuming DQ lead for the Service going forward. Database of known issues is being maintained and kept current. DQ will be monitored on an ongoing basis through a monthly DQ Error Report, and staff supervision used to address concerns. Data quality will be discussed monthly with Area Management teams to ensure maintained focus.</p>	  
16-19 Education (Aug 12)	Effective	n/a - no recommendations arising from this report.	No action necessary	

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

Management Action Plan – Progress update

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Telecare Project Management (Sep-12)	Some Improvement Needed	<p>Future projects of this nature should be recognised as such and an appropriate project management methodology followed from inception. (M)</p> <p>Management and members should be wary of promoting savings figures with a low level of assurance around their accuracy. (M)</p>	ASC were provided advice regarding each of the recommendations. Continued consideration of these issues will proceed throughout other audits of projects throughout ASC.	

Management Action Plan – Progress update

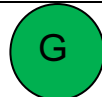



Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Residential Care Homes - Managing Residents' Monies (Sep-12)	Major Improvement Needed	<p>The Service Delivery and ASC Finance teams must work together to produce updated guidance for managing personal accounts. This exercise must consider:</p> <ul style="list-style-type: none"> Review of personal accounts templates and spreadsheets and reconciliation requirements; Escalation procedures for accounts with low or overdrawn balances; Defining authorisation levels for access to safes; Arrangements for obtaining resident authorisation for cash withdrawals; Creation and retention of records including officers receiving cash; Evidence of spend requirements where residents withdraw cash and where officers purchase on behalf of residents; Checks to ensure residents receive goods purchased. (H) <p>The updated Imprest procedure notes should be finalised and circulated. (H)</p> <p>All debit [overdrawn] balances must be investigated and addressed. (H)</p>	<p>New procedures have been implemented addressing all of the points recommended by the audit.</p> <p>All Team Managers and support staff at Residential Homes have received on-site training in the new procedures.</p> <p>The level of compliance against the main requirements has been assessed at all but three homes. Team Managers have action plans to address areas of non-compliance, which will be checked with a programme of follow-up checks due to begin in June.</p> <p>There is a system in place to record who has received training and the trainee's level of understanding. Ten individuals out of 92 missed their training but dates are being arranged to follow this up.</p> <p>The revised Imprest procedures have been finalised and circulated.</p> <p>All debit balances have been investigated and the total amount outstanding reduced by about half. Actions plans are in place to recover remaining debt.</p>	<p>G</p> <p>G</p> <p>G</p>

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

Management Action Plan – Progress update

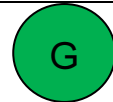

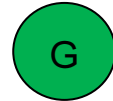
Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Residential Care Homes - Managing Residents' Monies cont'd (Sep-12) cont'd	Major Improvement Needed	<p>Implement a strict policy whereby officers undertaking banking duties do so in pairs, driving to the bank where possible. (H)</p> <p>The auditor has provided a copy of Internal Audits' safe guidance and detailed recommendations on the use of safes. These procedures should be implemented immediately. (H)</p> <p>The recommendations as above include guidance on storing bank cards and PINs but the service should work with the Financial Assessment & Benefits Team to determine the capacity of residents to keep their own bank cards or PINs. (H)</p> <p>Clear communication must be sent to all homes prohibiting officers from using their own funds to make purchases on behalf of residents. (H)</p>	<p>A "Banking in Pairs" policy has been implemented in all teams.</p> <p>The audit guidance on correct use of safes is referred to in the new procedures and forms part of the compliance checking process.</p> <p>Storing bank cards and PINs is referred to in the new procedures and forms part of the compliance checks.</p> <p>The new procedures prohibit officers from using their own funds. This has been communicated to all teams and reinforced via the training programme.</p>	   

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

Management Action Plan – Progress update

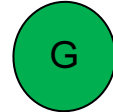
Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Recruitment Procedures (Sep-12)	Some Improvement Needed	<p>The budget for the Recruitment Team should reflect the aim to reduce the levels of agency staff in the ASC and CSF Directorates. This might involve a more flexible use of 'bank' recruitment staff, when particular peaks in workload are experienced or expected to support specific recruitment campaigns for these directorates. (H)</p> <p>The Recruitment Team to challenge all recruitments where references being offered do not cover the last three years work history. Hiring managers to be reminded of the need to probe references which are provided from companies that are not well known, or which come from non-company email addresses. (M)</p> <p>Consider developing some additional capacity within the authority to conduct more detailed background checks for a risk-based sample of job applicants. (M)</p>	<p>Several staff within the Recruitment Team are on zero-hours contracts, which can be used to flex the capacity of the team. This would be funded by virement requests made to Services. The longer term option of a SLA will be considered.</p> <p>This will be raised with staff to ensure consistent practice.</p> <p>Research has been completed to benchmark anti-fraud practices and the use of pre-employment checks to minimize fraud risk. A new question has been added to the standard reference request and the recruitment team briefed to escalate any negative responses to the final question. Additional pre-employment checks have been recommended for all posts at Level 3 and above (Head of Service and Assistant Director upwards).</p>	  

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

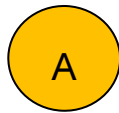
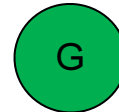



Management Action Plan – Progress update

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Special Residential Schools - Teachers' additional payments (Sep-12)	Some Improvement Needed	The TP2 form should be reviewed and amended as necessary to reduce the risk of incorrect categorisation of payments. (M)	TP2 has been amended. This paper format is due to be replaced by an on-line submission process.	

Management Action Plan – Progress update




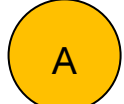
Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Local Safeguarding Children Board (Oct-12)	Some Improvement Needed	<p>Consider whether the Executive Group's current responsibilities allow it the capacity to provide the intended and required strategic leadership for the SSCB, and meet the obligations in its Terms of Reference. (M)</p> <p>Consider proposing to SSCB that meeting minutes clearly distinguish between the presence/absence of group members and those attending as observers. (M)</p> <p>Consider recommending to the SSCB the early recruitment of two lay members. (M)</p> <p>Consider steps to ensure clear and demonstrable involvement from all SSCB partners, such as establishing a quorum for each body, and reviewing the size and remit of groups. (M)</p> <p>Consider recommending that all board and sub-group meeting notes record adequate follow up on all agreed actions. (M)</p>	<p>Agreed that Executive would be expanded to become a Full Board with reduced numbers to make it effective. Final structure not finalised but temporary Board membership has been established.</p> <p>Agreed and implemented</p> <p>Lay membership has been hard to establish. Do not currently have full appointment to the area groups or full board. Way forward being actively discussed.</p> <p>Training, Procedures and Communications Group has been split into two (Training & Communications Group, and Procedures Group). Both new groups have held first round of meetings.</p> <p>Implemented. Actions chart sent out prior to each meeting has been found to improve efficiency.</p>	    

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

Management Action Plan – Progress update

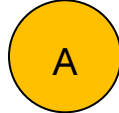
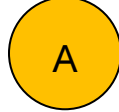

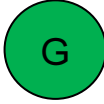
Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Overtime (Oct-12)	Some Improvement Needed	<p>Develop reports for budget holders and corporate reporting that analyse all additional payroll costs, including any ad hoc reporting tools that Services need. (M)</p> <p>Provide Services with periodic extracts of data on hours worked. Services to review the data and confirm that there are no concerns regarding bank staff working 36 hours or any staff working 48 hours or more per week. (M)</p> <p>ASC should pilot the use of the workforce monitoring tool developed in discussion with the HR Relationship Manager and Internal Audit. The ASC HR Relationship Manager should subsequently consider how the tool might be enhanced or adapted for use in monitoring other ASC teams. (M)</p> <p>Children's Services should continue to make every effort to replace some of its agency staffing used in Child Protection, with SCC directly employed and trained staff. (M)</p>	<p>Delivery of the Financial Dashboard has slipped slightly into the first quarter of 2013/14.</p> <p>Once the reporting tools are available to staff, the HR Management Information Team will produce the analysis and HR Relationship Managers will be responsible for discussing the analysis with Services.</p> <p>The tool was developed and used to audit staffing resources across our service delivery. From this, a prioritised action plan for creating resourcing plans was created. Other areas of ASC do not need the same approach as they are reaching full establishment and have very low levels of agency staffing in their areas.</p> <p>On 25th February PPDC agreed a new career framework for children's social workers that is designed to support recruitment and retention and reduce reliance on agency staffing.</p> <p>Initiatives such as a revitalised recruitment campaign will improve performance in this area. However, the labour market for skilled and experienced workers remains challenging.</p>	   

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

Management Action Plan – Progress update





Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Performance Management - Data Quality (Oct-12)	Some Improvement Needed	<p><i>Cost Per contact:</i> The data collection and reporting processes for the performance indicator were assessed as reasonable, and the opinion given following this review was that there was “Some Improvement Needed” as it was recommended that Customers and Communities consider creating separate performance indicators for web hits, emails and phone calls (M)</p> <p><i>LAC Health & Dental Checks:</i> The service should consider undertaking an in-depth examination of potential areas of improvement related to this indicator, including costing of any identified remedial actions (H)</p> <p>Until a detailed performance analysis has been completed, the service should consider changing the target profile for this indicator to relate more closely to the existing performance pattern (H); and</p> <p>The service should consider either including a holding document (e-mail from LAC Co-ordinator or record of phone conversation) in a child’s file pending receipt of the written summary document, or recording health checks as being completed only when that document has been received (H).</p>	<p>This recommendation has not yet been followed-up with management, but is of medium priority only and does not represent a control risk to the authority.</p> <p>See comments in earlier part of Annex C for this indicator</p>	   

- Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

Management Action Plan – Progress update


Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Review of Concessionary Fares (Oct-12)	Some Improvement Needed	<p>The Memorandum of Understanding (MoU) should be reviewed as a matter of priority by both services and appropriate service delivery methods and levels should be agreed. (H)</p> <p>Data integrity should be made a priority by separating inactive information and updating current pass holder details with accurate information. (H)</p> <p>Travel and Transport Group should ensure that robust contract management arrangements are in place for all current contracts. (M)</p>	<p>Both services have reviewed the MoU, considered the inclusion of quality monitoring data and future quarterly review meetings have been arranged to liaise with Library Management and finalise the MoU. Refresher training, engagement with front line staff and Tell Us Once training to Concessionary Fares Officer are ongoing.</p> <p>50% of data has been reviewed and updated as part of ongoing improvements data integrity.</p> <p>Contract Review meetings have been planned/held with ESP Systex and TAS Partnership. Request For Quotation with Procurement has begun to select a new supplier when the TAS contract ends in April 2014.</p>	  
Review of Social Media (Nov-12)	Some Improvement Needed	<p>A policy is developed that includes the following points:</p> <ol style="list-style-type: none"> 1. Minimum behaviour standards (M) 2. Tactical planning (H) 3. Business continuity (H) 4. Advice on use of personal social media (H) <p>Video and photographic content is formally documented for public release (H)</p>	<p>The Communications team are still consulting with partners and as such the policy remains in draft. The Social Networks officer has confirmed that the draft policy has included points noted in the review.</p>	

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

Management Action Plan – Progress update

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Materials Testing Laboratory (Nov-12)	Some Improvement Needed	<p>Consider a revision to the coding arrangements within the ETCi system in order that a more detailed breakdown is available for billing purposes. In addition, regular checks should be undertaken to ensure that the recharged hours are broadly in line with those expected for the work completed in the period. Where significant variations arise then explanations for these should be sought. (H)</p> <p>Revisit the calculations of recharge rates in order to ensure that the constituent parts are fully identified and costed to enable better informed decisions on applicable rates. As far as possible staff hours should be recharged at a consistent rate which ensures the recovery of actual costs incurred. (H)</p>	<p>Management have had discussions with IMT staff and Internal Audit to devise a way to enhance the information contained in ETCi. The current aim is to have this in place before the end of May 2013.</p> <p>A schedule of rates has been prepared covering all relevant staff grades for both a daily or hourly rate. The schedule is further broken down into a baseline, midpoint and maximum amount. It is intended to use the midpoint figure in the majority of cases, however, guidance will also be issued covering when the alternatives should be used.</p>	
Follow-up review of Direct Payments Audit (Nov-12)	Major Improvement Needed	See original audit recommendations - no new recommendations arising from this follow-up review.	No additional action required.	SEE ANNEX B

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

Management Action Plan – Progress update


Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
LASER Contract Governance (Nov-12)	Some Improvement Needed	<p>As a member of the LASER Governance Panel the Energy Manager should look to ensure that:</p> <ul style="list-style-type: none"> the Panel receives regular updates on reimbursement of overpayments immediate payment of a proportion of the overpayment is requested performance of LASER is regularly reviewed the Governance Panel receives an update on the KCC audit review there is periodic replacement of the Independent Industry Consultant The TOR is reviewed to extend the remit of the panel to include wider governance matters (H) 	<p>Regular updates on the reimbursement of overpayments have been provided by the LASER Director of Energy.</p> <p>Several requests for payment on account have been made including, in a letter dated February 2013, to the Leader of Kent CC. Reimbursement has been delayed by Court hearings and funds held until the legal processes are complete.</p> <p>The SCC Energy Manager has advised that LASER members will now receive information on recent performance and VFM achieved.</p> <p>LASER has confirmed that they intend to periodically replace the Independent Industry Consultant.</p> <p>It was decided not to change the remit of the LASER governance panel which is now a technical procurement group. However, LASER has recognised the need to strengthen engagement and transparency. As a result they intend to invite intended/appropriate councillors to twice yearly meetings of LASER members and introduce a secure on-line discussion forum to enable free and open discussion on LASER-related matters.</p>	<div>G</div> <div>A</div> <div>G</div> <div>G</div> <div>G</div> <div>A</div>

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress


Management Action Plan – Progress update

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Unofficial School Funds (Nov-12)	Some Improvement Needed	Chairmen of Governors at schools identified as non compliant to be informed of the requirements to adhere to the Surrey Scheme for Financing Schools for School Unofficial Funds. (H)	Work is completed or in hand that will provide assurance that schools will be compliant with the requirements of the Scheme.	

Management Action Plan – Progress update




Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Corporate Purchasing Cards (Nov-12)	Major Improvement Needed	<p>Ensure all card holders and line managers are aware of their responsibilities relating to purchase cards. (H)</p> <p>There should be a clear escalation process to deal with possible breaches of rules identified by the Card Compliance Team. (H)</p> <p>Guidance regarding use of the card when existing contracts are in place should be clarified (eg book purchases). (H)</p> <p>The guidance should make it clear that eligible expenses relating to refreshments and travel should be claimed via the Portal, rather than paid for using a purchasing card. (H)</p> <p>Senior management should be reminded that cards should only be used by the named user. (H)</p> <p>Card holders and their line managers should be made aware of changes to guidance for card use. (H)</p>	The recommendations have all been addressed through revised procedures, which were implemented and circulated to staff on 1 April 2013.	

Page 289

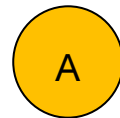
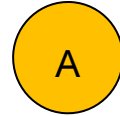
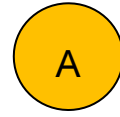
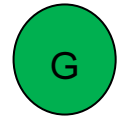
Management Action Plan – Progress update

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Capital Programme Management - Schools Basic Need (Dec 12)	Some Improvement Needed	<p>Consider a contingency strategy in the event of a significant shortfall in the savings that can be achieved by the CPO. Risk register entries should be updated. (M)</p> <p>There should be better communication with the asbestos contractor on work plans as well as performance discussions with the contractor whereby they are encouraged to develop their total capacity and prioritise work on schools where SBN and capital works need to be progressed during the school summer holidays. (M)</p>	<p>The Strategy is on course to achieve the required savings through: Development of standardised designs aligned to the new EfA baseline designs issued in October 2012; introduction of the cost effective e-Pod modular building replacing temporary structures. A Cabinet review will re-examine these issues for additional assurance in the first quarter of 2013/14.</p> <p>Work plans are being shared with all specialists as appropriate at an earlier stage.</p>	 
Records Management (Dec-12)	Effective	No high/medium priority recommendations were made.	No actions required	

Management Action Plan – Progress update


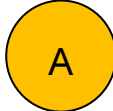
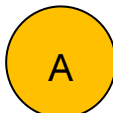
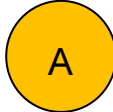

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Superfast Broadband (Dec-12)	Some Improvement Needed	<p>The SFBB Team should seek to engage in soft influencing of BT to give some priority to service delivery in areas with particular social and economic needs. (M)</p> <p>Develop criteria to allocate and prioritise funding for 'infill' properties taking account of factors such as, opportunities to create jobs or tackle social isolation/exclusion. Consider developing community involvement and solutions for SCC residents who may not be able to access 'cable into the home' style Internet. (M)</p> <p>Seek reliable information on a standard basis from other authorities which may then allow it to make a clearer assessment of VFM. (M)</p>	<p>Because the contract is written to achieve as close to 100% coverage as possible the programme will be ensuring that residents from all social and economic backgrounds will be getting access to superfast infrastructures.</p> <p>The new innovation officer in post will be responsible for delivering a comprehensive infill strategy based on data that the Openreach team is providing by 31 May. This will be available for review in June. The Partnerships Officer post in the Project Management Office is focussing purely on the Digital Inclusion workstream, which will look to get all of Surrey's communities online and will cross-work with the innovation workstream for solutions where FTTC solutions are not possible.</p> <p>A project evaluation methodology is being developed through the SCC Research Team.</p>	  
Superfast Broadband (Dec-12)	Some Improvement Needed	The SFBB Team should seek to engage in soft influencing of BT as soon as possible to ensure that it is ready for a quick start on survey work in Surrey immediately after the Christmas holidays. (M)	Achieved	

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

Management Action Plan – Progress update


Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Superfast Broadband cont'd (Dec-12)	Some Improvement Needed	SCC may wish to revisit its strategy on 4G in more depth, particularly now that the award of first licences has been made. It should also update its project risk register for this development. (M)	This will be looked at in more detail within the infill strategy. Work has commenced with Surrey University to look at the potential of 5G within the county.	
Special Schools - Funding of Residential Provision (Dec-12)	Unsatisfactory	Engage with the Heads of Surrey's special schools to agree new arrangements for funding residential places which takes into account the number of beds at each school and establishes a defined occupancy rate. (H)	A revised funding formula was devised based on 80% occupancy being deemed 'full'. However, the Department for Education (DfE) informed SCC that total funding for an individual special school should not be reduced by more than 1.5% if the number of places has not changed, even if the numbers of pupils has fallen. This means that most residential schools will need to receive a higher rate per bed night than was originally proposed, in order to offset the loss of funding for the beds which the audit found not to exist. Assuming that the same protection arrangements exist next year, further work will be required to bring funding more into line with what is actually provided.	
		The Head of Schools and Learning should consider a review which encompasses both strategic planning and current operational practice, and make such revisions to ensure they are consistent with one another. (H)		
		Devise and implement a precise definition of 'residential accommodation' which precisely defines the service that is being commissioned. (H)	In April 2013, the Assistant Director for Schools and Learning agreed with Headteachers the broad parameters of a review of Special Educational Needs residential provision. The Assistant Director has suggested the strategic basis for this review.	
		The Head of Schools and Learning should consider requiring schools, as part of the commissioning process, to report at agreed regular intervals on nightly planned and actual occupancy rates. (H)	Funding is now conditional on schools submitting a monthly return of residential provision uptake.	

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress


Management Action Plan – Progress update

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Illuminated Street Furniture (ISF) contract (Dec-12)	Some Improvement Needed	<p>Continue to benchmark and assess the performance of the various elements of the ISF contract in order to demonstrate that 'Value for Money' continues to be obtained for the Council and the residents of Surrey. (M)</p> <p>Should the contract require renegotiation at any stage in the future then management revisit the subject of financial deductions. Consideration should be given to the level of these charges to ensure they remain relevant in order to ensure that they remain a viable tool in performance management. (M)</p> <p>Management should raise the matter with the contractor and re-examine the Schedule of Rates (SoR) to confirm that the appropriate updates have taken effect. Going forward the SoR should be test checked post annual updating to minimise any risk of recurrence. Finally, management should review the contractor's monthly accounts and recover any overcharges they identify. (H)</p>	<p>Management are continuing to monitor costs to ensure VfM is being obtained.</p> <p>To date, there has been no renegotiation of the contract.</p> <p>A full review of the rates was completed following the last round of indexation and it was confirmed that the correct rates were present on the Geoworks system. This will continue to be done annually within the new post of Contract Cost Analyst. The overcharged amounts have been repaid by the contractor.</p>	

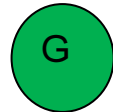

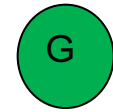
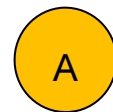
Management Action Plan – Progress update

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Asset Management ICT (Dec-12)	Some Improvement Needed	IMT to investigate the “unknown” installations and manage appropriately. (H)	SCC relies on a third party mechanism to identify software installed on the network. 'Unknown' installations can be attributed to either where the vendor's knowledge base is out of date, or alternative software technology is being used, for example Linux. At this time this mechanism is being improved to ensure that reports reflect the most up to date intelligence our vendor can provide. IMT will continue to monitor 'unknown' installations against expectations to ensure that only SCC approved software remains on the network	

Management Action Plan – Progress update



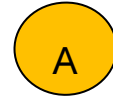
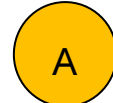
Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
TravelSmart Programme (Jan-13)	Some Improvement Needed	<p>The Transport Policy Team (TPT) Manager should ensure greater emphasis is given to the details of Grant Determination letters, DfT bulletins and other materials, ensuring these are disseminated and discussed with staff. (M)</p> <p>The TPT Manager should review the eligibility issues raised by the Auditor regarding staff charge out rates used in quarterly claims, taking account of any further guidance from the DfT. They should also devise a spreadsheet tool that can amend the staff costs previously charged in claims if needed. (M)</p> <p>Improve monitoring of time charged to this project with checking by management on the completeness of timesheet submission and authorisation. (M)</p> <p>The Local Sustainable Transport Fund Delivery Board should receive a monthly financial report on grant expenditure incurred. This should include a work-in-progress figure for their elements of delivery and an estimated outturn figure for the year-end. (M)</p>	<p>Improved systems of information dissemination are now in place.</p> <p>Revised rates are in place that have been adjusted for some issues raised.</p> <p>A very detailed check was undertaken prior to the year-end, matching actual time charged against that expected.</p> <p>The opportunity to re-profile planned expenditure on both the Key Component and Large Bids reduced the need for very tight and formal expenditure monitoring and acceleration measures. Such an approach remains a potential option for future periods.</p> <p>Attempts to measure and claim the value of Work In Progress will be considered during Q! Of 2013/14.</p>	   

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

Management Action Plan – Progress update

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Building Maintenance (Jan 13)	Some Improvement Needed	<p>Management should continue to monitor the information provided by the contractor in particular where this shows a rebate is due. (M)</p> <p>Management should ensure that all Compensation Events (CEs) are supported by a relevant, detailed breakdown of adjustments to costs / timings which will assist in the budget monitoring process. This documentation should be retained on file in support of the variation. (H)</p> <p>Based on the review of files a series of recommendations were made on improvements around:</p> <ul style="list-style-type: none"> > Budget setting > Compliance with Procurement SO > Completeness of documentation > Application of contract uplifts > Recovery of overcharged sum (H) <p>Management should ensure that the condition survey information is subject to regular review and updating. Schemes which remain scheduled for previous financial years should be revisited and scheduled as appropriate. (H)</p>	<p>Property Services (PS) have instructed external consultants to carry out an exercise to compare the actual costs with those which would have been incurred using the National Schedule of Rates. A report is expected in June/July 2013.</p> <p>PS managers have established via team meetings and procedures that as a pre-requisite for the approval of CEs that in all instances they be accompanied by a cost breakdown. The QS Team check and validate at Final Account stage all labour, plant and material costs relating to individual projects ordered under this contract.</p> <p>> to be completed September 2013 > completed > completed > completed > completed</p> <p>PS Delivery Team have reviewed and updated procedures for surveys and completion of maintenance programmes. A schedule of surveys has been established to ensure more accurate budgeting, costing, and condition assessment. This is due for completion by September 2013.</p>	   

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

2012/13 Review of the Effectiveness of Internal Audit

ANNEX D

Schedule of recommendations -progress @ June 2013

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Further action @ June2013	RAG rating
Purpose, authority and responsibility			
Define the scope of internal audit more clearly, explicitly stating that it is able to cover all the operations of the Council.	The Internal Audit Charter will be amended to reflect this requirement.	Amended IA Charter approved by A&G Committee on 18 March 2013.	G
Refer to all the resources available to it (for example, hardware and software, access to information and training), rather than just to staff.	The Internal Audit Charter will be amended to reflect this requirement.	Amended IA Charter approved by A&G Committee on 18 March 2013.	G
Produce a one-page summary of the internal audit charter.	Once the internal audit charter has been approved by Audit and Governance Committee the Chief Internal Auditor will produce a one-page summary for sharing with auditees at Service Liaison meetings and audit planning meetings.	A one page summary charter has been produced and circulated to the IA team for use in meetings with auditees.	G
Independence and objectivity			
Include an explicit independence statement in the annual report and the audit plan report and the words "free and unfettered" or similar should be included in the charter.	Agreed.	The words "full, free and unrestricted" are included in the charter. The annual plan presented to A&G Committee in March made reference to the objectives underpinning the work of the IA team as set out in the Charter. The covering report specifically stated that Internal Audit is	G

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Further action @ June2013	RAG rating
		independent of the activity that it audits. The Annual Report presented to the A&G Committee in June 2013 includes an explicit independence statement.	
Ensure internal audit staff receive annual documented reminders of the ethical standards of behaviour expected of them, especially around impartiality and being unbiased.	There will be an annual reminder at an internal audit team meeting at the start of each year – with appropriate meeting minutes as evidence.	This was discussed at the March 2013 IA team meeting and a reminder was sent to all members of the team.	G
Proficiency and due professional care			
Require use of the training module in Galileo to record training and development.	The Chief Internal Auditor will remind the team to keep training records updated in Galileo.	This was discussed at the March 2013 IA team meeting and all members of the team were asked to update their records.	G
Formalise planning of individual audits.	Internal Audit Management will devise a standard approach to audit planning which clearly identifies risks. The approach for each audit will be formally documented and agreed between the auditor and the audit manager. Team briefing on this proposed approach will be provided at the April 2013 team meeting with the Audit manual updated to reflect this.	An initial discussion on this was had at the May 2013 team meeting and some initial improvements to audit assignment planning were agreed. Further amendments to the approach may be required following formal team training on risk based auditing arranged for July 2013.	A
Consider ways to make the link to risk explicit by, at the very least, highlighting some of the key risks to be examined in the audit terms of reference.	From April 2013 when the PSIAS come into effect the Internal Audit team will ensure the Terms of Reference for each audit identify the key risks.	An initial discussion on this was had at the May 2013 team meeting. As well as agreeing that agreed audit planning memos should be completed for all audits (and held on the Galileo system) a new introduction to the audit report - which specifically mentions	A

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Further action @ June2013	RAG rating
		risks - was shared. It was agreed that the team would begin working the new wording/approach into their planned audits and some initial improvements to audit Terms of Reference were agreed. Further amendments to the approach may be required following formal team training on risk based auditing arranged for July 2013.	
Quality assurance and improvement programme			
Summarise the outcome of the effectiveness reviews in the annual internal audit report.	Agreed- this will be actioned by the Chief Internal Auditor.	The outcome of the 2012/13 effectiveness review was reported in full in a separate report to the A&G Committee in March 2013. The 2012/13 Annual Internal audit Report includes an update on progress made in implementing the recommendations arising from that review.	G
Managing the internal audit			
Include a specific reference in the annual planning report to risk-based (as opposed to risk priority) planning.	Agreed- this will be actioned by the Chief Internal Auditor.	Specific reference to annual audit planning being risk-based was included in the report presented to A&G Committee in March.	G
Include specific links to risk supporting the chief internal auditor's opinion in the annual planning report.	The Chief Internal Auditor will make it clear when presenting the proposed annual audit plan to the Audit and Governance Committee, that the plan is risk based and that as such, delivery of the audit plan of work will enable the Chief Internal Auditor to form an opinion on the Council's control environment.	This was made clear by the Chief Internal Auditor at the meeting of A&G Committee in March 2013.	G

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Further action @ June2013	RAG rating
Consider ways to develop engagement with senior management and their staff.	A summary (1 page) charter will be used to assist this.	A summary (1 page) charter has been developed which auditors will use to help explain to auditees the role of the Internal Audit.	G
Nature of work			
Align risk wording in reports with the approach used in the risk register.	The Chief Internal Auditor will discuss this in more detail with the Risk and Governance Manager. One approach may be to amend the Internal Audit Manual to provide more information on drafting internal audit reports. This could include describing risks in terms of cause, risk and effect.	The Chief Internal Auditor met with the Risk and Governance Manager to discuss this in April 2013. Some minor changes to the audit manual were discussed, but the whole team training on risk based auditing planned for July 2013 may prompt further changes to the approach to audit report writing.	A
Use risk as a thread throughout the audit, driving the audit work and acting as a focus for the results.	This will be actioned through formalising the audit planning process and including risks in each audit's terms of reference.	Work on this is on-going. Team meeting discussions have taken place and some initial changes in approach agreed, however the formal training in risk based auditing – planned for July 2013 - may see further changes implemented. Once a standard approach is agreed the Internal Audit manual will be updated to reflect agreed changes.	A
Engagement planning			
Be more explicit about the risks that are being tested for at the start of each audit, including them in the terms of reference.	Agreed. From April 2013 when the PSIAS come into effect the Internal Audit team will ensure the Terms of Reference for each audit identify the key risks.	As already mentioned, some changes in approach have been agreed but these may be further refined following the formal training in risk based auditing – planned for July 2013.	A
Have a standardised approach to audit planning, including	Internal Audit Management will devise a standard approach to audit planning	At the May 2013 team meeting it was agreed that audit planning memos should	G

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Further action @ June2013	RAG rating
documenting discussions between the auditor and audit manager about the audit, related risks and controls and service objectives so that there is a clear link between expectations of the audit through the work carried out to the findings included in the report.	which clearly identifies risks. The approach for each audit will be formally documented and agreed between the auditor and the audit manager. Team briefing on this proposed approach will be provided at the April 2013 team meeting with the Audit manual updated to reflect this.	be completed for all audits, reviewed by the relevant manager and held on the Galileo audit management system.	
Include service business plans on the sources of information list.	Agreed – this will be included as part of a wider update of the Internal Audit Manual planned for Quarter 1 2013/14.	The Internal Audit manual has been updated to include service business plans on the sources of information list.	G
Performing the engagement			
Introduce standard review sheets for all audits, raising and clearing concerns or identifying where there are no review points.	The Galileo system already provides this facility although it is currently not consistently used. The team will be reminded at the April team meeting, of the need to mark working papers for review so audit management can raise review points at the earliest opportunity.	All auditors were reminded at the March 2013 team meeting of the need to mark working papers for review on the Galileo system so audit management can raise review points at the earliest opportunity.	G
Communicating the results			
Make the basis on which the report is written clearer, perhaps with an opening statement along the following lines: “We have examined such-and-such service, looking at the following areas [list]. All areas other than those mentioned below were effective” or “This report is written on an exception basis and, as such, highlights only those areas	Will consider this as part of a team meeting discussion on audit report writing with any agreed changes to guidance included in the Internal Audit Manual.	The findings of the effectiveness review were discussed at a team meeting held in March 2013 where it was noted that the review had included only a very limited review of audit reports (only 2 were looked at). It was not accepted that audit reports are written on an exception basis. It was agreed that Internal Audit reports should continue to provide a balance picture – reporting on both strong and weak aspects	G

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Further action @ June2013	RAG rating
where there are weaknesses. Any areas not mentioned below are deemed to be effective”.		of control.	
Consider ways to improve report writing further, perhaps through a team meeting, discussion and guidance note included in the audit manual.	Agreed –this will be actioned during Quarter 1 2013/14.	Initial discussions around this have not identified any specific changes to audit reports however the format and approach to audit reporting will be revisited following the whole team training on risk based auditing planned for July 2013.	G
Consider ways to bring management’s attention earlier to reports that are contentious so that they are not caught unawares.	Agreed. This will be considered at an Audit Management Team meeting.	This was discussed at a meeting of the Audit Management Team in March 2013. General consensus was that this was not typically a problem. It was agreed that the responsibility should rest with the auditee to bring “contentious” audit findings to the attention of their management. Notwithstanding this, Internal Audit may alert senior management to “contentious” reports before they are issued if there are concerns that they are not already aware of.	G
Consider sharpening the definitions for the two opinions to make the distinction between them clearer. Alternatively, consider if different opinion titles or a numerical system might assist.	The Chief Internal Auditor will discuss this with the S151 Officer.	The Chief Internal Auditor has carried out some research of audit opinions used by other Internal Audit teams and discussed this matter with the S151 Officer. The Chief Internal Auditor will agree what more needs to happen following discussion with the Chairman and Vice Chairman of the Audit and Governance Committee.	A

2012/13 Annual Internal Audit Plan

Status @ June 2013

Corporate Governance Arrangements

AGS - Internal Audit Opinion
Corporate Governance - CRSA
Risk Management Arrangements audit review
Corporate Governance support

Completed
Report issued
In progress
Support provided

Managed Audit - Key financial and Non-financial Systems

SAP Application Controls - policy, roles and access
Financial Assessments and Charging
Treasury Management
Accounts Payable
Payroll
Capital Expenditure Monitoring
Accounts Receivable
Revenue Budgetary Control
General Ledger
Pension Administration
Pension Fund Investments

Report issued
Report issued
Report issued
Report issued
Report issued
Report issued
Report issued
Report issued
Report issued
Report issued

Grants

EU Grants
Government Grants

Completed
Completed

Contract Reviews

Surrey Highways contract
Major Scheme design/contract management (TravelSmart)
Residential Care block contract
Street Lighting - illuminated street furniture contract

Report issued
Report issued
Report issued
Report issued

Adult Social Care

Personalisation (AIS & SWIFT)
Residential Care establishments
Domiciliary Care – in house
Home Collect
Social Care Transport
Serious Untoward Incidents
AIS – assessment module
Telecare

Audit cancelled
Report issued
Report issued
Audit cancelled
Report issued
Audit cancelled
Deferred to 2013/14
Report issued

Children Schools and Families

Schools compliance (& FMSiS replacement)
ICS – foster care module
Children in Care – care leavers
Youth Service Transformation
Commercial Services
Special Schools – in-house/external
Local Safeguarding Boards

Report issued
In progress
Report issued
In progress
Report issued
Report issued
Report issued

Customers and Communities

Registration Service

Report issued

Fire stations

Report issued

Surrey Arts Income

Change and Efficiency

Information Governance

Support provided

Procurement Standing Orders

Audit cancelled

Asset Management ICT

Report issued

Property Asset management

Deferred to 2013/14

Purchase Cards

Report issued

Health and Safety

Report issued

Network Controls

Report issued

Data Centre/ operation controls

In progress

Making a Difference

Report issued

Management of Capital Building Programme/Projects

Report issued

Social Media

Report issued

Absence Management

Support provided

CRB Clearance

Report issued

Corporate Training Management

Report issued

HR Procedures (recruitment)

Report issued

Building Maintenance

Report issued

Shared Services Partnership arrangements

Deferred to 2013/14

Chief Executive's Directorate

Superfast Broadband

Report issued

Records Management

Report issued

Data Quality KPIs

Report issued

Data Protection compliance

Report issued

Environment and Infrastructure

Carbon Reduction Scheme

Report issued

Concessionary Fares

Report issued

Materials Testing Laboratory

Report issued

S106 Developer agreements/CIL

Report issued

Community Pride

In progress

Streetworks Function

In progress

Asset Management Planning

Deferred to 2013/14

Public Health

Report issued

Follow-up Audits including

Transportation Co-ordination Centre (PVR)

Audit cancelled

Direct Payments

Report issued

Rental Income

Report issued

Babcock 4S

Report issued



AUDIT & GOVERNANCE COMMITTEE
24 June 2013

**Full-year summary of Internal Audit irregularity investigations
April 2012 – March 2013**

SUMMARY AND PURPOSE:

1. The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations undertaken by Internal Audit between 1 April 2012 and 31 March 2013. This report complements and builds upon the half-year irregularity report, which was presented to Audit and Governance Committee on 6 December 2012.
2. Typically audit reports following irregularity investigations help to provide independent evidence to support a management case against an employee under formal disciplinary procedures, or to help tighten control in areas where weaknesses are identified. Irregularity audit reports are not subject to the same distribution as general audit reports due to their confidential nature. This arrangement is formalised within the Reporting and Escalation Policy, agreed by this Committee.
3. Due to the confidential aspects of such investigations, and given that some are ongoing in terms of investigation and/or forthcoming disciplinary hearings, this work is reported in a summarised and thematic fashion to Committee rather than on a detailed case-by-case basis.

RECOMMENDATIONS:

4. The Committee is asked to note the contents of this report.

BACKGROUND:

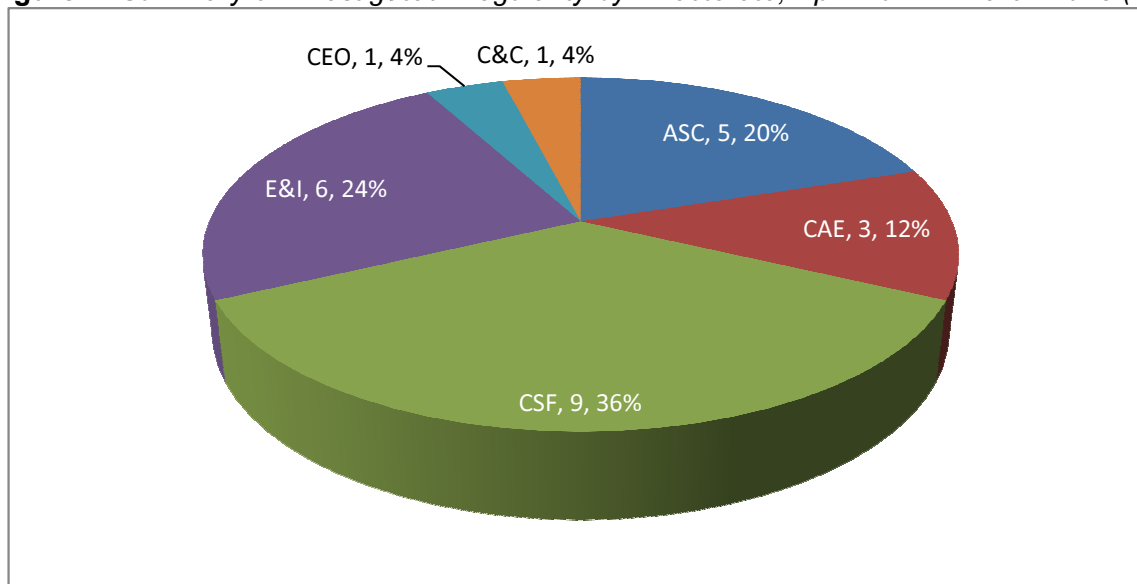
5. The Council's Financial Regulations require all matters involving, or thought to involve, corruption or financial irregularity in the exercise of the functions of the County Council to be notified to the Chief Internal Auditor. This is enshrined within the Internal Audit Charter. Internal Audit pursue such investigations as appropriate. To allow for an adequate resource to investigate alleged fraud and financial irregularity the annual Internal Audit Annual Plan for 2012/13 carried within it a contingency budget for 'Irregularity and Special Investigation Work' of 301 days.
6. This contingency covers work to investigate 'irregularities' (actual or alleged financial impropriety, corruption, and other similar matters) as well as time for Fraud Prevention work, assisting with the Audit Commission's National Fraud Initiative (NFI) and implementing practice from the national Fighting Fraud Locally strategy. This proactive work is considered in more detail from paragraph 34.

7. Special ad hoc reviews are also charged against this contingency if commissioned in-year by Members or Senior Managers and not originally in the agreed annual plan. Examples of such reviews in the latter half of 2012/13 included testing to see if controls in the new vendor upload process in SAP could be compromised, a review of the process governing members' declarations, a review of energy performance management, and proactive work to increase control around the use of safes in council establishments. Such reviews are often linked to concerns raised by management.
8. In the first six months of 2012/13 a total of 13 investigations had commenced excluding ad hoc special reviews. By 31 March 2013 this had risen to 25 cases in total. 12 of these cases have been directly investigated by Internal Audit as cases of possible fraud or theft; 7 were cases where there were serious breaches of the Code of Conduct; 1 case involved concerns raised about a recruitment process; 2 cases investigated suspected misuse of public funds; 1 case related to a breach of Procurement Standing Orders by a contractor, and 2 cases investigated poor control that led to alleged irregular practice.
9. By comparison, for the full year 2011/12 there were 19 investigations excluding ad hoc special reviews. Of these 10 were fraud or theft related, 4 involving the alleged misuse of public funds, 3 were breaches of the Code of Conduct, 1 involved a breach of Procurement Standing Orders and 1 was a case of Poor Control.
10. The 25 investigations in 2012/13 are shown diagrammatically in Figures 1 and 2 (below) to identify the Directorates in which the review fell, and the broad type of investigation undertaken. Numbers of investigations in each area are shown in parenthesis. The total time taken to investigate these cases was 129.9 days (88.2 days in the first half-year period, and a further 41.7 in the second half of the year). The total comparative time taken in 2011/12 was 66.1 days.
11. Of the 25 investigations undertaken, 7 arose following whistle blowing allegations and 1 from information passed to Internal Audit following a complaint made to the Chief Executive. 10 investigations reached a 'Proven' conclusion, and 2 are still in progress with one being in the hands of Surrey Police.

SUMMARY OF ALL TYPES OF RECORDED IRREGULARITY: APRIL 2012 – MARCH 2013

12. Figure 1 illustrates the proportion of all recorded irregularities across the different Directorates of Surrey County Council.

Figure 1: Summary of investigated irregularity by Directorate, April 2012 – March 2013 (25 cases)



13. The proportion of investigations undertaken across the various Directorates is broadly in line with expectation, reflecting the fact that front-line services typically have more of these investigations as the associated risks of access to cash and assets over numerous sites are higher than in more back-office Directorates.

14. Figure 2 shows by broad categorisation how the 25 cases of irregularity are defined by typology. In some cases more than one type of irregularity might have been alleged or investigated within one case (for example, both breaching the Council's Procurement Standing Orders and theft of Council assets). Figure 2 shows the primary reason for investigation, and more detail is provided on specific cases later in this report.

Figure 2: Irregularities investigated in total, April 2012 to March (25 cases)

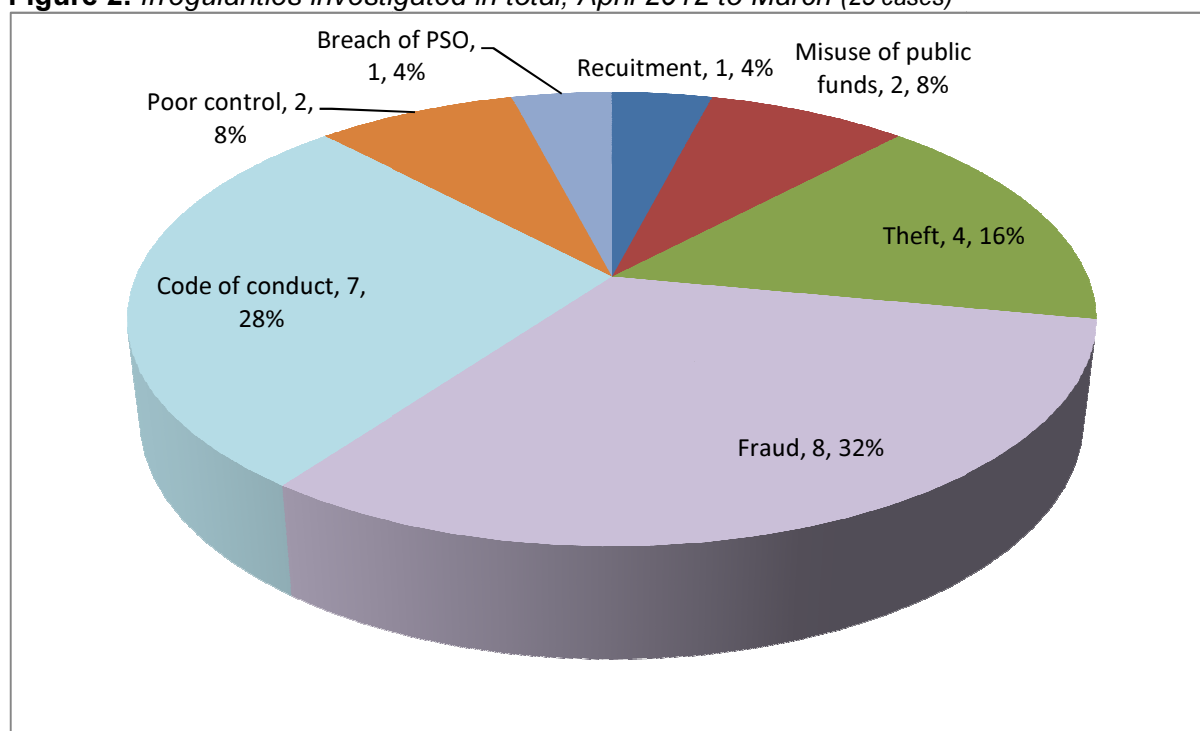


Table 1: Definitions of typologies defining the irregularities investigated 2012/13 to date

Type	Definition
Misuse of Public Funds	In this context cases could include misuse of grants by voluntary bodies, of social care payments by service users, or of private funds held by schools.
Theft	The theft of assets (most frequently cash) from Council property or from clients under the Council's care.
Fraud	Attempts to obtain money by deception, including submission of incorrect travel allowance claims and/or through false accounting.
Code of Conduct	Failure (or alleged failure) to comply with Council policies (Code of Conduct, Procurement Standing Orders etc) or for staff or members in respect of declaration of a second employment, pecuniary interests, completing contractual obligations or managerial responsibilities, or declaring appropriately possible material conflicts of interest.
Poor Control	Examples where local or corporate arrangements fail to stop inappropriate payments being made, or fail to ensure compliance with council policy, etc.
Breach of PSOs	Breaches of the Council's Procurement Standing Orders by staff or contractors
Recruitment	Includes investigations into illegal immigrant workers, staff with forged documentation (visa and passports), or incorrect leave to remain documentation. Could also refer to staff in multiple full-time employments with SCC and another employer (identified through NFI data-matching), inappropriate use of agency staff, or neglect in checking references or employment documentation during recruitment and employment of staff.

15. To give a better indication of the type of work undertaken by Internal Audit across the year the following paragraphs identify examples of specific investigations (appropriately anonymised). This summary focuses on investigations in the period October 2012 to March 2013, as work from the previous six months has been reported in the half-yearly irregularity report. Internal Audit work in this area not only protects the Council's assets and reputation; it acts as a visible deterrent in preventing other irregular activity across the organisation.

Misuse of Public Funds

Allegations of misuse of money within a Surrey school

16. Internal Audit received a whistle-blowing in respect of alleged activities within one of the council's special schools. The three allegations centred on imprudent financial decision-making in the use of school catering resources and poor value for money from recent capital works.
17. A visit to the school to speak with the Headteacher and view the site led to the Auditor being able to dispel the basis of the allegations, which allowed Internal Audit to provide assurance to various stakeholders that practices were appropriate and authorised.

Theft

Thefts of money from council safes

18. Over the course of the year over a dozen incidents of petty theft have been reported to Internal Audit, involving the theft of money (and sometimes other valuable assets, such as laptops) stored in safes across council establishments. Premises affected have included schools, residential homes, and libraries.
19. In the majority of these cases, the incident has been reported to the Police by local management to enable an insurance claim to be considered, although to date no successful prosecution has resulted.
20. The advice offered by Internal Audit has focused on improving local controls, particularly the management of safe keys as in all cases the safes had been opened with a key rather than forced or removed from premises. The unfortunate reality is that in the majority of cases the thief is likely to have been a council employee, given the relative inaccessibility of the safe to a member of the public and a certain amount of knowledge being evident in respect of where keys were kept and contents of the safe.
21. More detail of council-wide proactive advice in the light of recent thefts is detailed from paragraph 34.

Fraud

Concerns over the activities of a school Business Manager

22. A major investigation was launched in December 2012 when concerns were identified in respect of the activities of a Surrey school Business Manager and their handling of various aspects of school financing.
23. The investigation led to the suspension of the officer and the involvement of Surrey Police, who are still investigating the case with various lines of enquiry being pursued. A disciplinary hearing has not yet been possible as advice from the Police was that the continuation of an internal investigation could prejudice any potential criminal hearing.
24. Amongst the matters under investigation are the misuse of the school purchasing card, the submission of falsified claims for overtime, the possible involvement in bid-rigging with a building contractor during recent capital works at the school, and a failure to follow appropriate school financial regulations for the disposal of assets.

Code of Conduct

Internal Audit support to service investigations

25. Internal Audit supported two service-led disciplinary investigations in the last six months of the year where the officers involved had breached expected standards of conduct.
26. In the first example, the officer had a second employment without having sought the proper approval from his line management, and had misrepresented his position with the council in his conduct at his second employer. A disciplinary hearing was convened and the employee dismissed for gross misconduct.
27. A second case involved Internal Audit assisting in the investigation of an apparent breach of the Code of Conduct for an officer employed in both Adult Social Care and in Children's Services in respect of shift patterns worked between two council establishments. Following the investigation, however, the concerns were allayed and no further action was required.

Poor Controls

Lack of effective governance by a school's Governing Body

28. Internal Audit were alerted by Babcock 4S to the case of a Headteacher who had retired from a maintained primary school on what appeared to be an unexpectedly large final salary. The case was investigated from a value for money perspective, to ascertain whether the Governing Body had exercised due care in setting the level of remuneration in line with national guidance.
29. School governing bodies are required to appoint a school to a Group based on a formula in the Statutory Teachers Pay and Conditions and Guidance document (the 'Statutory Document'), which in turn allows for a range of pay points within the Leadership Scale to be identified. The range of Head Teacher pay within a school is set by a formula, which is based upon the numbers of pupils within a school and various criteria associated with pupil need and age.
30. The final Leadership Scale point achieved by the outgoing Headteacher – LS39 (£96,246) appeared unusually high compared to similar Surrey sized schools: comparatively, the next highest Head Teachers' salary point amongst 19 similar sized primary schools was LS31 (£79,336). Internal Audit concluded that under the national pay guidance it could have been possible for the teacher to have reached point LS31, but no higher without clearly documented exceptional circumstances from the Governing Body.
31. The review identified that the Governing Body had exercised no effective control in administering the salary of the officer in question, which had been allowed to rise above the maximum level at which it should have been capped.
32. Although no offence was proven to have been committed by the former Headteacher in this process, the findings of the review were instrumental in an assessment of the competence of the Governing Body by Babcock 4S and the County Council. This led to the entire Governing Body standing down, with the exception of the new Headteacher, with the school currently being overseen by an interim Governing Body.

Breach of Procurement Standing Orders

33. It was brought to our attention that Surrey staff and a major contractor had identified some irregularities around the selection of sub-contractors for a number of scheduled pieces of work. The works were subsequently delayed so that they could be re-tendered and quantity surveyors, funded by the contractor, have been employed to review work across the board.

Proactive Fraud Prevention and Awareness work

34. Within the past year Internal Audit has made continued progress in embedding an anti-fraud culture within the authority through specific proactive fraud prevention and awareness work.
35. Activities that have been of particular note include:
- Presentation of the revised Strategy Against Fraud and Corruption to Cabinet on 5 February 2013. This has been updated following the launch of the NFA's Fighting Fraud Locally Strategy and now includes a Fraud Response Plan in line with best practice.
 - Continuing to investigate the outcomes from the latest Audit Commission National Fraud Initiative, matching of key data sets across and between participating public sector organisations to detect potentially fraudulent activity;
 - Updating the Audit Charter, including both a summary and full version, with the intention of disseminating to Directorate Leadership Teams and new members following the elections in May 2013;
 - Actively participating in the Fighting Fraud Locally initiative;
 - Using internal communications channels such as the Schools Bulletin and S:Net to share information about fraud and related risks to improve awareness;
 - Internal Audit participation in fraud-related discussions at the London Audit Group and at the Home Counties Chief Internal Auditors Group;
 - Fraud awareness e-learning, which has continued to develop and roll-out across the authority to raise staff awareness of common risks and signals that they should be alert to; and
 - Providing advice and guidance to services for effective controls and management of safes, including matters relating to insurable limits, appropriate safe contents, and key and/or access control.

CONCLUSIONS:

Financial and value for money implications

36. Internal Audit investigation of fraud and irregularities to ensure that perpetrators are appropriately dealt with and recommendations made where necessary to improve internal control, will ensure that public money is safeguarded.

Equalities

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

Risk management

38. Combating fraud will contribute to better internal control and value for money.

Implications for the Council's Priorities or Community Strategy

39. None

<u>NEXT STEPS</u>

40. No specific action is required.

REPORT AUTHOR: David John, Audit Performance Manager, Policy & Performance

CONTACT DETAILS: telephone: 020 8541 7762 e-mail david.john@surreycc.gov.uk

Sources/background papers: Final irregularity reports and Galileo database.



AUDIT & GOVERNANCE COMMITTEE

24 June 2013

CODE OF CORPORATE GOVERNANCE

SUMMARY AND PURPOSE:

The purpose of this report is to provide the Committee with an update on the changes made to the Code of Corporate Governance.

RECOMMENDATIONS:

The Committee is asked to approve the updated Code of Corporate Governance (Annex A) and recommend it to the County Council for inclusion into the Constitution.

BACKGROUND:

- 1 The Local Government Act 2000 places a reliance on local authorities to review their governance arrangements and operate through a local governance framework, which brings together requirements, governance principles and processes.
- 2 Surrey County Council's Code of Corporate Governance ('the Code') meets the Local Government Act 2000 by outlining the council's commitment to good governance and providing the principles against which the effectiveness of the council's governance arrangements are measured. It contains 31 Surrey County Council policies and procedures that underpin compliance with the governance principles and also sets out the mechanisms for monitoring and reviewing the corporate governance arrangements.

SUMMARY:

- 3 An annual review of the Code has been undertaken to ensure that it is fit for purpose and reflects the authority's approach and commitment to good governance. The Governance Panel approved the updated Code at its meeting on 15 May 2013 and it is attached at Annex A.
- 4 The Quality Board met for the last time in February 2013 and agreed that strong progress has been made over the last few years and in future, the strategic leadership on quality will be provided by the Governance Panel and Corporate Board. It was also agreed that the Quality Management Framework would not be refreshed or re-published when it expired on 31 March 2013. Therefore all references to the Quality Board and the Quality Management Framework have been taken out of the Code of Corporate Governance.

- 5 The 'Arrangements for dealing with complaints about Members' has also been added to the Code of Corporate Governance as a governance document.

<u>IMPLICATIONS:</u>

Financial

- 6 There are no direct financial implications of this report.

Equalities

- 7 There are no direct equalities implications of this report.

Risk management

- 8 An effective governance and internal control environment leads to improved performance and outcomes for residents.

<u>WHAT HAPPENS NEXT:</u>

The Code of Corporate Governance will be presented to County Council for inclusion into the Constitution.

REPORT AUTHORS: Cath Edwards, Risk and Governance Manager

CONTACT DETAILS: cath.edwards@surreycc.gov.uk, 020 8541 9193,

Sources/background papers: Governance Panel papers, working papers, Cipfa/Solace Framework for Delivering Good Governance in Local Government, The Code of Corporate Governance

Code of Corporate Governance

CONTENTS

PAGE

Commitment to good governance	2
Good governance principles	2
Supporting governance documents	4
Governance review	5
Roles and responsibilities	6
Glossary	7

Annexes

A Supporting governance documents	9
B Governance document custodians	10
C Governance review process	11
D Governance Panel terms of reference	12

COMMITMENT TO GOOD GOVERNANCE

- 1 The One County, One Team Corporate Strategy 2013-18 sets out the council's overall purpose to ensure good quality public services for the residents of Surrey so they remain healthy, safe and confident about the future.
- 2 Good corporate governance underpins confidence in public services and should be transparent to all stakeholders. The council is committed to demonstrating it has sound corporate governance and this Code of Corporate Governance sets out the way the council meets that commitment. This in turn promotes adherence to the council's values that guide the behaviour of all officers and Members:



Listen



Responsible



Trust



Respect

- 3 Corporate governance is the manner through which the council directs and controls its functions and relates to its communities. A robust governance code provides assurance that Surrey is meeting best practice in protecting its assets and serving the community.
- 4 The council must review at least annually the effectiveness of its governance arrangements and produce an Annual Governance Statement (AGS), which recognises and records the governance framework and environment. The AGS must be signed by the Chief Executive and the Leader of the Council and be included within the Statement of Accounts, as required by the CIPFA / SOLACE framework, the Statement of Recommended Practice (SORP) 2007 and the Accounts and Audit Regulations (2011).
- 5 The Code of Corporate Governance sets out the mechanisms for monitoring and reviewing the corporate governance arrangements, which enables the council to identify good governance practice and also areas for improvement.

GOOD GOVERNANCE PRINCIPLES

Principles of Public Life

- 6 The council has made a commitment to ensuring that good governance is in place and that it is serving the local community in accordance with the seven principles of public life as defined by the Nolan Committee in 1994. These principles apply to everyone working in the public services and should be incorporated into all codes of conduct and behaviour to ensure residents and service users receive a high quality service.
- 7 The principles are as follows:
 - **Selflessness**
Officers and members should act solely in terms of the public interest. They should not act in such a way in which to gain financial or other benefits for themselves, their family or their friends.
 - **Integrity**
Officers and members should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
 - **Objectivity**

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, officers and members should make choices on merit.

- **Accountability**

Officers and members are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their role.

- **Openness**

Officers and members should be as open as possible about all decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

- **Honesty**

Officers and members have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the people of Surrey.

- **Leadership**

Officers and members should promote and support the principles by leadership and example.

Core Governance Principles

- 8 The council has adopted six core governance principles, which ensure good governance, compliance with the principles of public life and support the achievement of the Corporate Strategy.

	Core Governance Principle	Corporate Strategy strand
1	<p>Surrey County Council will focus on its purpose and will implement a vision for both Surrey and its local communities to achieve the intended outcomes for the community.</p> <p>It will meet this by:</p> <ul style="list-style-type: none"> • Continuously developing and clearly communicating its purpose and vision; • Ensuring users receive a high quality of service; and • Making best use of resources. 	Quality
2	<p>The council's members and officers will work together to achieve a common purpose with clearly defined functions and roles.</p> <p>It will meet this by:</p> <ul style="list-style-type: none"> • Ensuring there is a constructive working relationship between members and officers; • Ensuring responsibilities of members and officers are carried out to a high standard; and • Having clear relationships between the council, its partners and the public. 	Partnerships
3	<p>Surrey County Council will promote values and demonstrate good governance by upholding high standards of conduct and behaviour.</p> <p>It will meet this by:</p> <ul style="list-style-type: none"> • Requiring members and officers to maintain high standards of 	People

	<p>conduct; and</p> <ul style="list-style-type: none"> Continuing to ensure that its values are promoted. 	
4	<p>Surrey County Council will take informed and transparent decisions that promote value for money and are subject to effective scrutiny and risk management.</p> <p>It will meet this by:</p> <ul style="list-style-type: none"> Promoting decision making that is rigorous and transparent; Having good quality information, advice and support; Ensuring that effective risk management and performance management systems are in place; and Using its legal powers to the full benefit of residents and communities. 	Stewardship
5	<p>Surrey County Council will seek to develop the capacity and capability of members and officers to be effective.</p> <p>It will meet this by:</p> <ul style="list-style-type: none"> Aiming to ensure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles; Engaging effectively with all sections of the community; and Making best use of human resources through consulting and involving staff in decision-making. 	Value
6	<p>Surrey County Council will engage with Borough, District and Parish Councils, residents associations and other stakeholders as appropriate to promote robust public accountability.</p> <p>It will meet this by:</p> <ul style="list-style-type: none"> Promoting leadership through a robust scrutiny function; Involving local people, partners, business and other stakeholders in the early development of policy; and Taking an active and planned approach to dialogue with and accountability to the public. 	Residents

SUPPORTING GOVERNANCE DOCUMENTS

- 9 The Code of Corporate Governance contains 31 council policies and processes that are of key importance in maintaining good governance, supporting the achievement of the Corporate Strategy and underpin compliance with the core governance principles. The documents are shown at Annex A against the six Corporate Strategy strands.
- 10 Responsibility for each governance document ultimately rests with the Chief Executive or one of the strategic directors, aside from statutory functions that fall within the personal responsibility of the Section 151 Officer or the Monitoring Officer. Cabinet Members must also demonstrate ownership within their individual portfolios.
- 11 Below those officers and members, the Code of Corporate Governance identifies, where appropriate, those officers who have a material input and control over governance documents. These officers are referred to as Policy Custodians and they are shown in Annex B.

GOVERNANCE REVIEW

- 12 The annual review of governance assesses the level of compliance with each of the core governance principles. A flowchart showing the process is shown at Annex C. The review consists of a number of parts as follows.

PART 1 – CUSTODIAN ASSURANCE

- 13 Policy Custodians are required to complete an annual Custodian Assurance Statement. A summary report is presented to the Governance Panel, which makes recommendations on the policies to be included in the annual Control Risk Self Assessment (CRSA) exercise outlined below.

PART 2 – POLICY COMPLIANCE (CRSA) AND REPORT ON INTERNAL CONTROL

- 14 Following agreement by the Governance Panel on the policies to be tested, questionnaires are sent out by the Internal Audit Team to a sample of staff and members. Audit reports are sent to Policy Custodians who then complete a management action plan for any improvement areas identified. A summary report is also presented to the Governance Panel and any significant areas included in the AGS.
- 15 The Chief Internal Auditor uses information gathered from internal audit reviews carried out as part of the annual audit plan, to report on the adequacy of the internal control environment. This report is presented to the Governance Panel and any significant areas included in the AGS

PART 3 – ASSESSMENT OF THE CORE GOVERNANCE PRINCIPLES

- 16 The Risk and Governance Manager carries out the annual assessment of the core governance principles. The review consists of:
- interviews with key officers,
 - reviewing existing procedures, and
 - assessing existing governance arrangements against best practice.
- 17 A summary report is then presented to the Governance Panel and any significant findings will be included in the AGS.

PART 4 – ADDITIONAL GOVERNANCE INFORMATION

- 18 In order to pull together a full picture of governance across the organisation, the Governance Panel also look at any relevant reports and findings from other inspectorates and groups, along with any self-assessments that the council has completed within the relevant year. Any significant issues are then included in the AGS and the information includes the following:
- External audit reports
 - External inspection reports
 - Annual review of the effectiveness of the system of internal audit
 - Member task group reports and findings

PART 5 - AGS

- 19 Taking all the above information into account, the draft AGS is developed and agreed by the Governance Panel. The Chair of the Governance Panel consults with Corporate Board before the AGS is presented to the Audit and Governance Committee and the Cabinet.

PART 6 - MONITORING

20 The Governance Panel monitors progress on any improvement actions identified and update reports are presented to Corporate Board and Audit and Governance Committee as appropriate.

ROLES AND RESPONSIBILITIES

21 All staff and members have a role in ensuring good governance but specific responsibilities are set out below:

ROLE	RESPONSIBILITIES
The Cabinet	<ul style="list-style-type: none">• Approve the AGS for publication with the Statement of Accounts• Monitor any governance improvements required, as appropriate
Portfolio Holders	<ul style="list-style-type: none">• Demonstrate ownership of individual policy areas• Approve governance policies as appropriate
Audit & Governance Committee	<ul style="list-style-type: none">• Review the draft AGS and advise the Cabinet as appropriate• Monitor the effectiveness of the governance arrangements• Monitor compliance with the Code of Corporate Governance• Approve governance policies as appropriate
Corporate Board	<ul style="list-style-type: none">• Commission remedial action to address issues• Review related reports en route to the Cabinet e.g. AGS
Governance Panel	<ul style="list-style-type: none">• Refer to the Terms of Reference – Annex D
Heads of Service and Assistant Directors	<ul style="list-style-type: none">• Appoint Policy Custodians as required• Promote the delivery of policies within their service• Participate in the governance review and ensure that officers under their charge cooperate within the given timescales• Ensure governance improvements required within their service are acted upon in a timely manner and reported as necessary
Policy Custodians	<ul style="list-style-type: none">• Maintain and regularly review policies to ensure they reflect legislative changes, best practice and organisational changes• Ensure policies are communicated effectively• Operate a standard process of version control on all policies• Ensure actions identified through the corporate governance review are acted upon in a timely manner and reported as necessary
Risk and Governance Manager	<ul style="list-style-type: none">• Coordinate the corporate governance review• Carry out the annual assessment of core principles• Annually review the Code of Corporate Governance• Ensure provision of Corporate Governance training for staff and members
Internal Audit Team	<ul style="list-style-type: none">• Conduct the annual review of policy compliance• Provide information on the internal control environment to inform the AGS

REVIEWING AND REVISING THE CODE

22 This Code of Corporate Governance will be reviewed annually to reflect any changes. For any queries or comments on this document please contact:

Cath Edwards, Risk and Governance Manager, Change and Efficiency

GLOSSARY

Annual Governance Statement (AGS)	A statement required by the Accounts and Audit Regulations (Amendment) (England) 2006 explaining how the council has
-----------------------------------	--

	complied with the code of corporate governance. It is signed by the Chief Executive and Leader of the Council and published as part of the annual Statement of Accounts.
Chartered Institute of Public Finance and Accountancy (CIPFA)	The leading accountancy body for public services.
Constitution of the Council	Sets out how the Council operates, how decisions are made and the procedures that are followed to ensure efficiency, transparency and accountability.
Control Risk Self Assessment (CRSA)	An annual self assessment undertaken using questionnaires to ascertain the levels of compliance with governance policies.
Corporate Governance	How local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
Custodian Assurance Statement (CAS)	An annual submission from each Policy Custodian providing assurance that each policy is up to date and detailing any work that has been undertaken throughout the year.
Effectiveness review	A requirement of the Accounts and Audit Regulations 2006 for the council to annually conduct a review of the effectiveness of its system of internal audit.
External Audit	An external annual review of the Council's accounts.
Governance Panel	Chaired by the Head of Legal and Democratic Services, the panel ensures that the council has a robust appraisal of governance. It advises Corporate Board, Audit & Governance Committee and Cabinet on the adequacy of the governance arrangements and proposes areas for improvement through the Annual Governance Statement.
Internal Audit Team	An independent appraisal function that objectively examines, evaluates and reports on the adequacy of internal control. They are part of the Policy and Performance Service within Chief Executives Office.
Monitoring Officer (Head of Legal and Democratic Services)	The statutory officer in accordance with section 5 of the Local Government and Housing Act 1989 with responsibility for: <ul style="list-style-type: none"> • Maintaining the Constitution • Ensuring lawfulness and fairness of decision making • Receiving reports • Receiving and dealing with allegations of misconduct • Access to information • Advising whether executive decisions are within the budget and policy framework • Providing advice
Policy Custodian	Officer(s) with oversight for a governance document. They have responsibility for ensuring that it is up to date and promoted across the authority.

Corporate Board	Chaired by the Chief Executive, it ensures effective self-regulation, oversight and assurance of governance.
Section 151 Officer (Chief Finance Officer and Deputy Director for Business Services)	<p>The statutory officer with responsibility for:</p> <ul style="list-style-type: none"> • the proper administration of the Council's affairs under section 151 of the Local Government Act 1972 • Ensuring lawfulness and financial prudence of decision making • Contributing to corporate management • Providing advice • Giving financial information
Society of Local Authority Chief Executives and Senior Managers (SOLACE)	The representative body for senior strategic managers working in local government, promoting effective local government.

Supporting Governance documents

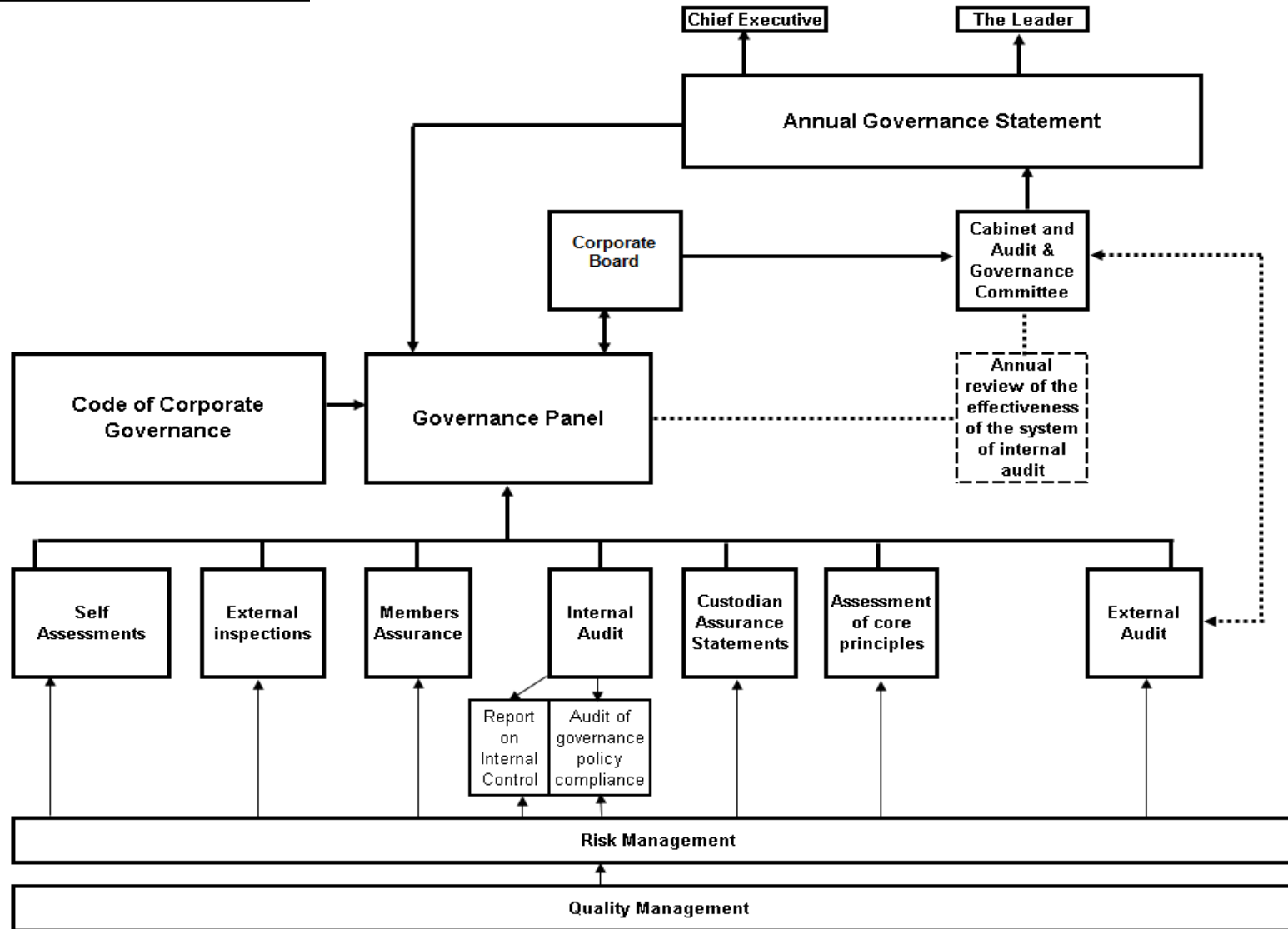
<p><u>RESIDENTS</u> Actively involving local people and stakeholders</p>	<p><u>QUALITY</u> Ensuring a high quality service</p>
<p>Our Commitment to Public Involvement Fairness and Respect</p>	<p>Complaints Freedom of Information</p>
<p><u>VALUE</u> Taking informed and transparent decisions that promote value for money</p>	<p><u>PEOPLE</u> Maintaining high standards of conduct</p>
<p>Procurement Standing Orders Cabinet Forward Plan Scheme of Delegation Standing Orders</p>	<p>Capability Grievance Change Management Safer Recruitment Codes of Conduct (officers and Members) Member/Officer Protocol Arrangements for dealing with complaints about Members Disciplinary Ending Harassment, Bullying and Discrimination</p>
<p><u>PARTNERSHIPS</u> Having clear relationships</p>	<p><u>STEWARDSHIP</u> Ensuring effective risk and performance management systems</p>
<p>Surrey Compact Voluntary, Community and Faith Sector (VCFS) Framework Partnership Framework and Principles: <ul style="list-style-type: none"> • Memorandums of Understanding • Joint Working Arrangements </p>	<p>Data Protection Financial Regulations IT Security Risk Management Premises Security Health and Safety Strategy Against Fraud and Corruption Whistleblowing Regulation of Investigatory Powers Act (RIPA) Emergency Management and Business Continuity</p>

Governance Custodians**Annex B**

Document	Custodian
Arrangements for dealing with complaints about Members	Head of Legal and Democratic Services
Cabinet Forward Plan	Cabinet Business Manager
Capability	Deputy Head of Human Resources
Change Management	Deputy Head of Human Resources
Code of Conduct	Deputy Head of Human Resources
Code of Conduct for Members	Head of Legal and Democratic Services
Complaints	Customer Services Improvement Manager
Data Protection	Corporate Information Governance Manager
Disciplinary	Deputy Head of Human Resources
Emergency Management and Business Continuity	Head of Emergency Management
Ending harassment, bullying and discrimination	Equality Inclusion and Wellbeing Manager
Fairness and Respect	Senior Policy Manager
Financial Regulations	Chief Finance Officer
Freedom of Information	Freedom of Information Officer
Grievance	Deputy Head of Human Resources
Health and Safety	Senior Health and Safety Manager
IT Security	Head of IMT
Member / Officer Protocol	Head of Legal and Democratic Services
Our Commitment to Public Involvement	Senior Performance and Research Manager
Partnership Framework and Principles	Strategic Director for Change and Efficiency
Premises Security	Area Delivery Manager
Procurement Standing Orders	Head of Procurement and Commissioning
Regulation of Investigatory Powers Act (RIPA)	Community Protection Manager
Risk Management Strategy	Risk and Governance Manager
Safer Recruitment	Deputy Head of Human Resources
Scheme of Delegation	Head of Legal and Democratic Services
Standing Orders	Democratic Services Lead Manager
Strategy against Fraud and Corruption	Chief Internal Auditor
Surrey Compact	Lead Manager, Policy and Strategic Partnerships
VCFS Framework	Lead Manager, Policy and Strategic Partnerships
Whistle blowing	Deputy Head of Human Resources

Governance Review Process

Page 326



Governance Panel - terms of reference

Scope

The Governance Panel (the panel) ensures that the Council has a robust method of scrutiny and appraisal of Governance. The panel advises Corporate Board¹, Audit & Governance Committee (A&GC) and Cabinet on the adequacy of the arrangements and proposes areas for improvement through the Annual Governance Statement (AGS).

The panel reviews reports from Internal Audit, Risk & Governance, External Audit and other relevant documents.

The Role of the Governance Panel

The Governance Panel collectively, is responsible for:

- Reviewing reports from Internal Audit, Risk & Governance, External Audit and other relevant inspectorates
- Agreeing the sample of governance policies to be tested
- Approving changes to the Code of Corporate Governance
- Reviewing significant changes to governance policies
- Reporting on significant governance improvements and weaknesses to the Audit and Governance Committee
- Being a key point of escalation to Corporate Board
- Monitoring improvement plans and reporting to the Audit & Governance Committee
- Reporting progress and key concerns to members

Membership

The following officers form the Governance Panel:

Chair	-	Head of Legal and Democratic Services (Monitoring Officer)
Standing members	-	Chief Finance Officer (Section 151 Officer)
	-	Senior representative from HR & Organisational Development
	-	Chief Internal Auditor
	-	Senior representative from Policy and Performance
	-	Risk & Governance Manager
Advisors	-	Policy custodians
	-	Representatives from Internal Audit

¹ Consisting of the Chief Executive, Assistant Chief Executive, Strategic Directors, Chief Finance Officer, Head of HR and Organisational Development and Head of Policy and Performance

Individual Roles and responsibilities

Chair

- Proactively chair panel meetings, ensure meetings are effective and actions have been completed
- Present panel reports to Corporate Board, A&GC and Cabinet and feed back to the rest of the panel members
- Report back to the panel on key issues from other governance meetings as appropriate, including partnerships

Panel members

- Proactively participate at panel meetings
- Report back to the panel on key issues from other governance meetings as appropriate, including partnerships

Risk and Governance Manager

- Provide reports to the panel on areas of risk and governance, including strategic and significant service risks, annual governance review reports and progress reporting
- Prepare panel reports for Corporate Board, A&GC and Cabinet
- Report key issues from external audit and inspection reports including the Annual Audit Letter and the Annual Governance Report
- Undertake the annual review of the Code of Corporate Governance and recommend changes to the panel

Chief Internal Auditor

- Provide reports to the panel on internal control and Control Risk Self Assessment (CRSA) findings

Policy Custodians

May be required to attend any panel meetings at the request of the Chair

This page is intentionally left blank



AUDIT & GOVERNANCE COMMITTEE

24 June 2013

2012/13 Annual Governance Statement

SUMMARY AND PURPOSE:

This report presents the Annual Governance Statement, which provides an assessment of the council's governance arrangements for the financial year ending 31 March 2013.

The annual review of governance and publication of an Annual Governance Statement is a statutory requirement of the Accounts and Audit Regulations 2011.

RECOMMENDATIONS:

The Committee is asked to:

1. Review the contents of the draft Annual Governance Statement to satisfy themselves that the governance arrangements are represented correctly; and
2. Commend the draft Annual Governance Statement to the Cabinet for publication with the council's Statement of Accounts.

INTRODUCTION:

- 1 Surrey County Council's 'Code of Corporate Governance' describes the good governance principles adopted by the council and by which the governance arrangements are assessed. It also details the methodology by which the annual review of governance is undertaken.
- 2 The review of governance is overseen by the Governance Panel (Head of Legal and Democratic Services [chair], Chief Finance Officer, senior representatives from HR and Policy & Performance, Chief Internal Auditor and Risk & Governance Manager), which has the responsibility for the development and maintenance of the governance environment and production of the Annual Governance Statement (AGS).

DRAFT ANNUAL GOVERNANCE STATEMENT:

- 3 The 2012/13 draft AGS developed by the Governance Panel is attached at Annex A. The Corporate Board and the Leader of the Council have been consulted and their comments are incorporated.

MONITORING AND REVIEW:

- 4 The Governance Panel will continually review the governance arrangements throughout the year.

IMPLICATIONS:

Financial

- 5 There are no direct financial implications arising from this report.

Equalities

- 6 There are no direct equalities implications of this report.

Risk management

- 7 Effective governance arrangements lead to value for money and delivery of objectives.

WHAT HAPPENS NEXT:

The AGS will be presented to Cabinet for approval on 23 July 2013 and will then be signed by the Chief Executive and the Leader of the Council and incorporated into the council's Statement of Accounts for 2012/13.

REPORT AUTHOR: Ann Charlton, Chair of Governance Panel

CONTACT DETAILS: Tel: 020 8541 9001 or ann.charlton@surreycc.gov.uk

Sources/background papers: Governance panel minutes. Working papers. Code of Corporate Governance. CIPFA/SOLACE framework *Delivering Good Governance in Local Government*.

Annual Governance Statement 2012/13

Context

Surrey County Council (the council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The council has adopted a Code of Corporate Governance (the code), through which good governance is evidenced. The code is based on principles from the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* and is part of the council's constitution. The council is committed to fulfilling its responsibilities in accordance with the highest standards of good governance to support the 2017 vision of becoming the most effective County Council in England.

This Annual Governance Statement outlines the council's governance arrangements and achievements during 2012/13 and highlights areas to continue to strengthen governance, quality and internal control in 2013/14. It also meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2011 in relation to conducting an annual review of the effectiveness of the council's governance framework and the publication of an Annual Governance Statement.

The review of governance is overseen by the Governance Panel (the panel). The panel comprises the Head of Legal and Democratic Services [chair], the Chief Finance Officer, senior representatives from HR and Organisational Development and Policy and Performance, the Chief Internal Auditor and the Risk and Governance Manager. It is responsible for developing and maintaining the governance environment and producing the Annual Governance Statement.

The governance arrangements for the year 2012/13 have been reviewed in accordance with the annual review process outlined in the code. The review has provided a satisfactory level of assurance on the governance arrangements for the year.

The governance environment during 2012/13

Purpose and Outcome:

The One County One Team, Corporate Strategy provides a clear direction for staff as well as a signpost for residents, businesses and partner organisations and has the council's four values of Listen, Responsibility, Trust and Respect at its heart. It is underpinned by a suite of supporting documents such as the interactive Medium Term Financial Plan and directorate strategies. The Chief Executive reports progress on the Corporate Strategy to full Council on a six-monthly basis.

The council uses a variety of methods to improve service delivery and ensure that quality is maintained. A Quality Board has improved the coordination and effectiveness of quality management, and directorates continue to develop their quality frameworks to ensure they are effective. Finance, performance and risk information is monitored and reviewed by senior management and scrutinised by Select Committees and Cabinet. The Leadership risk register is regularly reviewed by Corporate Board, Audit and Governance Committee and Cabinet.

The council's three year Public Value Review (PVR) programme has been completed successfully. The 29 reviews undertaken have delivered a range of performance improvements and supported the implementation of new and innovative ways of delivering services. The programme has also identified total savings of £279m to be delivered by 2016. Rapid

Improvement Events (RIE) continue to be successfully used across the council to bring about changes to current work processes through the use of lean principles.

The council has developed a strategic framework for innovation and has begun to develop new ideas and approaches aimed at strengthening its capacity and capability to innovate. This will enable the council to continue improving outcomes and value for money for Surrey residents, and deal successfully with the significant challenges it faces over the next five to ten years.

The council is committed to seeking external, independent challenge and validation of the progress it has made in delivering its Corporate Strategy. For example, the council undertook a Local Government Association peer challenge between 26 February and 1 March 2013 and, in addition to looking at the council's corporate capacity and leadership asked the peer challenge team to test its capacity and capability to innovate in order to achieve the Corporate Strategy objectives. The peer challenge team acknowledged the huge strides the council has made over the last four years and has 'laid solid foundations on which to build'.

Specifically on governance, the peer challenge team stated that 'The overall governance of the authority is felt to be sound and key elements of it, including officer / member relationships and standards of conduct and behaviour, are seen to have improved significantly in recent years'. Areas which the peer challenge felt were 'likely to benefit from further attention and possible revision' were Select Committees ('seen as variable in their effectiveness') and Local Committees (the peer challenge team felt it would be timely to consider, with relevant partners, 'the role of Local Committees in a new era in order to ensure they are sufficiently well placed to succeed').

Other examples of external validation include the recognition the council has received through external awards. The council was shortlisted in the Council of the Year, Health and Social Care and Corporate Governance categories in the high profile Local Government Chronicle awards. The council also won the Council of the Year award in the Improvement and Efficiency South East Awards 2013.

Leadership & Behaviour

The roles, responsibilities and delegated functions for officers and Members are set out in the Constitution of the Council.

The Cabinet comprises the Leader, Deputy Leader and eight Cabinet Members, with each Member holding the brief for a particular portfolio of services. Decisions can be taken by individual members of the Cabinet or collectively by the full Cabinet.

The functions of the Monitoring Officer (Head of Legal and Democratic Services) and Chief Finance Officer/Section 151 Officer (Chief Finance Officer and Deputy Director for Business Services) are specified by statute and between them they are responsible for ensuring lawfulness, fairness and financial prudence in decision-making.

The Chief Finance Officer meets her financial responsibilities and ensures fully effective financial management arrangements are in place by attending key meetings where significant financial issues are discussed, including Corporate Board, all Cabinet meetings and Audit and Governance Committee. She also has regular meetings with the Chief Executive, Monitoring Officer, Chief Internal Auditor and External Auditor, and has direct access to the Leader and the Chief Executive at all times.

The Staff and Member Codes of Conduct set out the high standards of conduct expected by the council and training is provided through induction. The codes of conduct are supplemented by the Member/Officer Protocol, which provides principles and guidance for good working relations, and the Strategy Against Fraud and Corruption.

Following the abolition of the Standards Board regime, the council has put in place its own local arrangements for dealing with allegations of breaches of the Member Code of Conduct.

The Leader and the Chief Executive continue to show their commitment to engage with and support staff by touring the county to meet staff at various locations to hear their views and share their stories. The Chief Executive also provides regular updates and messages to staff through emails and the intranet via his monthly blog.

Transparency and Stewardship

The council has seven select committees who continue to provide challenge to the Cabinet and have strengthened their policy development and review role. The Council Overview and Scrutiny Committee, comprising the select committee chairmen and representatives of the opposition parties, takes a council-wide view and leads on collaborative scrutiny issues.

Every Council, Cabinet and Planning and Regulatory Committee meeting is webcast to enable people to watch meetings online.

The Audit and Governance Committee comprises six councillors (Chairman is a Residents' Association/Independent Councillor) who have been specifically chosen to enable robust challenge and assurance from a position of knowledge and experience. The committee is focused on providing independent assurance on the council's control environment, the adequacy of the risk and governance arrangements and financial reporting.

The annual review of the effectiveness of the system of internal audit was undertaken by an external assessor, appointed through CIPFA. The report concluded that internal audit is well led and is given a high priority by those charged with governance.

The council produces an annual report that demonstrates the delivery of priorities over the year. It highlights key data on performance, notable achievements from the year and includes the AGS and unaudited summary accounts. The council also produces the four primary financial statements each quarter (Movement in Reserves, Income & Expenditure, Balance Sheet and Cash Flow) to provide management with robust information for measuring performance.

The Investment Panel comprises the Strategic Director for Business Services, five senior managers and the Cabinet Member for Assets and Regeneration. It ensures all proposed service capital investments have robust business cases before formal approval by Cabinet or Cabinet Member as appropriate, and monitors the overall capital programme.

The gifts and hospitality register is online and provides a means for staff to easily register anything offered or accepted, making the entire process transparent.

The council's Whistle-blowing policy encourages staff to raise concerns, such as bullying or harassment or fraud, through an anonymous, confidential and independent hotline. A variety of communication channels are constantly used to publicise the policy and the supporting arrangements.

As part of the council's policy on transparency and openness, more information is being made available to residents and businesses through the publication of expenditure invoices for spend over £500 and salaries of staff who earn over £58,200 (named from £100,000).

People

The council's People Strategy aims to 'enable staff to reach their best so they can give of their best for the people of Surrey.' Time and resources continue to be invested to ensure staff and Members are fully engaged and motivated. Staff are given access to a number of tools and support through the STARS (Stretching Talent and Raising Skills) training and development programme that includes a range of e-learning and classroom based courses, online guidance

and websites. Workplace coaches are in place across the organisation to help staff with career development or find solutions to issues and problems.

The council holds the Charter for Elected Member Development and Investor in People (IiP).

Engagement and collaboration

The Surrey Residents Survey, which is jointly commissioned with Surrey Police, gathers customer satisfaction data and the results form part of the corporate scorecard. Customer feedback procedures ensure that feedback is both consistent and appropriate and that outcomes are reported through a quarterly digest.

The council continues to work with partners to develop the innovative Surrey, an information system that brings together data, information and analysis for Surrey. The increased use of online communication channels and new media such as Twitter and Facebook provides effective engagement with stakeholders.

Through close working with residents and partners, Surrey's Olympics events were successful and safe. The council continued to provide all its services and laid the foundations for a positive long term economic and social legacy in Surrey.

Notable progress has been made across all areas of the council in delivering services successfully in partnership. The SE7 Councils, consisting of seven South East councils, have worked together across a range of workstreams to identify savings including waste and property. A partnership has been established with East Sussex County Council to share procurement arrangements and payroll, pensions and accounts functions.

The benefits of working in partnership have not been confined to efficiencies and service improvements; partnership underpins the council's One Team approach. Expertise from partners has stimulated innovation, better engagement and an open learning culture.

Internal control environment

The internal control environment is a significant part of the governance framework and is designed to manage risks to a reasonable level. The overall opinion of the Chief Internal Auditor on the internal control environment for 2012/13 is "**some improvement needed**". Controls evaluated are judged to be generally adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. However, there are a number of areas where there is a need to enhance the governance arrangements in place, in particular:

- **Capital Monitoring** – as the council looks to borrow to invest significantly over the next 3-4 years in property for service provision, investment and regeneration purposes, it is important that this is in line with a clearly articulated and agreed strategy and that there is appropriate governance around such capital spending decisions.
- **Project Management** – there should be an increased focus on strong project management as an important tool in delivering change across the council. This should emphasise the importance of stakeholder engagement; ensure robust business cases with a strong financial rationale; and, require proper tracking of envisaged benefits to ensure their realisation.
- **Commercial Services** – governance around the four trading activities within Commercial Services should be strengthened and include greater visibility of the business plan and proper monitoring and scrutiny of performance against that plan.
- **Direct Payments (DPs)** – social care reviews should be conducted at least annually in accordance with stated policy and DP account reconciliations should be completed in a timely manner and refer to the associated support plan that details the purpose the DP has been agreed for.

Management Action Plans are in place to address the recommendations made by Internal Audit and actions will be implemented by the identified responsible officers.

Focus for 2013/14

Sustainability is key to the council's future and the Corporate Strategy and Medium Term Financial Plan will help guide long term efforts to invest smartly to encourage economic growth, support vulnerable residents, transform ways of working and build on capabilities and strengths to work effectively.

Continued collaboration with partners is another crucial part of the council's response to future challenges. Effective collaboration not only helps to find savings, but underpins efforts to improve outcomes for residents. Ensuring robust governance arrangements from the outset will provide the foundations for effective partnership working.

Internally, the council will continue to focus on engaging with people at all levels and right across the organisation to ensure sustained culture change, on strengthening its capacity and capability to innovate, and on the achievement of benefits and efficiencies from across the organisation through, for example, a more consistent and robust approach to project management.

Signed:

Leader of the Council
July 2013

Chief Executive
July 2013

This page is intentionally left blank



AUDIT & GOVERNANCE COMMITTEE

24 June 2013

Completed Internal Audit Reports

SUMMARY AND PURPOSE:

The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting of this Committee in March 2013 - as attached at Annex A.

Although it is not the Committee's policy to review all Internal Audit reports in detail during the meeting, full copies of the reports summarised have been provided to Members of the Committee and are available through the Members' on-line library.

RECOMMENDATIONS:

The Committee is asked to consider whether there are any audit reports or management action plans that it would like to review further and whether there are any matters they wish to refer to the relevant Select Committee.

BACKGROUND:

- 1 At the conclusion of each audit review a report is issued to the responsible manager who is asked to complete an action plan responding to the recommendations.
- 2 The return of a management action plan (MAP), which in the auditor's opinion adequately addresses the report findings and recommendations, signals the end of the audit process. Any follow up work required forms part of future audit plans at the appropriate time.
- 3 There have been 25 audit reports issued since the last report to this Committee in March 2013. The table below lists those audits and shows the audit opinion and number of high priority recommendations included in the Management Action Plan.

	Audit	Opinion	Number of recommendations rated as High Priority
1	Corporate Training Management	Some Improvement Needed	3
2	Transport for Education	Major Improvement Needed	6
3	General Ledger	Some Improvement Needed	0
4	Rental Income Follow-up audit	Some Improvement Needed	0
5	Residential Block Care Contracts	Some Improvement Needed	0
6	Registration Service	Some Improvement Needed	0

7	CRB Clearance (Disclosure and Barring Service)	Some Improvement Needed	0
8	S106 and Community Infrastructure Levy	n/a	0
9	Nursery Education Funding	Some Improvement Needed	0
10	Review of Commercial Services	Major Improvement Needed	3
11	Making a Difference Programme	Effective	0
12	Revenue Budgetary Control	Effective	0
13	Payroll	Some Improvement Needed	0
14	Adult Social Care Transport	Some Improvement Needed	0
15	Children and Families - Care Leavers	Effective	0
16	Pension Fund Investment Arrangements	Effective	0
17	Transfer of Public Health	Effective	0
18	Pensions Administration	Effective	0
19	SAP Application Controls	Some Improvement Needed	5
20	Accounts Receivable	Effective	0
21	Treasury Management	Effective	0
22	SFVS Process	Effective	0
23	Accounts Payable	Effective	0
24	Capital Monitoring	Some Improvement Needed	1
25	Highways Contract - Lot3	Some Improvement Needed	1

- 4 Annex A contains more details of the audits listed above and shows for each the:
- title of the audit
 - background to the review
 - key findings
 - overall audit opinion
 - key recommendations for improvement
- 5 The Committee will be aware that in order to respond to general Member interest in Internal Audit reports it has previously been agreed that a list of completed reports will be circulated to all Members of the County Council on a periodic basis.
- 6 In order to fully discharge its duties in relation to governance the Committee is asked to review the attached list of recently completed Internal Audit reports and determine whether there are any matters that it would like to review further or if it would like to suggest another Select Committee does so.

<u>SELECT COMMITTEE REVIEW:</u>
--

- 7 The last Completed Audit Reports item was presented to Council Overview and Scrutiny Committee on 13 March 2013, none of the audits listed above were included in this report.

IMPLICATIONS:

- 8 Financial Equalities
Risk management and value for money
- 9 There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report, would be progressed through the agreed Internal Audit Reporting and Escalation Policy

WHAT HAPPENS NEXT:

- 10 See recommendations above.

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor, Policy and Performance

CONTACT DETAILS: telephone: 020 8541 9190 e-mail sue.lewry-jones@surreycc.gov.uk,

Sources/background papers: Final audit reports and agreed management action plans

This page is intentionally left blank

Completed Audit Reports (March 2013 – May 2013)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Corporate Training Management	<p>The Learning & Development Team within HR&OD Service completed the PVR and the PVR Implementation Action Plan was approved by the Cabinet on 28 February 2012. It had a number of actions to be completed between Feb 2012 and March 2015. The purpose of the audit was to review the progress made on the Action Plan and the implementation of change management to the newly formed Organisational and People Development service.</p>	<p>The implementation of the PVR Action Plan was delayed due factors beyond the control of managers responsible.</p> <p>HR&OD service did not follow the change management policy robustly during the transition allowing two structures to operate simultaneously.</p> <p>The current training planning process is not robust with informal quarterly training plans in place.</p> <p>Plans used for budget monitoring were overwritten by Business Support staff without keeping management trails.</p> <p>Although Advance Coaching for Change and the Apprenticeship Scheme were successful, the statistics reported in the monthly STARS reports were not consistent or comparable. Courses are offered to partners without making them commercially viable.</p>	Some Improvement Needed	<p>Report slippages in implementation and expected savings to the COSC on a quarterly basis. (H)</p> <p>Adjustments made to the OPD team structure via the PVR should be authorised by the Directorate Leadership Team and changes to pay should be communicated promptly to Payroll (M)</p> <p>Compile a Training Plan using input from stakeholders, formally approve and regularly monitor. (H)</p> <p>Robust budget monitoring by budget holders trained to manage their budgets using the new financial forecasting dashboard (H)</p> <p>Monthly STARS reports should show statistics of training to staff internal and external to SCC with consideration of cancellation fees (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Transport for Education	This audit was undertaken to determine the home to school transport arrangements in place in 2 services - Schools and Learning (S&L) and Economy, Travel and Planning (ETP).	<p>Staff are unable to request transport in a consistent manner due to absence of written procedures for children with Special Educational Needs (SEN).</p> <p>Requests are made on e-suite forms are not completed in full.</p> <p>Difficulties in obtaining management information from Trapeze PASS System have strained relationships. A new system is currently being procured. There is no service level agreement in place between S&L and ETP.</p> <p>There are no SEN officers present at the annual review by the schools of the SEN children which covers their transport. The schools are reluctant to change current transport arrangements as they do not pay for them.</p> <p>The current budgets for mainstream and SEN transport do not reflect the requirement and have not been reviewed in recent years.</p> <p>The risk registers are not reviewed regularly and the relevant risks are not included in the risk register.</p>	Major Improvement Needed	<p>SEN staff should have clear written procedures to allow consistency (H)</p> <p>Requests should be completed in full on forms with mandatory fields and the facility to upload them to the Transport system (H)</p> <p>Senior Management should ensure that management information from the new system is fit for purpose (H)</p> <p>A service level agreement to reflect the required arrangements should be in place (M)</p> <p>The SEN officers should be present at the reviews. The written reviews from schools should be reviewed by SEN Officers to indicate approval of the reviews and the costs (H)</p> <p>The budgets need to be set from a zero base and managers should have the necessary information to monitor the budgets effectively (H)</p> <p>Up to date risk registers should acknowledge all of the risks and senior management should review them regularly to take mitigating actions. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
General Ledger	<p>The General Ledger is a key financial system, which provides a comprehensive financial picture of the Authority's use of resources. SCC's General Ledger is a fully integrated part of the SAP system and as such, it facilitates the automatic and simultaneous updating of the financial accounts and cost accounting records.</p>	<p>A business efficiency re-organisation means that accountants now input their own journals into SAP directly and these are not always checked by another person.</p> <p>The re-organisation above was done before a solution was found to fully control access to a powerful form of journal that can make payments to SCC vendors. A solution may now be difficult to implement.</p> <p>Bank statement data downloaded from HSBC and then uploaded into SAP could potentially be altered during data transfer.</p> <p>A number of key balance sheet accounts had not been reviewed, reconciled or cleared within the required timescale.</p> <p>Problems with the matching of accrued amounts on the Creditor's balance sheet code (the 'GR/IR Creditor Account'), with subsequent payments made has led to a substantial overstatement of the creditor and some double charging of budgets. This issue was highlighted by the External Auditor in their Annual Governance Report for 2011/12</p>	Some Improvement Needed	<p>Consider introducing a monthly, sample journal testing routine to help confirm that proper diligence is being employed by staff making journals. (M)</p> <p>Consider what investigation is needed to determine the historic use of the facility to pay a vendor by use of the F-02 type journal and complete work already initiated prior to the audit on how controls over this powerful SAP 'transaction' can be improved. (M)</p> <p>Consider improving the controls around the processing and data integrity of bank statement data downloaded from HSBC systems and uploaded into the SAP General Ledger. (M)</p> <p>Seek a complete set of assurances from all staff allocated to reconcile, agree or clear specific balance sheet codes each month by the specified deadline. (M)</p> <p>Consider what system changes can be made to reduce the likelihood that payments are made which are never matched to an existing charge to the Service. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Follow up Review of Rental Income – Position Statement	The review of Rental Income audit in 2011/12 was given the audit opinion of Major Improvement Needed. This follow up review was undertaken to report on the progress made to date in implementing the recommendations agreed in the Management Action Plan by the Head of Property Service.	<p>The re-structure of Property Services following the PVR was completed in September 2012.</p> <p>The review of leases resulted in zero based budgets for most properties being set during 2012/13. Budget monitoring is reported in detail to show variances and year-end projections with sufficient explanations and since August 2012 accruals have been included as part of budget monitoring.</p> <p>The contract was signed in June 2012 with Atrium Property Systems for PAMS implementation.</p> <p>The informal interim process set up for debt management involving Legal, Finance and staff in the Shared Services Teams until PAMS is implemented is working. These processes would be more effective if they were formalised.</p> <p>The reconciliation of rent deposits was work in progress at the time of audit and is expected to be completed for reporting on a quarterly basis from 2013/14.</p> <p>The risk register is not currently maintained and lodged on the S:net.</p>	Some Improvement Needed	<p>Preparatory work towards PAMS implementation in 2013/14 should continue. (M)</p> <p>The debt management process should be formalised via a service level agreement. (L)</p> <p>Reconciliation of rent deposits should be completed and reported quarterly from 2013/14. (M)</p> <p>The risk register should be updated and lodged on S:net. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Residential Block Care Contracts	<p>Surrey County Council's residential care services are provided by a mix of providers (both in-house and external profit and not-for-profit groups).</p> <p>In 2011/12, the council spent approximately £25 million on the two contracts with Anchor (£18 million) and CareUK (£7 million).</p>	<p>There was evidence that Anchor and Care UK are delivering services in accordance with their contracts and to agreed quality standards.</p> <p>Due to a lack of benchmarking data it was not possible to form an opinion on value for money that these contracts offer compared to neighbouring authorities although projected spending for both contracts was in line with budgeted spending for 2012/13.</p> <p>The service confirmed that data does exist to allow meaningful VFM comparisons to be made between the council's in-house service provision and spot contracting for these services against data that has been collected for charges levied by external private providers (e.g. BUPA).</p> <p>The contracts with Anchor and Care UK do not have a single over-arching contract manager, although there are two dedicated contract managers for the respective providers.</p> <p>The contract's risk management processes required improvement.</p>	Some Improvement Needed	<p>ASC and other directorate stakeholders consider whether the present arrangements to oversee the contracts with Anchor and Care UK allow for the delivery of not just the contractual basics, but also enable clear strategic decisions to be made and additional benefits to be delivered to the residents of Surrey. (M)</p> <p>It is recommended that Adult Social Care implements a formal risk management process for these two contracts. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Registration Service	<p>The Registration Service is a net financial contributor to Surrey County Council (SCC) finances. Its Medium Term Financial Plan shows a gross budget of £1.676 million in 2012/13 with an expected surplus of £286,000, rising to £1.807 million and £305,000 respectively in 2016/17. A Public Value Review (PVR) was completed on the Registration and Nationality Service, and the final report presented to Cabinet on 19 June 2012. As with all PVRs, the objective of the exercise was to ensure the Service delivered improved outcomes and value for money for the residents of Surrey.</p>	<p>Some benefits identified by the PVR have not been costed. None of the benefits mentioned in the PVR report reference an overall income strategy which describes the actions taken by the Registration Service to generate revenue.</p> <p>The PVR report recommends centralising the administration of these ceremonies at Leatherhead. Neither potential associated costs nor the expected level of savings are specified in the report or action plan.</p> <p>Issues affecting the council's Citrix system since September 2012 have impacted on both efficiency and service delivery in Registration offices. In addition to increasing the time needed for appointments, customers have experienced a level of inconvenience as a result.</p>	Some Improvement Needed	<p>The Registration Service should consider developing an income strategy to include quantification of those benefits envisaged as part of the PVR. The strategy should also consider the review and setting of fees/charges and other income streams such as advertising. (M)</p> <p>Consider engaging with SCC's Communications Service to develop the Registration Service external web pages as a 'shop window' for fee-earning services. (M)</p> <p>The Registration Service should consider reviewing the net cost of centralisation prior to deciding on whether to move wedding and civil partnership ceremonies administration to Leatherhead. (M)</p> <p>Registration service to continue to engage with IMT with the aim of ensuring as a matter of urgency that customer-facing systems do not impact of service delivery. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
CRB Clearance	<p>The requirement to undertake Criminal Records Bureau (CRB) checks has been changed by the Protection of Freedoms Act 2012. This has provided new definitions for 'Regulated Activities', being contact with adults and children by persons as part of their official duties.</p> <p>The audit reviewed the processes for establishing compliance with the new Act.</p>	<p>Surrey County Council Safer Staffing Team manages the application process for criminal record checking of potential and existing officers and members as appropriate.</p> <p>The officers running the project have taken a measured approach to introduce the changes. The project team have provided documented guidance, met concerned individual managers to explain the changes and plan to publish a revised easier to follow policy.</p> <p>There has been a slower response than expected from the services in returning essential information to enable the changes to be fully implemented.</p>	Some Improvement Needed	<p>HR to use best means to ensure all services complete their returns by 1 April 2013. (M)</p> <p>HR to ensure that the Safer Recruiting Policy is clear about the circumstances for DBS checks the council can/will request. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Section 106 developer contributions and CIL	Community Infrastructure Levy (CIL) came into force on 6th April 2010 and will allow Local Planning Authorities to raise funds for infrastructure associated with developments. CIL differs from s106 as it is based around a tariff per square metre of new or increased floor space. As an example, Elmbridge BC have set charges at £50/m ² for retail developments and £125/m ² for residential dwellings and at these rates it is estimated CIL would generate in the region of £24m for infrastructure developments within that borough over the next ten years.	<p>With the variable progress made to date by the remaining Local Planning Authorities (LPA) and on-going discussions still at an early stage it was decided that Internal Audit would not be in a position to provide any hard and fast assurances to management that systems would be robust. Instead the decision was taken to identify and highlight a number of key areas which officers should monitor in order to ensure that SCC obtains the best results possible. These include:</p> <ul style="list-style-type: none"> • attempting to develop a common process with the 11 LPAs in order to minimise workloads; • robust development of plans for future infrastructure which will stand challenge; • managing expectations around the actual levels of funds that may become available through CIL, and • robust governance arrangements for scheme prioritisation and funding release. 	N/A	No recommendations made.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Early Years Education Funding	<p>Surrey County Council administers and provides the funding to 666 registered nurseries ('settings') in Surrey. These settings claim the free provision on behalf of parents that is available to children aged three, four and in certain circumstance, two years old. Approximately 16,000 children take up Early Years funded places in Surrey. Claims are made for individual children for up to 15 hours per week. The annual cost to the council in making this provision is £32m</p>	<p>There were no significant issues of non compliance found at the sample of settings visited.</p> <p>The introduction of a web based recording and claims system required IT work to enable it to progress.</p>	Some Improvement Needed	Three medium priorities on updating information on record keeping, the introduction of the electronic claims system enabling more site visits and checks with released resources.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Commercial Services	<p>Commercial Services (CS) is a trading department of the council with four separate trading businesses covering: education catering; civic catering; building cleaning; and school equipment maintenance.</p> <p>Located within the Schools & Learning (S&L) Service, CS' turnover for 2011/12 was approximately £23m. This included a £1m grant for school meals and a £280k subsidy for civic catering.</p> <p>This audit reviewed the governance arrangements in place for CS.</p>	<p>Despite successfully surviving in a competitive market, CS has fundamental weaknesses in its management arrangements.</p> <p>Clear, documented governance arrangements have not been agreed with senior management or members and key objectives are not readily identifiable. Ability to report of CS' performance is therefore severely limited.</p> <p>Inadequate reporting arrangements have reduced CS' visibility and links with the corporate centre need strengthening.</p>	Major Improvement Needed	<p>New written Governance Arrangements must be produced, approved by the Education Select Committee and signed by both the Head of CS and Assistant Director for S&L. (H)</p> <p>The Head of CS should produce a concise annual strategy and business plan summarising the key priorities and objectives for the year. This must be agreed with the Assistant Director for S&L and presented to the Education Select Committee. (H)</p> <p>The Head of CS should produce a quarterly written update for the Assistant Director of S&L. This may be a one-page summary but should be in a consistent format so that changes in position may be easily identified. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Making a Difference Programme	<p>The Making a Difference - New Ways of Working business case was approved by Cabinet on 28 September 2010 to deliver savings of £39m over 10 years. The Council Overview and Scrutiny Committee requested that an audit be included in the Internal Audit Plan 2012/13 focused around "process and achievements in light of resources allocated".</p>	<p>The Internal Audit review of the Making a Difference programme found that the financial management of the programme was robust and it has achieved its business case by exceeding the saving expected on the revenue budget.</p> <p>The programme has resulted in a significant change for Surrey County Council with the rationalisation of offices and equipment with the shift to more mobile working continuing as work in progress. The programme is now largely complete with the remaining areas either incorporated into the People Strategy, by becoming business as usual or identified as a future need to be supported by a detailed business case.</p>	Effective	There were no recommendations from the review.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Revenue Budgetary Control	<p>Sound revenue budgetary control is vital to the Authority in achieving its objectives within increasingly tight financial resources.</p> <p>A range of controls have been established over recent years on how the revenue budget should be managed. Some of these controls are derived from the SCC's constitution and its financial regulations and instructions. Some controls are now being modified on a risk assessed basis to reduce the cost of financial management.</p>	<p>The Authority has robust overall processes for setting its annual budget and is building-up its reserves.</p> <p>The Authority's operation of a detailed five-year Medium Term Financial Plan (MTFP) is a particular strength of its arrangements. The likely final revenue outturn position is expected to be favourable overall, although pressures on the ASC care budgets will be more evident this year.</p> <p>Historic trends might suggest that the final outturn for 2012/13 may be a slightly higher underspend than has been predicted during the year, reflecting managers' commitment to deliver planned services and overcome slippage.</p> <p>The service pressures on ASC reflect increasing demand for services which is difficult to predict. However, demographics and economic data points to continuing service pressure that is likely to rise ahead of commitments from those residents already requesting support.</p>	Effective	8 low priority recommendations were made and all were all agreed with the Deputy Chief Finance Officer.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Review of Payroll	<p>SCC's Payroll system is a key financial system and is audited annually to ensure that adequate controls are in place and working satisfactorily.</p>	<p>The overall controls of the payroll systems have been adequate with improvements in some areas required to streamline the processes. However, audit testing has highlighted some instances of errors and non-compliance which while relatively small in value has an administrative overhead.</p>	<p>Some Improvement Needed</p>	<p>Non compliance of the existing leaver procedures and staff changes should be challenged by Payroll staff and reported to Heads of Service (M)</p> <p>Accounts Receivable Team should be provided with all supporting documentation for salary overpayments by Payroll when the request to raise an invoice is made (M)</p> <p>Heads of Service to be notified of the debts arising when salary overpayments remain uncollected so as to charge back to their budgets (M)</p> <p>Streamline recruitment processes to prevent processing of incorrect e-suite forms & incorporate the Rapid Improvement Event outcome (M)</p> <p>Personnel files with signed e-suite forms should be readily accessible (M)</p> <p>Regular completion of the gross to net pay reconciliation.(M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
ASC Transport	Residents in Surrey who have eligible social care needs as defined in the Fair Access to Care Services criteria are entitled to support from the council to meet their social care needs, this includes any specific transport needs a service user may have.	<p>All service users in the sample tested by the auditor used appropriate means of transport given their needs.</p> <p>The audit identified instances where service users used vehicles funded via Disability Living Allowance in their day-to-day lives but were also provided taxis to access SCC services.</p> <p>The council currently does not have a policy of ensuring other means of transport are investigated prior to provision by the council.</p> <p>There is currently no policy regarding eligibility for the provision of transport in ASC.</p>	Some Improvement Needed	<p>Provide staff a checklist to ensure service users are using non-council funding and engaging available alternate sources of support (family community) prior to the council stepping in to provide transport. (M)</p> <p>Ensuring that the current review process being undertaken includes a consideration of transport options available. (M)</p> <p>Management should draft a "Provision of Transport" policy (M)</p> <p>A standardised system for recording transport costs on AIS should be instituted which facilitates management reporting and that allows comparisons to be made between cases. (M)</p> <p>An SLA similar to that being put in place with Children's Services should be developed within ASC to guide practitioners accessing the service and to set standards expected of the service. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Children and Families Care Leavers	The Care Leavers' Service (CLS) assists looked after young people through the process of leaving care and provides aftercare advice, support and financial assistance to Surrey care leavers whether they live locally or outside of the county borders.	<p>The review of the governance structure for the CLS indicated that there is a strong framework in place. The membership of CPB includes key senior officers and partners showing the council's commitment to quality oversight and information sharing, placing the role of corporate parent as a high priority.</p> <p>The information provided to the Children, Schools and Families Select Committee and the CPB was independently verified and was accurate.</p> <p>Audit testing suggests transactions are appropriately authorised and payments are made in line with the 'Care Leavers' Service in Surrey Financial Guidance'.</p>	Effective	No high priority recommendations
Pension Fund Investments	The Surrey Pension Fund (SPF) covers around 100 scheduled and admitted bodies, which include employees of the County Council (excluding teachers and fire fighters), District and Borough Councils and certain admitted bodies. This equates to a combined membership in excess of 75,000.	<p>The audit found that the governance of the Surrey Pensions Fund had followed policy and had been robust.</p> <p>The fund is estimated to be 67% funded at 30 September 2012 although this figure will change when the re-valuation as at the 31 March 2013 has been completed. A more recent valuation of assets suggests a value of £2.3bn.</p>	Effective	No High or Medium priority recommendation made.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Transfer Of Public Health	<p>The transfer of public health functions from the Primary Care Trust (NHS Surrey) to Surrey County Council took effect on 1 April 2013 and SCC had established transitional arrangements from April 2012 to give itself time to prepare for the changes.</p> <p>As part of these transitional arrangements a team of public health colleagues relocated from their NHS offices to County Hall, Quadrant Court and Area Office 2 (AO2) on 16 April 2012.</p>	<p>The transfer of public health functions has been effective in terms of continuity of service and mitigation of risk.</p> <p>There were on-going issues surrounding the transfer of staff, particularly around the agreement of terms and conditions under the national transfer scheme, but evidence suggests that stakeholders within the council were abreast of the situation and taking appropriate action.</p> <p>A new Director of Public Health has been successfully appointed within the structure in the new financial year.</p> <p>An example of good practice within the overall governance of the transition was the early establishment of a shadow Health & Wellbeing Board well ahead of the required date for such a body to exist. This helped with clarification of health and well-being objectives and allowed early consultation with the local residents to set focused priorities.</p> <p>Minor issues with the IT provision during the transfer (particularly access to shared folders and access to email) have all been resolved.</p>	Effective	No recommendations arising

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Pension Administration	Surrey County Council manages the Surrey Pension Fund for members of the Local Government Pension Scheme (LGPS) and is known as the 'administering authority'.	No significant issues have been identified during the course of this work. The controls over pension's administration, payment and accounting are evaluated as adequate, appropriate, and effective.	Effective	No recommendations
SAP Application Controls	The SAP Enterprise Resourcing Program (ERP) is Surrey County Council's key system for the input, processing and storage of Corporate data. The SAP system handles Financial Accounting, the purchase to payment process and the human resources payroll function to name a few of its key functions.	<p>The key finding for this review is that the security model for the vast majority of users is appropriate and secure.</p> <p>There remains room for improvement in regards to applying the 'least privilege' security model to power users and administrators.</p> <p>There are 16 members of staff who are able to make changes to program and functions directly in production.</p> <p>Table logging in its most complete form is not active; therefore there may not be an audit trail for all changes to master records on SAP.</p>	Some Improvement Needed	<p>Access to the following should be secured/restricted as appropriate</p> <ul style="list-style-type: none"> • e38 and Sa38 transactions • scc_crb_disc table • raineer Apprentice profiles (H) <p>Developer actions should be totally removed from the production (live) environment. (H)</p> <p>Activate table logging or adapt the change document process to cover master tables in SAP. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Non Care Accounts Receivable (AR).	<p>The AR team, in conjunction with the frontline services, undertake the debt management function whereby outstanding debts are followed up and recovered or recommended for write-off.</p> <p>To the end of quarter three 2012/13 the AR team had raised a total of £128.7m for both care and non care debt.</p>	<p>Audit testing of the AR system did not highlight any concerns for management.</p> <p>Monitoring and reporting of the levels of debt appears to be functioning satisfactorily and our review of a sample of accounts showed them to have been raised in both an accurate and timely manner. The authority continues to make provision for bad debts in line with the levels stated in the debt management policy contained within Financial Instructions.</p>	Effective.	N/A
Treasury Management	<p>Treasury Management in SCC is concerned with banking, cash flows, money and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.</p>	<p>Data security and business continuity arrangements for Treasury Management were found to be satisfactory.</p> <p>SCC complied with CIPFA's code for Treasury Management but may benefit from maintaining a final policy statement and a separate risk register in light of SCC's risk averse approach to Treasury Management.</p>	Effective	No high priority recommendations were made.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Schools Financial Value Standard (SFVS) Process	Maintained schools are required by the Department For Education (DfE) to submit an annual self assessment to the authority. This is part of the information that enables the s151 Officer to complete a declaration of assurance of financial management in schools	Schools completed the submission of the self assessments as required (a few late ones had genuine excuses). In addition the support processes and information required to support school financial management as defined by the DfE for the role and responsibility for the authority are in place.	Effective	One medium priority recommendation to share learning points from analysis of returns with Babcock 4S and schools. (This is the first year that all maintained schools had to make a submission)
Accounts Payable	Accounts Payable is a high volume, high value function and as a key financial system is deemed to have sufficient residual risk to be reviewed every year.	No significant findings in terms of control weaknesses. The auditor was able to give reasonable assurance that specific fraud scenarios are not attacking the Accounts Payable function	Effective	Library interim account payable processes to be migrated into the central corporate Accounts Payable function (M)

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Capital Monitoring	<p>The Council approved an original capital budget of £141.7m for 2012/13, which formed part of SCC's Medium-Term Capital Programme of £681m. The delivery of the capital programme is key to ensuring the delivery of many services to residents. The 2012/13 capital programme budget was revised to £153.1m during the year.</p>	<p>The provisional capital outturn presented to the Cabinet for 2012/13 showed an initial forecast underspend of £11.5m, but with committed expenditure added, the outturn was an overspend of £6m on a revised budget of £153.1m.</p> <p>The new Chief Officer Capital Working Group (CWG) is operating as an effective capital programme management forum.</p> <p>The CWG has been able to help facilitate opportunistic property purchases ahead of the agreement of an investment strategy. These purchases aim to regenerate local town centres, provide service relocation options and enhance SCC's property portfolio to generate future resources. Assets acquired solely for investment purposes need to be procured through specific legal means.</p> <p>The departmental systems for monitoring capital expenditure were generally found to be appropriate and there was a marked improvement in the robustness of forecasting in the cases examined compared to the previous year.</p>	Some Improvement Needed	<p>The Head of Property Services should prepare business cases for planned acquisitions that clearly identify specific economic development aims and service needs for these properties, which closely align with a planned investment strategy and a set of investment criteria agreed by Members.</p> <p>Consideration should also be given for the need for a special purpose vehicle (company, etc) to acquire any property assets purchased with an investment purposes. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Highways Contract Lot 3 – Highway Construction and Surface Works	<p>Lot 3 of the contract was awarded to Tarmac and commenced in April 2011. A programme of works had been produced for 2012/13 with an estimated cost of £4.758m. As there were reported problems in the first year of the contract this audit was scheduled in an effort to ensure that these problems had been addressed and that SCC was now receiving the desired level of service.</p>	<p>The position had significantly improved in the second year. Discussions with indicated that the contractor was working well with a good relationship between the parties. Going forward, the 'New Carriageway Investment Plan' as part of 'Operation Horizon' will see a move to five year work programme with Tarmac operating all year round.</p> <p>Prior to 1980 the majority of roads were built using coal tar which is now classified as hazardous waste by the Environment Agency. Materials containing more than 0.1% of tar can only be disposed of at a limited number of specialist facilities. It is estimated that the total cost to SCC for disposal of this waste in 2012/13 was in the region of £0.8m which had to be met from the Lot 3 budget and led to the deferment of some programmed schemes.</p> <p>Testing showed that a particular rate was continually charged at £1.80 per unit instead of £1.42. This information was passed to the Senior Design Engineer who subsequently reviewed the actual costs with the contractor's representative and identified an overpayment of £887.98 will now be recovered.</p>	Some Improvement Needed	<p>Management should continue to actively liaise with the contractor to ensure that programme slippage is minimised. (M)</p> <p>Management should continue to explore avenues available to minimise the costs associated with both general and hazardous waste materials. Consideration should also be given to the inclusion of a contingency sum within each scheme budget to cover the possibility that hazardous material will be encountered. (M)</p> <p>Management should remind staff of the need to scrutinise rates used in applications for payment to ensure that they are correct. The contractor should also be required to check the rates held on their systems and to confirm that they are in accordance with the agreed 'Schedule of Rates'. (H)</p>

¹ **Audit Opinions**

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

² **Audit Recommendations**

Priority High (H) - major control weakness requiring immediate implementation of recommendation

Priority Medium (M) - existing procedures have a negative impact on internal control or the efficient use of resources

Priority Low (L) - recommendation represents good practice but its implementation is not fundamental to internal control