Notice of Meeting

Audit & Governance Committee

Date & time	Place	Contact	Chief Executive
Monday, 2 September 2013 at **10.00 am**	Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN	Cheryl Hardman Room 122, County Hall Tel 020 8541 9075 cherylh@surreycc.gov.uk	David McNulty

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact 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: 24 JUNE 2013 (Pages 1 - 18)

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 (*27 August 2013)*.
2. The deadline for public questions is seven days before the meeting (*26 August 2013)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER (Pages 19 - 34)

To consider and comment on the Committee's recommendations tracker.

6 BABCOCK 4S LIMITED - ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013 (Pages 35 - 66)

The draft annual report and financial statements of Babcock 4S (formally VT4S) for the year ended 31 March 2013 are presented to the Audit & Governance Committee.

(Following the original publication of the agenda, the signed Annual Report and Financial Statements of Babcock 4S were provided to the Committee and are attached).

7	**2012/13 SURREY COUNTY COUNCIL ACCOUNTS AND EXTERNAL AUDIT FINDINGS REPORT** The purpose of this report is to inform the Committee of the result of the external audit of the council's 2012/13 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation from the Chief Finance Officer & Deputy Director for Business Services.	(Pages 67 - 266)
8	**SURREY PENSION FUND LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2012/13 AND GRANT THORNTON AUDIT FINDINGS FOR SURREY PENSION FUND REPORT** **Grant Thornton, as the Council's external auditor, has completed its audit and the Pension Fund financial statements are being re-presented to this Committee to be approved prior to publication.**	(Pages 267 - 340)
9	**2012/13 FINANCIAL RESILIENCE REPORT** The purpose of this report is to inform the Committee of the results of the external auditors review of the Council's arrangements for securing financial resilience.	(Pages 341 - 388)
10	**RISK MANAGEMENT UPDATE REPORT** This risk management update report supports the committee's responsibilities for monitoring the development and operation of the council's risk management arrangements.	(Pages 389 - 414)
11	**LEADERSHIP RISK REGISTER** The purpose of this report is to present the latest Leadership Risk Register and update the committee on any changes made since the last meeting.	(Pages 415 - 422)
12	**COMPLETED INTERNAL AUDIT REPORTS** 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 June 2013.	(Pages 423 - 434)
13	**WHISTLE BLOWING UPDATE** Audit and Governance Committee have requested an update on whistle blowing every six months.	(Pages 435 - 438)
14	**ETHICAL STANDARDS ANNUAL REVIEW** ***To report on the operation of the Council's Code of Conduct for its members, training on the Code of Conduct and the Council's arrangements for dealing with complaints that members have breached the Code of Conduct***	(Pages 439 - 452)

15 COMPLAINTS PERFORMANCE REPORT FOR 2012/13 (Pages 453 - 460)

The purpose of this report is to give the Audit & Governance Committee an overview of the council's complaint policy, procedures and performance in 2012/13.

16 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 2 December 2013.

David McNulty
Chief Executive
Published: 21 August 2013

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MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 24 June 2013 at Committee Room C, 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 Tim Evans
Mr Will Forster
Mr Denis Fuller
Mr Tim Hall

In Attendance

Denise Le Gal, Cabinet Member for Business Services - during the morning session

Cath Edwards, Risk & Governance Manager
Cheryl Hardman, Committee Manager
Kevin Kilburn, Deputy Chief Finance Officer (Section 151 Representative)
Sue Lewry-Jones, Chief Internal Auditor
Sheila Little, Chief Finance Officer (Section 151 Officer) – Items 11 & 13 only

29/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

30/13 MINUTES OF THE PREVIOUS MEETING [18 MARCH 2013] [Item 2]

The minutes were agreed as a true and correct record.

A Member requested that it be clarified that point 4 under Minute 22/13 related to the evidence kept for audits.

31/13 DECLARATIONS OF INTEREST [Item 3]

There were none.

32/13 QUESTIONS AND PETITIONS [Item 4]

There were none.

Tim Evans joined the meeting.

33/13 RECOMMENDATIONS TRACKER [Item 5]

Declarations of Interest:
None.

Officers:
Kevin Kilburn, Deputy Chief Finance Officer
Sue Lewry-Jones, Chief Internal Auditor

Key Points Raised During the Discussion:

1. In relation to R3/11 (social care debt), the Committee would be able to address this issue when it reviews the draft Statement of Accounts at Item 7.
2. In relation to R1/12 (Annual Governance Statement), the Committee agreed that this action was now complete.
3. In relation to A33/12 (Highways Contract audit report), the Chief Internal Auditor updated the Committee that the Audit report on Highways which was finalised in May 2013 was not the report looking at the recommendations in question. The relevant follow-up audit report would be published shortly.
4. In relation to A43/12 (Strategic Director for Customers and Communities), the Chief Executive would be in attendance for Item 13 'Annual Governance Statement'. He would give his analysis at this stage in the meeting.
5. In relation to A55/12 (Finance Dashboard), the Deputy Chief Finance Officer confirmed that work on the Finance Dashboard was ongoing and would go live in July. The slight delay was due to technical issues.

Tim Hall joined the meeting.

6. In relation to A58/12 (Risk Management), the Chairman had received an updated Environment & Transport Directorate Risk Register on 21 June 2013 and would circulate it to the Committee. The Committee expressed concern about the time it had taken to be provided with an updated Risk Register.
7. In relation to A59/12 (Energy Purchasing Contract), the Leader of Surrey County Council had received a response from the Leader of the local authority in question. Surrey County Councillors would be invited to the next scheduled meeting which is in November 2013 but the supplier would be willing to meet Members of Surrey County Council in advance of that meeting.
8. In relation to A3/13 (PAMS), the Chairman requested a progress note to be circulated to the Committee.
9. In relation to A4/13 (purchase cards), the Chief Internal Auditor informed the Committee that the new online approval system had launched at the end of March and a follow-up audit was planned for Summer 2013. The Chairman requested that an updated figure on the acceptance of the new guidelines be circulated.
10. In relation to A6/13 (Babcock 4S), Members clarified that the issue was regarding financial benefits specifically.

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 25-26 of the tracker as the actions were completed.

Next Steps:
None.

34/13 EXTERNAL AUDIT: 2012/13 AUDIT PLAN SURREY PENSION FUND [Item 6]

Declarations of Interest:
None.

Officers:
Lynn Clayton, Audit Manager (Grant Thornton)
Phil Triggs, Strategic Finance Manager (Pension Fund & Treasury)

Key Points Raised During the Discussion:
1. The Audit Manager (Grant Thornton) introduced the report and suggested that the Audit Plan for the Surrey Fire-fighters' Pension Fund be circulated to Committee Members for information. She confirmed that the fees for the Audit of the Fire-fighters' Pension Fund was included within the fees for the County Council audit and not within the fees for the audit of the Surrey Pension Fund.
2. In response to a query, the Audit Manager (Grant Thornton) explained that the Audit Plan had been delayed because the new standard template had not been signed off by Grant Thornton in time for the previous Committee meeting.

3. Members queried the definition of “management over-ride of controls”. The Audit Manager (Grant Thornton) explained that the external auditors had to consider the possibility of fraud and whether managers were circumventing the usual controls to engage in fraudulent transactions.
4. Members queried the definition of “unusual entries” in journals. The Audit Manager (Grant Thornton) explained that these were journal entries that were out of kilter with normal Council journal entry policies and procedures. For example, if journal entries being processed at midnight is unusual, these would be checked. Grant Thornton’s view is that unusual journal entries are a common way of hiding fraud. However, unusual journal entries which are identified through an audit are usually found to not be due to fraudulent activity. Journal testing is carried out by undertaking a full download of every journal and using the system to identify any entries which are out of the norm.
5. The Chairman asked about administration costs cross-charged from the Council; it was confirmed these were covered by a formal Service Level Agreement (SLA).

Actions/Further Information to be Provided:
The Audit Manager (Grant Thornton) would circulate the Audit Plan for the Surrey Fire-fighters’ Pension Fund separately **(Recommendations tracker ref: A15/13)**.

Resolved:
That the External Audit: 2012/13 Audit Plan Surrey Pension Fund be noted.

Next Steps:
None.

The Audit & Governance Committee adjourned its meeting at 10.30am to join the Armed Forces Week Flag-Raising Ceremony.

The Committee reconvened at 11.15am.

35/13 RISK MANAGEMENT ANNUAL REPORT [Item 9]

Declarations of Interest:
None.

Officers:
Cath Edwards, Risk and Governance Manager
Kevin Kilburn, Deputy Chief Finance Officer
Sue Lewry-Jones, Chief Internal Auditor

Key Points Raised During the Discussion:
1. The Risk and Governance Manager introduced the item.
2. The Chairman queried why the risk management policy statement which the Committee had approved the previous year had not been implemented and what the consequence of this was. The Risk and Governance Manager explained that the Risk and Resilience Steering Group was co-ordinated by Emergency Management and was mainly focussed on the Olympics. It was difficult to push through corporate

risk issues. In the absence of the policy statement being implemented, officers tried to push the message of a more holistic approach from the bottom to the top of the organisation.

3. Members suggested that some risks on the Leadership Risk Register may be getting worse but that this was hidden by categorising the risks as ‘high’ without any further sub-divisions of ‘high’. The Risk and Governance Manager assured the Committee that Corporate Board has robust discussions on the Register and understood the risk levels. In response to a query about whether Corporate Board has ever changed any risks on the Leadership Risk Register, officers confirmed that it has done so. The Risk and Governance Manager informed the Committee that the Directorate Risk Registers have more detail and therefore will be changed more regularly than the Leadership Risk Register.
4. Members asked whether they could attend officer meetings on risk. It was suggested that this would help the Committee to know how seriously risk management was taken. The Cabinet Member for Business Services informed the Committee that officers did take risk management seriously and arguably were too risk averse. It was agreed that a seminar be arranged to allow the Committee to look in more detail at Directorate Risk Registers, and it was confirmed these were accessible on the intranet.
5. The Chief Internal Auditor informed the Committee that the initial findings of the annual audit of risk management highlight: the absence of an updated Environment & Infrastructure Directorate Risk Register for a long period of time; the non-implementation of the risk management policy statement; the unavailability of up-to-date service risk registers.
6. Members requested more detail on controls to be included within the Leadership Risk Register. Officers pointed out that it would be difficult to put much more detail into a strategic document but agreed to consider this request.

Actions/Further Information to be Provided:
A seminar to be arranged for the Committee on risk management. (**Recommendations tracker ref: A16/13)**.
A link to Directorate Risk Registers to be circulated to the Committee **(Recommendations tracker ref: A17/13)**.

Resolved:

1. That the Committee is satisfied with the risk management arrangements;
2. That the Risk Management Policy Statement and Strategy be **APPROVED** for inclusion in the Constitution **(Recommendations tracker ref: R1/13)**.
3. That the Leadership Risk Register be **NOTED**.

Next Steps:
None.

36/13 INTERNAL AUDIT ANNUAL REPORT 2012/13 [Item 10]

Declarations of Interest:
None.

Officers:
Kevin Kilburn, Deputy Chief Finance Officer
Sue Lewry-Jones, Chief Internal Auditor

Key Points Raised During the Discussion:

1. The Chief Internal Auditor introduced the report and highlighted the four key audit findings which the Governance Panel had agreed to take forward into the Governance Statement: Capital Monitoring; Project Management; Commercial Services; and Direct Payments.
2. The Cabinet Member for Business Services informed the Committee that performance on spending in line with the capital programme had improved compared with the previous year. She explained that the year-end investment and economic regeneration property acquisitions had been forecasted for at least six months and that the Cabinet had been aware that this would happen.
3. Members asked for reassurance that cancelled audits had reasonable explanations and were not delaying tactics by services. The Chief Internal Auditor highlighted the comprehensive analysis of completion of the 2012/13 Internal Audit programme of work, shown at Annex E to her report. The Chief Finance Officer had questioned Audit Managers about any audits which had not taken place and was satisfied that cancellations were for the right reasons. Specifically on the Procurement Standing Orders audit, a number of other audits had included checks on compliance with procurement standing orders so that a separate audit was viewed as not necessary. Internal Audit was robust at undertaking audits that needed to happen.
4. Members expressed concern that Commercial Services had been operating with minimal visibility and highlighted the likelihood that more trading services would be provided in future. They asked for reassurance that trading activities would be managed differently going forward.
5. Members expressed concern about data protection breaches and queried how information governance could be further strengthened. The Chief Internal Auditor pointed out that practically speaking, email and dealing with sensitive information was a way of life for council officers. However, there had been a lot of work undertaken to make data more secure over the past few years, with consequent improvements in practice. This work included cleaning up group email accounts, and warning users when draft messages to group email accounts involved recipients external to the County Council.
6. In response to a query, the Chief Internal Auditor explained that a 'n/a' audit opinion is probably the result of an audit providing a position statement.
7. Members queried the audit opinion categories used at Surrey County Council. The Chief Internal Auditor informed the Committee that the Effectiveness Review of Internal Audit had also suggested that the categories be looked at again.
8. Members queried a suggestion that there had been an "unexpected spike in predicted demand for school places" (page 257, paragraph 29). They raised concerns that forecasting was not as robust as it could be and highlighted the need for an additional meeting of the Planning & Regulatory Committee in August to deal with a high number of late planning applications for school expansions in the 2013/14 academic year. It was pointed out that demand for school places was consistently growing and therefore was not unexpected.

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The Cabinet Member for Business Services highlighted the various pressures which have implications for demand for school places. The Council was having regular meetings with the Secretary of State for Education to discuss the challenges of forecasting demand. The Chief Internal Auditor informed the Committee that demand was unexpected when compared with previous expectations. Members suggested that the service build in the potential for empty places to avoid last-minute requirements to seek planning permissions. Concern was expressed about the potential for Planning and Regulatory Committee to be faced with retrospective planning applications in August. However, the Cabinet Member for Business Services pointed out that the Council could not build schools that were not required as budgets were tight. Also, the Schools & Learning Service was now having regular meetings with Finance and Property Asset Management to address any problems. The Committee was informed that the Children and Education Select Committee was setting up a sub-group to look at school place planning and that the Chairman of the Select Committee would be meeting the Chairman of Planning and Regulatory Committee to discuss issues.

Actions/Further Information to be Provided:
None

Resolved:
The Committee noted the work undertaken and performance of Internal Audit in 2012/13.

Next Steps:
The Chief Internal Auditor will continue to update Members on the progress of issues within this report that have not been fully concluded.

37/13 2012/13 ANNUAL GOVERNANCE STATEMENT [Item 13]

Declarations of Interest:
None.

Officers:
David McNulty, Chief Executive

Members:
David Hodge, Leader of the Council

Key Points Raised During the Discussion:

1. The Leader of the Council introduced the item.
2. Members queried how to make the system of school place planning more robust. The Chief Executive informed the Committee that there was a degree of uncertainty about school place planning. Over the past four years, forecasting on a borough level has become more accurate but there is a lack of clarity over demand for particular schools. It is also apparent that not all schools are able to expand. It is unlikely that data can be made any more robust but tolerances can be built in. At present, if any child does not have a place on day one of the school term, they will have been found a place by day two or day three. Teams across the Council are working better together than they had previously.

Members suggested that the cost of potentially empty demountables should be compared with the cost of transport to get children to schools that are far from their home. The Chief Executive informed the Committee that the Schools & Learning service does try to slightly over-provide to avoid the scenario where a child has no school place. He argued that that this was not a badly managed risk but that it was a risk which was difficult to control. He went on to suggest that the Children and Education Select Committee could sensibly debate whether Cabinet was putting enough resource into school place planning.

Members expressed concern that Planning & Regulatory Committee face the possibility of retrospective planning applications. The Chief Executive accepted that this was a risk but stressed that there is only a limited number of schools which could provide additional school places.

Members queried how demand for school places could be unexpected when data is available on birth rates, immigration, enrolment at private schools etc. It was suggested that accessing and using this data may be too costly for the Council. The Chief Executive refuted this and stated that all data sources were utilised, measured and analysed. The forecast is now mostly accurate but there will still be some level of unexpected demand. School place planning is dependent on many independent decisions made across a large county. Negotiations then need to take place with individual schools. There is sufficient resource to undertake this exercise.

3. Members queried how confident the leadership was to deliver savings with additional efficiencies being announced. The Leader of the Council reminded the Committee that the Council had been aware that the earlier years of efficiencies would be the easiest. The Public Value Programme had done well to find savings and to track those savings. The Chief Executive stated that the next three years would be challenging.
4. Members queried whether the Chief Executive and Leader of the Council were happy in their jobs. The Chief Executive had told new staff that the Members and officers of Surrey County Council were the best in public service. The next few years would be tough but he would prefer to do that here than elsewhere. The Leader of the Council informed the Committee that the quality of Members were better than they had ever been. Working through the SE7 would also bring positive change.
5. The Chairman asked for reassurance that governance of trading activities would be strengthened. The Chief Executive accepted Internal Audit's comments about Commercial Services. He stressed how the internal control environment had changed and highlighted the very effective relationships built by the Chief Internal Auditor. As future trading activities were begun, particular attention would be paid to governance structures.
6. Members queried how the Peer Challenge Team comments on Select Committees would be addressed. The Leader of the Council stated that the Chairman of Council Overview and Scrutiny Committee had latitude in how he works with the other Select Committees. Select

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Committees were being encouraged to be more adventurous and open and to engage in more cross-committee working. The Chairman of Council Overview and Scrutiny Committee had been meeting with officers to discuss how to take this forward.

7. It was requested that links to other reports such as the Annual Report are made explicitly within the Annual Governance Statement.
8. The Chairman highlighted the absence of an updated Environment & Infrastructure Directorate Risk Register for several months during 2012/13. The Chief Executive assured the Committee that he had discussed risk management with the Chief Internal Auditor and welcomed the support of the Committee.
9. Referring to the Recommendations Tracker under Item 5, in relation to A43/12 (Strategic Director for Customers and Communities), the Chairman asked the Chief Executive to comment on the impact of the Strategic Director for Customers and Communities working part-time with Mole Valley District Council, on her work for Surrey County Council. The Chief Executive responded that Surrey residents received very good value for money from the arrangement. Residents expect two tier Councils to consider where they can share costs. The arrangements have also brought development opportunities in both directions for staff at Surrey County Council and Mole Valley District Council. Surrey County Council is reimbursed pro-rata, including National Insurance and on-costs, for the time the Strategic Director for Customers and Communities spends on Mole Valley District Council work.

Actions/Further Information to be Provided:
Links to other reports such as the Annual Report to be made explicit within the Annual Governance Statement **(Recommendations tracker ref: A18/13)**.

Resolved:

1. That the Committee **AGREED** that governance arrangements are represented correctly within the draft Annual Governance Statement.
2. That the draft Annual Governance Statement be **COMMENDED** to Cabinet for publication with the Council's Statement of Accounts **(Recommendations tracker ref: Ref R2/13)**.

Next Steps:
None.

38/13 FULL YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS: APRIL 2012 - MARCH 2013 [Item 11]

Declarations of Interest:
None.

Officers:
David John, Audit Performance Manager
Kevin Kilburn, Deputy Chief Finance Officer
Sue Lewry-Jones, Chief Internal Auditor
Sheila Little, Chief Finance Officer

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Key Points Raised During the Discussion:

1. The Audit Performance Manager introduced the item and updated the Committee on the situation with the activities of a school Business Manager, as detailed in the report. The police were confident that charges would be brought this week and that the case would be handled quickly to enable the internal investigation to continue.
2. Further to concerns about governance by a schools' Governing Body, a Member asked for advice on what the Children and Education Select Committee could usefully look at with regard to school governance.
3. The Chairman informed the Committee that the resources to audit every school each year were not available. Instead, schools were audited according to themes. He requested a note on the process of auditing schools to be circulated to the Committee. The Chief Finance Officer informed the Committee that she had to sign the School Financial Value Standard annually to say that schools have effective controls. Internal Audit had completed a piece of work which showed that it was possible for the Chief Finance Officer to have confidence to sign the Standard for the Department for Education. The irregularities identified were not significant enough for her not to sign the Statement.

   A Member who sits on Children and Education Select Committee stated that he would raise school audits with that Committee and check that a process was in place to pick up on relevant audit reports.
4. The Audit Performance Manager clarified that Surrey County Council audits Surrey County Council maintained schools but not Academies. The Deputy Chief Finance Officer explained that Academy Schools have to appoint external auditors.
5. In response to a query, officers stated that thefts from safes vary from approximately £30 to £3,000. Fraudulent activity within a school could be a six-figure sum. It was rare to find fraud in excess of 6 figures.

Actions/Further Information to be Provided:
A note on the process of auditing schools to be circulated to the Committee **(Recommendations tracker ref: A19/13)**.

Resolved:
The Committee noted the report.

Next Steps:
None.

The Committee adjourned at 1.20pm for lunch.

39/13 COMPLETED INTERNAL AUDIT REPORTS [Item 14]

The Committee reconvened at 2pm with Bill Barker in the Chair. All Members were present apart from Nick Harrison.

Declarations of Interest:
None.

Officers:
Sue Lewry-Jones, Chief Internal Auditor

Key Points Raised During the Discussion:

1. The Chief Internal Auditor introduced the item and highlighted that Transport for Education and Commercial Services had both received a 'Major Improvement Needed' audit opinion.

Nick Harrison joined the meeting and took the Chair.

2. In response to queries, the Chief Internal Auditor highlighted the lack of incentives for education officers to keep transport costs down as they do not hold the budget. SEN officers are not present at the annual review by schools of SEN children, which covers their transport. There is also no incentive for schools to change arrangements. A Member who had sat on Education Select Committee discussed the challenges in encouraging children to attend their local school. Members also suggested that best practice is for transport officers to attend meetings with parents and to encourage parents to provide transport training to older children with SEN. It was agreed that the Chairman would write to the relevant portfolio holders about concerns.
3. With regard to the Follow-up Review of Rental Income, Members queried whether data is in the right format to enable PAMS to work effectively. The Chief Internal Auditor replied that there had been work to reconcile rent deposits. The Chairman requested an update following the end of the first financial quarter of 2013/14.
4. In response to a query, the Chief Internal Auditor clarified that for every Audit Report a Management Action Plan (MAP) is agreed. Internal Audit reviews progress on implementation. If an audit is classified 'Major Improvement Needed' or 'Unsatisfactory', a full follow up audit is undertaken.
5. Members queried how VAT is worked out for Commercial Services. The Chief Internal Auditor offered to provide a written response to this query.
6. The Chief Internal Auditor informed the Committee that a progress report would be provided on the Residential Block Care Contracts MAP in September 2013. Individual actions are not all tracked upon reaching their deadline due to the number of recommendations made by Internal Audit each year. A progress check is made every six months. The Chairman stated that in theory where a service misses a deadline they should inform Internal Audit. The Deputy Chief Financial Officer informed the Committee that the contract with Anchor would be up for review in 2018/19.

Actions/Further Information to be Provided:

1. The Chairman to write to the Cabinet Member for Transport, Highways and Environment and Cabinet Member for Schools and Learning about concerns over Transport for Education **(Recommendations tracker ref: A20/13)**.
2. The Chief Internal Auditor to provide an update on the reconciliation of rent deposits following the end of the first financial quarter of 2013/14 **(Recommendations tracker ref: A21/13)**.
3. The Chief Internal Auditor to provide a written briefing on how VAT is worked out for Commercial Services **(Recommendations tracker ref: A22/13)**.

Resolved:
The Committee noted the completed Internal Audit reports.

Next Steps:
None.

40/13 CODE OF CORPORATE GOVERNANCE [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 item.

Actions/Further Information to be Provided:
None.

Resolved:
That the Committee **APPROVED** the updated Code of Corporate Governance and recommended it to County Council for inclusion in the Constitution **(Recommendations tracker ref: R3/13)**.

Next Steps:
None.

41/13 STATEMENT OF ACCOUNTS 2012/2013 [Item 7]

Declarations of Interest:
None.

Officers:
Kevin Kilburn, Deputy Chief Finance Officer
Nikki O'Connor, Finance Manager (Assets, Investment and Accounting)
Charles Phipp, Senior Finance Officer (Pensions and Treasury)
Phil Triggs, Strategic Manager (Pension Fund and Treasury)

Key Points Raised During the Discussion:
1. The Finance Manager (Assets, Investment and Accounting) introduced the item. She informed the Committee that the external auditors had started work the week prior to the meeting and the final Statement of Accounts would come back to Committee in September with the external auditor's report.
2. The Chairman highlighted that members of the Committee had been given a briefing session to ensure that they understand the structure of the accounts and the difference between local authority accounts and company accounts.

3. Members queried how many officers had inputted into the Statement of Accounts. The Finance Manager (Assets, Investment and Accounting) informed the Committee that there were two full-time equivalent staff who work on the Statement of Accounts. There are also contributions from many other areas of Finance, including an officer producing the accounts for the Surrey County Council Pension Fund.
4. Members queried the Earmarked Reserves listed in the Explanatory Foreword by the Chief Finance Officer. The Chairman suggested that the descriptions of the reserves provided in the Annual Report should be included within the Statement of Accounts. The Finance Manager (Assets, Investment and Accounting) felt that this would be appropriate under Note 8 rather than within the Explanatory Foreword.
5. The Deputy Chief Finance Officer informed the Committee that when a school becomes an Academy, any long term borrowing remains as the Council's liability. In this way, Academies were treated differently to previous situations where services moved out of local authority control. For example, when the police moved out of local authority control, Councils did keep the debt but the Home Office provided a grant to pay it off. This could be due to local authorities retaining responsibility for education within their borders but not for policing.
6. The Chairman requested that under Capital Expenditure in the Explanatory Foreword (page 54 of the Committee papers), the significant capital investment agreed as part of the MTFP be explained by reference to the need for more school places rather than stimulation of the local economic recovery.
7. Members asked whether Surrey County Council was in a minority for not undertaking external borrowing at the present time. The Deputy Chief Finance Officer assured the Committee that the Council was not in a minority. He explained that the cost of carrying surplus cash balances was currently not good value for money, and therefore using such balances to fund fixed assets was a cost-effective approach. It was queried whether there was capacity for more short-term borrowing. The Deputy Chief Finance Officer pointed out that this would need to be repaid and this could be at a time when interest rates had risen.
8. Members asked where the Heritage Assets were held. Officers explained that artefacts were held at County Hall and the History Centre. Note 14 explained how heritage assets are valued.
9. Officers assured Members that the Accounts had been prepared in accordance with the International Financial Reporting Standards (IFRS) and that this was clearly stated under General Principles within Note 1 of the Accounts.
10. The Chairman requested that the Fire Fighters' Pension Fund is mentioned under Pensions Liability in Note 5.

Tim Hall left the meeting.

11. The Chairman highlighted that in Note 12, 'de-recognition – others' refers to schools being given Academy status.

Tim Hall re-joined the meeting.

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12. A Member suggested that within Note 13, it be made clear that the Foundation School which transferred to Academy status was already excluded from the balance sheet.
13. Members queried whether the full liabilities of PFIs were included in Note 16. The Deputy Chief Finance Officer clarified that this was an assessment of what will probably need to be paid for the implied lease element as opposed to the debt element of PFIs.
14. The Chairman highlighted the increase in past due debt of less than six months and a decrease in past due debt of more than a year. He queried the position with social care debt. The Deputy Chief Finance Officer stated that, while social care debt had increased to £7.6m during 2012/13, it was down to £7.3m at the end of May 2013. The increase in social care debt is partly due to SWIFT identifying more cases that can be billed for. Therefore, income had increased and this was reflected in the debtors balance at year end. If this had not happened, social care debt would have reduced more significantly. The Deputy Chief Finance Officer confirmed that provision for social services debt which included the health service was £6.8m.
15. Members queried how, if investments are not to be made in banks from countries whose sovereign rating is not AAA, the Council can make investments within the UK. The Finance Manager (Assets, Investment and Accounting) agreed that this reference would need to be re-worded.
16. Members queried where the figure for Council Tax arrears had come from. Officers explained that Borough and District Councils inform us what our share of their respective collection fund provisions for bad debt is. In-year monitoring data had been requested from Borough and District Councils. Members requested an update on Council Tax collection in September.
17. The Deputy Chief Finance Officer clarified that bad debt belonging to PCTs had been transferred to the new CCGs. Provision is being made to secure the debt.
18. The Finance Manager (Assets, Investment and Accounting) agreed that the paragraph on Unequal Pay Claim within Note 23 needed to be updated following the Birmingham City Council court case which determined that pay claims could be made for a further six years.
19. With regard to redundancy costs, explained under Note 23, the Finance Manager (Assets, Investment and Accounting) explained that decisions on redundancies were made in 2012/13 but payment would be made in 2013/14. Therefore a provision is made in the accounts of 2012/13. There is a caveat that some staff may be redeployed and so redundancy payment would not be made.
20. A Member asked why, according to Note 34, the salaries of the Strategic Director of Change & Efficiency and the Assistant Chief Executive had gone down over the past year. Officers suggested that this would be due to salary sacrifice schemes. In relation to this, the Chairman queried whether the Chief Executive's bonus arrangements were included within the Statement of Accounts. The Finance Manager (Assets, Investment and Accounting) informed the Committee that the bonus arrangements were subject to certain conditions which were yet to be met. Therefore, the bonus was not a current liability. Officers were not aware of any other bonus payments but that if there were any they would be budgeted for at the time of payment.

21. The Chairman commented favourably upon the 40% reduction in fees to the external auditor, which had been previously reported to the Committee.
22. A Member suggested that it would be useful to set out the lifetime costs of PFI contracts within Note 41. The Deputy Chief Finance Officer agreed that this was a valid point for long term financial planning but explained that what was included within Note 41 was heavily prescribed. The Finance Manager (Assets, Investment and Accounting) referred him to Note 43 which does set out this information.
23. In response to a query, officers explained that if the Eco Park does not go ahead, the Council may be liable to repay all or some of the Government grant.
24. Members queried the phrasing "employee contributions are matched by employers' contributions" in the Surrey Pension Fund Statement of Accounts. This suggests that the employer puts in the same amount of funds as the employee. However, this is not the case in the Surrey Pension Fund.
25. Members discussed the terms for the transfer of liabilities from the Local Government Pension Scheme to the Principal Civil Service Pension Scheme for the Magistrates Court Service. It was queried who would pay remaining balance. The Senior Finance Officer (Pensions and Treasury) informed the Committee that the Department of Justice would pay.
26. The Chairman informed the Committee that this was the first time that the Audit & Governance Committee had been asked to comment on the draft Annual Report. It contained similar information to the Explanatory Foreword of the Statement of Accounts.
27. Members raised the cluster of senior officers within the £75,000 to £79,999 salary band. Members also suggested that there needed to be clarity over whether the Annual Report includes or excludes bonus information.

Actions/Further Information to be Provided:

1. The descriptions of the reserves provided in the Annual Report to be included within the Statement of Accounts **(Recommendations tracker ref: A23/13)**.
2. That under Capital Expenditure in the Explanatory Foreword (page 54 of the Committee papers), the significant capital investment agreed as part of the MTFP be explained by reference to the need for more school places rather than stimulation of the local economic recovery **(Recommendations tracker ref: A24/13)**.
3. That the Fire Fighters' Pension Fund is mentioned under Pensions Liability in Note 5 **(Recommendations tracker ref: A25/13)**.
4. That an update on Council Tax collection be provided in September **(Recommendations tracker ref: A26/13)**.

Resolved:

1. That the Committee **APPROVES** the County Council's annual statement of accounts, including the fire-fighter's pension accounts for 2012/13, as approved by the Chief Finance Officer, for audit.
2. That the Committee **APPROVES** the pension fund accounts, as approved by the Chief Finance Officer, for audit.

3. That, pending the completion of the audit and subject to the accounts being represented to the Audit & Governance Committee in September, the accounts be **PUBLISHED**.
4. That the Committee **NOTES** the Annual Report and **ENDORSES** it for publication, subject to comments made.

Next Steps:
None.

42/13 TREASURY MANAGEMENT OUTTURN REPORT 2012/13 [Item 8]

Declarations of Interest:
None.

Officers:
Kevin Kilburn, Deputy Chief Finance Officer
Charles Phipp, Senior Finance Officer (Pensions and Treasury)
Phil Triggs, Strategic Manager (Pension Fund and Treasury)

Key Points Raised During the Discussion:

1. The Strategic Manager (Pension Fund and Treasury) introduced the item and highlighted the impact of the US Government clarifying its position on quantitative easing. The US Federal Reserve was aiming to have reversed its Quantitative Easing (QE) policy by the middle of 2014. It was possible that the Bank of England would reassess its position with regard to its own QE policy. However, regardless of the policy on QE, it was unlikely that there would be any rise in bank interest rates until mid-2015.
2. Officers assured Members that while £6.6m of deposits was still due to be returned from the failed Icelandic banks, they were confident that payment would be received.
3. The Senior Finance Officer (Pensions and Treasury) confirmed that the UK credit rating was still AAA with two of the three rating agencies.
4. Members requested training on gilt markets.
5. There was a discussion on the inclusion of the Economic Review 'opinion' in the Treasury Management Outturn Report. Officers explained that the annex adds colour and context to the outturn report.

Tim Hall left the meeting.

6. There was a discussion about the Risk Register, included at annex 4. The Chairman was satisfied with the high risk score for Interest Rate Risk (Borrowing). There was a view that the financial failure of SCC's main bankers should be rated a higher risk but there was acceptance of the officers' explanation.
7. Members considered the policy of investing in 'safe' counterparties which provide lower interests rates but accepted there was an associated risk of investing in lower-rated counterparties. The Committee would review the Treasury Strategy later in the year.

Actions/Further Information to be Provided:
To provide training to the Audit & Governance Committee on gilt markets **(Recommendations tracker ref: A27/13)**.

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Resolved:

1. That the Committee **NOTED** the content of the Treasury Management Annual Report for 2012/13.
2. That the Committee **ADOPTED** the Treasury Management Risk Register.

Next Steps:
None.

Meeting ended at: 4.35 pm

Chairman

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SURREY
COUNTY COUNCIL

Audit & Governance Committee
2 September 2013

RECOMMENDATIONS TRACKER

PURPOSE OF REPORT:

For Members to consider and comment on the Committee's recommendations tracker.

INTRODUCTION:

A recommendations tracker recording actions and recommendations from previous meetings is attached as **Item 5 Annex A**, and the Committee is asked to review progress on the items listed.

RECOMMENDATION:

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings (Item 5 Annex A).

REPORT CONTACT: Cheryl Hardman, Regulatory Committee Manager
020 8541 9075
cherylh@surreycc.gov.uk

Sources/background papers: None

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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	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. 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. 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. On 24 June 2013, the Committee reviewed the situation when it considered the draft Statement of Accounts.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Referral	To	Response
R3/12	21/05/12	(38/12) Completed Internal Audit Reports	The Committee recommends that the Adult Social Care Select Committee: 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.	Adult Social Care Select Committee	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. A Member Reference Group of the Adult Social Care Select Committee was set up to review whether AIS meets the needs of the directorate. It recommended and pushed for a Rapid Improvement Event on the whole assessment process. This was done in April and the team are currently in the process of implementing the new, more streamlined, less bureaucratic system. As the follow up audit of Direct Payments also received a 'Major Improvement Needed' opinion, it is intended that the Adult Social Care Select Committee will review this again in the Autumn.
R1/13	24/06/13	Risk Management Annual Report (35/13)	That the Risk Management Policy Statement and Strategy be **APPROVED** for inclusion in the Constitution.	County Council	The Risk Management Policy Statement and Strategy will be commended to Council for inclusion in the Constitution at its meeting on 15 October 2013.
R2/13	24/06/13	2012/13 Annual Governance Statement (37/13)	That the draft Annual Governance Statement be **COMMENDED** to Cabinet for publication with the Council's Statement of Accounts.	Cabinet	The Annual Governance Statement was presented to Cabinet on 23 July 2013. 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 the governance environment and report to Cabinet where appropriate.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Referral	To	Response
R3/13	24/06/13	Code of Corporate Governance (40/13)	That the Committee **APPROVED** the updated Code of Corporate Governance and recommended it to County Council for inclusion in the Constitution.	County Council	The Code of Corporate Governance will be commended to Council for inclusion in the Constitution at its meeting on 15 October 2013.

Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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 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. At the meeting on 24 June 2013, the Deputy Chief Finance Officer confirmed that work on the finance Dashboard was on-going and that the system would go live in July 2013.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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	A letter has been sent from the Leader of the Council to the Leader of the local authority in question, to make the recommendations. On 18 March 2013, the Chairman reported some positive soundings from the Leader of the local authority in question but no detailed response. On 24 June 2013, the Chairman reported that the Leader of Surrey County Council had received a response from the Leader of the local authority in question. Surrey County Councillors would be invited to the next scheduled meeting which is in November 2013 but the supplier would be willing to meet Members of Surrey County Council in advance of that meeting.
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 Strategic Manager (Pension Fund and Treasury) will update the Committee on 2 September 2013.

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	At the meeting on 24 June 2013, the Chairman requested a progress note to be circulated to the Committee. An update and demonstration is scheduled for December 2013.
A6/13	18/03/13	Recommendations Tracker (21/13)	The Committee agreed to explore whether the expansion of Babcock 4S had any financial benefits for Surrey County Council with the Babcock 4S representative.	Committee	The Babcock 4S representative is due to attend the September 2013 meeting.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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.
A16/13	24/06/13	Risk Management Annual Report (35/13)	A seminar to be arranged for the Committee on risk management.	Risk & Governance Manager	Scheduled for 6 November 2013.
A23/13	24/06/13	Statement of Accounts 2012/13 (41/13)	The descriptions of the reserves provided in the Annual Report to be included within the Statement of Accounts.	Finance Manager (Assets, Investment and Accounting)	To review on 2 September 2013.
A24/13	24/06/13	Statement of Accounts 2012/13 (41/13)	That under Capital Expenditure in the Explanatory Foreword (page 54 of the Committee papers), the significant capital investment agreed as part of the MTFP be explained by reference to the need for more school places rather than stimulation of the local economic recovery	Finance Manager (Assets, Investment and Accounting)	To review on 2 September 2013.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A25/13	24/06/13	Statement of Accounts 2012/13 (41/13)	That the Fire Fighters' Pension Fund is mentioned under Pensions Liability in Note 5.	Finance Manager (Assets, Investment and Accounting)	To review on 2 September 2013.
A26/13	24/06/13	Statement of Accounts 2012/13 (41/13)	That an update on Council Tax collection be provided in September	Finance Manager (Assets, Investment and Accounting)	An update will be provided in the Committee Bulletin to be published on 4 November 2013.
A27/13	24/06/13	Treasury Management Outturn Report 2012/13 (42/13)	To provide training to the Audit & Governance Committee on gilt markets	Strategic Manager (Pension Fund and Treasury)	Scheduled for 23 September 2013.

Completed Recommendations/Referrals/Actions

Recommendations – to be deleted

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. Completed.

Audit & Governance Committee Recommendations Tracking

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. A final 'Position Statement' was published at the end of June 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. On 24 June 2013, the Committee received confirmation through the draft Statement of Accounts that the 40% savings had been met.

Audit & Governance Committee Recommendations Tracking

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	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. 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. On 24 June 2013, the Chief Executive attended the meeting and commented that Surrey residents received very good value for money from the arrangement. Residents expect two tier Councils to consider where they can share costs. The arrangements have also brought development opportunities in both directions for staff at Surrey County Council and Mole Valley District Council. Surrey County Council is reimbursed pro-rata, including National Insurance and on-costs, for the time the Strategic Director for Customers and Communities spends on Mole Valley District Council work.
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 on the agenda for September 2013.

Audit & Governance Committee Recommendations Tracking

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	A response was received from the Cabinet Member which read: *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.* 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. On 24 June 2013, the Chairman confirmed that he had received an updated Risk Register on 21 June 2013 and would circulate this to the Committee. Completed.

Audit & Governance Committee Recommendations Tracking

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. On 24 June 2013, the Chief Internal Auditor informed the Committee that the new online approvals system had launched at the end of March and a follow-up audit was planned for Summer 2013. The Chairman requested that an updated figure on the acceptance of the new guidelines be circulated. This was done through the August bulletin.
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 was considered in June 2013. Completed

Audit & Governance Committee Recommendations Tracking

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 are being 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. Completed
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 assessment was circulated to the Committee by email on 19 June 2013. Completed
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	The Chief Internal Auditor circulated information by email on 24 June 2013 responding to this query. Completed.
A15/13	24/06/13	External Audit: 2012/13 Audit Plan Surrey Pension Fund (34/13)	The Audit Manager (Grant Thornton) would circulate the Audit Plan for the Surrey Fire-fighters' Pension Fund separately	Audit Manager (Grant Thornton)	The Plan was circulated with the August 2013 edition of the Committee bulletin.

Audit & Governance Committee Recommendations Tracking

A17/13	24/06/13	Risk Management Annual Report (35/13)	A link to Directorate Risk Registers to be circulated to the Committee.	Risk & Governance Manager	An email was circulated, including a link to the Risk Registers on S-Net, on 4 July 2013. Completed.
A18/13	24/06/13	Annual Governance Statement 2012/13 (37/13)	Links to other reports such as the Annual Report to be made explicit within the Annual Governance Statement.	Risk & Governance Manager	The Annual Report paragraph within the Annual Governance Statement was updated prior to the Statement being presented to the Cabinet on 23 July 2013. Completed.
A19/13	24/06/13	Full-year summary of Internal Audit irregularity investigations April 2012 – March 2013 (38/13)	A note on the process of auditing schools to be circulated to the Committee.	Chief Internal Auditor	A note was circulated with the August 2013 edition of the Committee bulletin.
A20/13	24/06/13	Completed Internal Audit Reports (39/13)	The Chairman to write to the Cabinet Member for Transport, Highways and Environment and Cabinet Member for Schools and Learning about concerns over Transport for Education.	Chairman	A letter was emailed to the Cabinet Members on 11 July 2013 and was included for information with the Committee bulletin. A response dated 23 July 2013 was received from the Cabinet Member for Transport, Highways and Environment and was included for information with the Committee bulletin.
A21/13	24/06/13	Completed Internal Audit Reports (39/13)	The Chief Internal Auditor to provide an update on the reconciliation of rent deposits following the end of the first financial quarter of 2013/14.	Chief Internal Auditor	An update was circulated with the August 2013 edition of the Committee bulletin.

Audit & Governance Committee Recommendations Tracking

A22/13	24/06/13	Completed Internal Audit Reports (39/13)	The Chief Internal Auditor to provide a written briefing on how VAT is worked out for Commercial Services.	Chief Internal Auditor	A briefing was included within the August bulletin.

SURREY
COUNTY COUNCIL

Audit & Governance Committee
2 September 2013

BABCOCK 4S LIMITED – ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

SUMMARY:

The draft annual report and financial statements of Babcock 4S (formally VT4S) for the year ended 31 March 2013 are presented to the Audit & Governance Committee.

RECOMMENDATIONS:

The Committee are asked to note the contents of the attached statement and consider whether they have any further questions.

BACKGROUND:

At the Audit & Governance Committee meeting on 7 April 2011, during consideration of the Pension Fund Investments (December Quarter 2010), Members queried whether the Council received financial statements from Babcock 4S (formally VT4S Ltd). The Deputy Leader of the Council (now Leader) suggested that the Committee inspect the Babcock 4S financial statements and it was agreed by the Committee that they would be included on their agenda when publically available.

In December 2013, the Committee noted the directors' report and financial statements for the year ended 30 March 2012 and the unaudited half-year report and financial statements for the period ended 30 September 2012.

The attached annual report and financial statements are draft but will be signed off by the end of August. The Committee will be updated on progress at its meeting.

IMPLICATIONS:

Financial
There are no direct financial implications of this report.
Equalities
There are no direct equalities implications of this report.
Risk management
There are no direct risk management implications of this report.

CONTACT DETAILS:
Cheryl Hardman – Regulatory Committee Manager
020 8541 9075/cherylh@surreycc.gov.uk

Sources/background papers: N/A

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Babcock 4S Limited

Annual report and financial statements

For the year ended 31 March 2013

Company registration number:
04889149

The directors present the annual report and audited financial statements of the company, for the year ended 31 March 2013.

Principal activities

The principal activities of the company are the provision of school support services and the generation of income from other related services.

Results and dividends

The company's results for the year are set out in the profit and loss account on page 7 showing a profit for the financial year after taxation of £2,659,000 *(2012: £2,366,000)*. At 31 March 2013 the company had net assets £2,326,000 *(2012: £4,156,000)*.

Two interim dividends were paid in the current year of £763,000 & £1,865,000 and the directors do not recommend a final dividend *(2012: interim dividend paid of £nil)*.

Business review

	2013	2012
	£'000	£'000
Turnover	**27,830**	34,110
Operating profit	**2,708**	3,006

The company successfully completed its ninth year of operation. The ending of the Surrey Connexions and Waltham Forest contracts has led to a decline in turnover and profit.

During the year the company has invested in its school improvement proposition and is working with Surrey County Council to achieve its objective of making every school a good school as defined by Ofsted by 2017.

Going forward, the company faces a number of operational risks in delivering its main contracts and increased competition from its competitors. All the major contracts are subject to performance measurement via the use of a large number of key performance indicators and regular meetings are held with our stakeholders to manage this process.

Future developments

The directors are confident about the future growth of the business. Whilst in the short term the company will continue to be adversely affected by local authority spending cuts, in the longer term the company is well placed to benefit from increased levels of local authority outsourcing.

Key performance indicators

The company's activities are managed on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the company. The growth and performance of Babcock Support Services, a division of Babcock International Group PLC (Babcock Group), which includes the company, is discussed in the Group's annual report, which does not form part of this report.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks and uncertainties. These are managed through the company's operational review process which is supplemented by independent challenge at both Divisional and Group levels and by the Audit and Risk Committee.

The key risks and uncertainties affecting the company are considered to be related to contractual performance and the political and regulatory environment. The company's business is susceptible to individual contract performance. All the company's contracts are affected by changes in government policy, budget allocations and the changing political environment. The directors manage this risk by maintaining regular discussions with the relevant customers and controlling both direct and indirect expenditure as necessary.

Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 36 to 55 of the annual report of Babcock International Group PLC, which does not form part of this report.

Financial risk management

The company's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk and interest rate cash flow risk. The company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the company.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are managed by the group finance department. Babcock Group has a policy and procedures manual that sets out guidelines to allow it to manage financial risks and this is applied by the company.

Price risk
The company is exposed to price risk as a result of its operations. This risk is mitigated by specific functions which assess pricing in respect of both selling and procurement activities.

Credit risk
The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The company also monitors existing customer accounts on an on-going basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk
The company retains access to pooled cash resources to ensure it has sufficient available funds for operations. The company also has access to longer term funding from its ultimate parent undertaking if required.

Interest rate cash flow risk
The company has interest bearing assets in the form of cash balances and interest bearing intercompany receivables. It also has interest bearing liabilities in the form of pension scheme liabilities. Interest bearing assets and liabilities earn and attract interest at a floating rate. The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Directors of the company

The directors who held office during the year and up to the date of signing the financial statements were as follows:

AS Lewis	(appointed 26 April 2012)
AP Khan	(resigned 26 April 2012)
SE Kemp	(appointed 23 January 2013)
JA Fisher	(resigned 23 January 2013)
KR Thomas	
S West	

Qualifying third party indemnity provisions

Under the company's respective Articles of Association, the directors of the company are, and were during the year to 31 March 2013, entitled to be indemnified by the company against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

Political and charitable donations

During the year the company made no donations *(2012: £nil)* to charitable or political organisations.

Employment of disabled persons

Full and fair consideration is afforded to applications from suitably qualified disabled persons and to their subsequent career advancement within the company. If existing employees become disabled, opportunities are sought to re-train them so as to enable them to continue their current work or to undertake other work within the company which is suited to their aptitude and abilities.

Employee investment and involvement

The development of employee involvement in the company's business is kept under regular review and the directors are committed to encouraging greater involvement by all employees. Formal and informal briefing of employees takes place as appropriate.

The company also takes all reasonable steps to ensure employment conditions are equal in all respects for sex, race, colour, ethnic background, religion or disability.

Creditor payment policy

It is the policy of the company to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice.

Trade creditors days based on creditors at the end of the year was 44 days (2012: 48 days).

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors and the disclosure of information

Each of the directors at the date of approval of this report, as shown on Page 3, confirm the following:

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The company has dispensed with the requirement for an Annual General Meeting and the need to appoint auditors annually.

By order of the Board.21.August 2013.

S West
Director

Independent auditors' report to the members of Babcock 4S Limited

We have audited the financial statements of Babcock 4S Limited for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Babcock 4S Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Michael Coffin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton, United Kingdom

22...August 2013

Profit and loss account

For the year ended 31 March 2013

	Notes	**2013** **£'000**	2012 £'000
Turnover	2	**27,830**	34,110
Cost of sales		**(21,494)**	(27,058)
Gross profit		**6,336**	7,052
Administrative expenses		**(3,628)**	(4,046)
Operating profit		**2,708**	3,006
Interest receivable and similar income	3	**857**	716
Interest payable and similar charges	4	**(10)**	-
Profit on ordinary activities before taxation	5	**3,555**	3,722
Tax on profit on ordinary activities	8	**(896)**	(1,356)
Profit for the financial year	18	**2,659**	2,366

There is no difference between the profit on ordinary activities before taxation *(2012: profit)* and the profit for the financial year *(2012: profit)* stated above and their historical cost equivalents.

The above results all relate to continuing activities.

Statement of total recognised gains and losses

For the year ended 31 March 2013

	Notes	**2013** **£'000**	2012 £'000
Profit for the financial year		**2,659**	2,366
Actuarial loss recognised in the pension scheme	25	**(2,448)**	(2,049)
Movement on deferred tax relating to pension scheme	16	**587**	532
Total recognised gains relating to the financial year		**798**	849

Company registration number: 04889149

Balance sheet as at 31 March 2013

	Notes	2013 £'000	2012 £'000
Fixed assets			
Intangible assets	10	**-**	-
Tangible assets	11	**-**	3
		-	3
Current assets			
Debtors	12	**6,123**	16,456
Stocks	13	**60**	-
Cash at bank and in hand	21	**9,673**	6,110
		15,856	22,566
Creditors – amounts falling due within one year	14	**(9,829)**	(14,293)
Net current assets		**6,027**	8,273
Total assets less current liabilities		**6,027**	8,276
Provisions for liabilities	15	**(1,301)**	(2,448)
Net assets before pension liability		**4,726**	5,828
Pension liability	25	**(2,400)**	(1,672)
Net assets after pension liability		**2,326**	4,156
Capital and reserves			
Called-up share capital	17	**1**	1
Share premium account	18	**1,999**	1,999
Profit and loss account	18	**326**	2,156
Total shareholders' funds	19	**2,326**	4,156

The financial statements on pages 7-29 were approved by the board of directors and signed on its behalf by:

S West
Director
21...August 2013.

Cash flow statement

	Notes	2013 £'000	2012 £'000
Net cash (outflow)/inflow from operating activities	20	**(3,956)**	5,173
Returns on investment and servicing of finance			
Interest received		**157**	80
Interest paid		**(10)**	
Taxation		-	(2,008)
Capital expenditure and financial investment			
Intercompany loan repaid/ (issued)		**10,000**	(10,000)
Equity dividends paid		**(2,628)**	-
Increase/ (Decrease) in cash	21	**3,563**	(6,755)

1. Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. A summary of the more important company accounting policies which have been consistently applied is set out below.

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services
Turnover from services rendered is recognised by reference to the stage of completion of the transaction or as the company fulfils contractual obligations. Turnover from services provided on a short-term or one-off basis is recognised when the service is complete.

Long-Term Contracts
Turnover from long term service provision contracts is recognised by reference to the stage of completion of the contract. The stage of completion is determined by the costs incurred on the contract to date, to the extent that such costs represent progress made on the project. A prudent level of profit attributable to the contract activity is recognised if the final outcome of such contracts can be reliably assessed. An expected loss on a contract is recognised immediately in the profit and loss account.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic cost less accumulated depreciation and any provision for impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bring the asset to its working condition for its intended use.

Depreciation is provided on a straight line basis to write off the cost of all tangible fixed assets over their estimated useful lives or contract period if shorter, to their estimated residual value as follows:

Leasehold improvements	7 years
Computer equipment	3 years
Office equipment	7 years

Intangible fixed assets

Intangible fixed assets are stated at cost after amortisation. The intangible fixed assets are amortised on a straight line basis as follows:

(i) Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired), arising in respect of acquisitions, is capitalised. Purchased goodwill is amortised to nil by equal annual instalments over its estimated useful life to a maximum of 20 years. The goodwill capitalised on the company balance sheet is being amortised over 7 years. It is reviewed for impairment at each and every financial year-end, or if events or changes in circumstances indicate that the carrying value may not be recoverable.

1. Accounting policies (continued)

(ii) Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at cost. The intangible fixed assets are then amortised to nil on a straight-line basis over their economic useful lives.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred tax'. Deferred taxation assets are recognised only to the extent that in the opinion of the directors, there is a reasonable probability that the asset will crystallise in the foreseeable future. Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been substantively enacted by the balance sheet date.

Pensions costs and other post retirement benefits

The company participates in a number of pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company, being invested with independent trustee administered funds. The company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis for all but one of the pension arrangements and therefore, as required by FRS 17 'Retirement benefits', accounts for these schemes as if they were defined contribution arrangements. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

For the scheme where the company is able to identify its share of the underlying assets and liabilities, pension scheme assets are measured using market values and pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme deficit is recognised in full. The amounts charged to operating profit are the current service costs and gains and losses on settlements. They are included as part of staff costs. The interest cost and expected return on assets are shown net of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The company also operates a number of defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

1. Accounting policies (continued)

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle an obligation and a reliable estimate can be made of the amount of the obligation.

Stocks

Stocks are stated at the lower of cost and net realisable value. When stocks are sold and revenue is recognised, the carrying amount of those stocks is recognised as an expense.

2. Turnover

Turnover represents the amounts, excluding value added tax, derived from the provision of services to customers and is wholly attributable to the principal activities of the company and arises solely within the United Kingdom.

3. Interest receivable and similar income

	2013 £'000	2012 £'000
Bank interest	**13**	80
Net expected return on pension scheme assets (note 25)	**700**	600
Loan interest receivable from group undertaking	**144**	36
	857	716

4. Interest payable and similar charges

	2013 £'000	2012 £'000
Bank interest	**10**	-
	10	-

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2013 £'000	2012 £'000
Depreciation – owned fixed assets (note 11)	**3**	18
Auditors' remuneration		
- audit fees	**32**	28
Operating lease rentals		
- other	**738**	1,108

5. Profit on ordinary activities before taxation (continued)

Fees paid to the company's auditors, PricewaterhouseCoopers LLP and its associates, for services other than statutory audit of the company, are disclosed on a consolidated basis in the financial statements of Babcock International Group PLC.

6. Staff costs

The average monthly number of employees (including directors) was:

	2013 Number	2012 Number
Operations	**222**	335
Sales	**-**	1
Administration and management	**35**	45
	257	381

Their aggregate remuneration comprised:

	2013 £'000	2012 £'000
Wages and salaries	**10,240**	13,912
Social security costs	**986**	1,358
Other pension costs (note 25)	**832**	1,257
	12,058	16,527

7. Directors' remuneration

No directors received remuneration from the company in the current year *(2012: Nil)*.

All of the directors of the company are subject to service agreements with, and are remunerated by, other group or related party companies. It is not possible to make an accurate apportionment of their emoluments resulting to services provided to the company.

In the current year, no directors were members of a defined benefit pension scheme *(2012: nil)*.

8. Tax on profit on ordinary activities

	2013 £'000	2012 £'000
Current tax		
UK Corporation tax on profits for the year	**405**	512
Current tax charge for the year	**405**	512
Deferred tax:		
Origination and reversal of timing differences	**454**	463
Adjustment in respect of prior years:	**-**	319
Impact of change in UK tax rate	**37**	62
Total deferred tax charge	**491**	844
Tax on profit on ordinary activities	**896**	1,356

Factors affecting the current year tax charge

The tax assessed for the year is lower *(2012: lower)* than the standard effective rate of corporation tax in the UK for the year ended 31 March 2013 of 24% *(2012: 26%)*. The differences are explained below:

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	**3,555**	3,722
Tax on profit on ordinary activities at standard UK corporation tax rate of 24% *(2012: 26%)*	**853**	967
Effects of:		
Timing differences	**(454)**	(463)
Expenses not deductible for tax purposes	**6**	8
Current tax charge for the year	**405**	512

Factors affecting current and future tax charges

On 26th March 2012 a reduction to 24% with effect from 1 April 2012 was substantively enacted via a resolution passed by parliament. Finance Act 2012 was substantively enacted on 3 July 2012 and reduced the main rate of corporation tax to 23% with effect from 1 April 2013. Closing deferred tax balances have therefore been valued at 23% *(2012: 24%)*.

Recent budget statements included proposals for further reductions to 21% from 1 April 2014 and 20% from 1 April 2015. These changes had not been substantively enacted at the balance sheet date and, therefore, the effects of these are not included in these financial statements. The effects of the proposed changes are not considered material.

9. Dividends

	2013 £'000	2012 £'000
Interim dividends paid	**2,628**	-

There are two classes of ordinary shares. A shareholders and B shareholders were paid dividends of £2,297 and £3,962 per share respectively. See note 17 for further details.

10. Intangible fixed assets

	Purchased goodwill £'000	Other intangibles £'000	Total £'000
Cost			
At 1 April 2012 and 31 March 2013	**700**	**298**	**998**
Accumulated amortisation			
At 1 April 2012 and 31 March 2013	**700**	**298**	**998**
Net book value			
At 31 March 2012 and 31 March 2013	-	-	-

11. Tangible fixed assets

	Leasehold improve-ments £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2012 and 31 March 2013	**866**	**1,168**	**526**	**2,560**
Accumulated Depreciation				
At 1 April 2012	866	1,168	523	2,557
Charge for the year	-	-	3	3
At 31 March 2013	**866**	**1,168**	**526**	**2,560**
Net book value				
At 31 March 2013	-	-	-	-
At 31 March 2012	-	-	3	3

12. Debtors

	2013 £'000	2012 £'000
Due within one year:		
Trade debtors	**852**	660
Amounts owed by group undertakings (note 24)	**2,052**	12,260
Amounts owed by other related parties (note 24)	**1,587**	1,268
Other debtors	**359**	111
Deferred tax (note 16)	**128**	220
Prepayments and accrued income	**1,145**	1,937
	6,123	16,456

During the year the amounts owed by group undertakings significantly reduced due to the repayment of the short term loan of £10,000,000. *(2012: £10,000,000).* The remaining amounts owed by group undertakings are unsecured, interest free and repayable on demand.

13. Stocks

	2013 £'000	2012 £'000
Stocks	**60**	-

14. Creditors - amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	**30**	742
Amounts owed to group undertakings (note 24)	**801**	3,849
Other creditors	**447**	335
Other taxation and social security	**1,106**	1,334
UK corporation tax payable	**917**	512
Accruals and deferred income	**6,528**	7,521
	9,829	14,293

The amounts owed to group undertakings are unsecured, interest free and repayable on demand.

15. Provisions for liabilities

	Contract Provisions £'000	Other Provisions £'000	Total £'000
At 1 April 2012	1,961	487	2,448
Charged to the profit and loss account	375	64	439
Utilised during the year	(1,586)	-	(1,586)
At 31 March 2013	**750**	**551**	**1,301**

Contract provisions
The majority of the brought forward balance was utilised during the year towards the Waltham Forest redundancy payments. The closing balance represents a provision for redundancy costs on contracts which are coming to an end and are expected to be settled within two to three years.

Other provisions
Other provisions comprise Dilapidation provisions on leasehold properties. These provisions are made where the liability can be reasonably estimated. It is expected that the provisions will unwind within a three to eight year period.

16. Deferred taxation

The major components of the deferred tax asset recorded and the potential asset are as follows:

	2013 Provided £'000	2012 Provided £'000	**2013 Full potential £'000**	2012 Full potential £'000
Accelerated capital allowances	**64**	81	**64**	81
Other short term timing differences	**64**	139	**64**	139
	128	220	**128**	220

The movement on the deferred tax asset is as follows:

	Deferred tax on pension scheme (note 25) £'000	Other deferred tax £'000	Total £'000
At 1 April 2012	528	220	748
Charged to the profit and loss account (note 8)	(399)	(92)	(491)
Recognised in the statement of total recognised gains and losses	587	-	587
At 31 March 2013	**716**	**128**	**844**

17. Called-up share capital

	2013 £'000	2012 £'000
Allotted, issued and fully paid		
801 *(2012: 801)* "A" ordinary shares of £1 each	**1**	1
199 *(2012: 199)* "B" ordinary shares of £1 each	**-**	-
	1	1

Shares classified as equity

The ordinary A and B shares rank pari passu except for;

- In the event that any resolution is put to the shareholders to remove any Director appointed by B shareholders it shall be deemed that each B shareholder carries 1,000 votes on such resolution, and;
- Under the shareholder agreement, B shareholders are entitled to 30% of any dividends declared.

18. Reserves

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2012	1	1,999	2,156	4,156
Profit for the financial year	-	-	2,659	2,659
Dividends paid	-	-	(2,628)	(2,628)
Actuarial loss recognised in the pension scheme	-	-	(2,448)	(2,448)
Deferred tax arising on loss in the pension scheme	-	-	587	587
At 31 March 2013	**1**	**1,999**	**326**	**2,326**

Impact of pension scheme:

	2013 £'000	2012 £'000
Profit and loss reserve excluding pension liability	**2,187**	3,828
Pension liability movement	**(1,861)**	(1,672)
Profit and loss reserve including pension liability	**326**	2,156

19. Reconciliation of movements in shareholders' funds

	2013 £'000	2012 £'000
Profit for the financial year	**2,659**	2,366
Dividends paid	**(2,628)**	-
Actuarial (loss)/gain recognised on pension scheme (net of taxation)	**(1,861)**	(1,517)
Net (decrease)/increase in shareholders' funds	**(1,830)**	849
Opening shareholders' funds	**4,156**	3,307
Closing shareholders' funds	**2,326**	4,156

20. Reconciliation of operating profit to net cash inflow from operating activities

	2013 £'000	2012 £'000
Operating profit	**2,708**	3,006
Depreciation and amortisation	**3**	18
Decrease/(increase) in debtors	**241**	(363)
Increase in stocks	**(60)**	-
(Decrease)/increase in creditors	**(4,869)**	3,204
(Decrease)/increase in provisions	**(1,147)**	174
Difference between pension contributions paid and amount recognised in the profit and loss account	**(832)**	(866)
Net cash inflow from operating activities	**(3,956)**	5,173

21. Reconciliation of net cash flow to movement in net funds

	2013 £'000	2012 £'000
Increase/(decrease) in cash in year	**3,563**	(6,755)
Net funds at beginning of year	**6,110**	12,865
Net funds at end of year	**9,673**	6,110

22. Analysis of net funds

	At 1 April 2012 £'000	Cash flow £'000	At 31 March 2013 £'000
Cash at bank	6,110	3,563	**9,673**

23. Guarantees and financial commitments

a) Contingent liabilities and capital commitments

At the year end the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £658.6 million (*2012: £731.8 million*) provided to certain group companies. In addition, the company at the year end had joint and several liabilities for drawn bank overdraft facilities of other group companies of £nil (*2012: £nil).*

The company is a member of a wider Babcock VAT Group and as a result is jointly and severally liable with the other members for the VAT liability of the group. At 31 March 2013 the accrued VAT liability of the group was £2,086,827 (*2012: £768,424*)

As at 31 March 2013 the company had no contracted capital commitments *(2012: nil).*

b) Operating lease commitments

	2013 Land and buildings £'000	**2013 Other £'000**	2012 Land and buildings £'000	2012 Other £'000
Annual commitments under non-cancellable operating leases expiring as:				
- within one year	-	-	481	42
- between two and five years	**568**	**150**	-	123
	568	**150**	481	165

24. Related party disclosures

During the year the company entered into transactions with related parties. These consisted of subsidiaries of Babcock International Group PLC and also with Surrey County Council. All transactions were on an arm's length basis. Transactions during the year and the balances outstanding at 31 March 2013 with these related parties are set out below.

The following amounts were charged to the company for services received relating to head office costs and other recharges:

24. Related party disclosures (continued)

	2013 £'000	2012 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	**44**	20
Surrey Careers Services Limited	**-**	51
Babcock Careers Management Limited	**49**	807
Babcock Communications Limited	**-**	66
Babcock Education and Skills Limited	**13**	36
Babcock Marine (Clyde) Limited	**-**	2
Babcock Corporate Services Limited	**689**	482
Babcock International Group PLC	**12**	3
Babcock Support Services Limited	**-**	2
VT (UK) Limited	**22**	2
Surrey County Council	**75**	828
Babcock Infrastructure Services Limited	**89**	25
Babcock Training Limited	**116**	917

The following amounts were charged by the company for services rendered in connection with the company's principal activities and recharge of costs:

	2013 £'000	2012 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	**30**	121
Surrey County Council	**15,165**	20,277
Babcock Careers Management Limited	**-**	7
Babcock Critical Services Limited	**-**	16
Babcock Education and Skills Limited	**7,289**	10,308
Babcock International Group PLC	**6**	55
Babcock Land Limited	**2**	3
Babcock Support Services Limited	**81**	43
Babcock West Sussex Careers Limited	**-**	1
Babcock Learning & Development Partnership LLP	**172**	-
Guidance Services Limited	**2**	3
Careers Enterprise Futures Limited	**1**	-
VT Flagship Limited	**24**	2
Babcock Training Limited	**244**	792

During the year, stock valued at £60,000 and a deferred income balance of (£76,000), were transferred from Babcock Lifeskills Limited, a fellow group company, at book value.

24. Related party disclosures (continued)

The following balances were owed to related parties at the year-end:

	2013	2012
	£'000	£'000
Babcock Careers Management Limited	**(61)**	(53)
Babcock Corporate Services Limited	**(715)**	(386)
Babcock International Group Limited	**(14)**	-
Babcock Infrastructure Services Limited	-	(25)
VT (UK) Limited	**(7)**	-
Babcock Careers Guidance Limited	**(4)**	-
Babcock Training Limited	-	(3,385)

The following balances were owed by related parties at year-end:

	2013	2012
	£'000	£'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	-	55
Guidance Services Limited	-	1
Babcock Critical Services Limited	-	3
Babcock International Group PLC	-	23
Babcock Support Services Limited	**23**	43
Babcock Learning & Development Partnership LLP	**120**	-
Babcock Land Limited	-	1
Babcock Skills Development & Training Limited	**2**	-
Babcock Education and Skills Limited	**1,618**	2,133
Babcock Training Limited	**258**	-
Surrey County Council	**1,587**	1,268
Babcock Lifeskills Limited	**16**	-
VT Flagship Limited	**15**	1

25. Pension commitments

Teachers' Pension Scheme

The company participates in TPS (a national teachers pension scheme providing benefits based on final pensionable pay). The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. As permitted by FRS 17 'Retirement Benefits' the scheme is accounted for by the company as if the scheme was a defined contribution scheme. The total cost of pension contributions for employees of the company during the year was £105,000 *(2012: £234,000)* and there was a creditor of £10,000 *(2012: £26,000)* in the balance sheet.

25. Pension commitments (continued)

Local Government Pension Scheme – Waltham Forest Pension Fund
The company did participate in the Local Government Pension Scheme (LGPS), a centralised defined benefits scheme with the assets held in separate trustee-administered funds. On 1 April 2008 a number of employees of the London Borough of Waltham Forest transferred to the company, but continued to be members of the Waltham Forest Pension Fund. The company's liability is capped at the payments actually made and the funding risk remains with the local authority accordingly. This scheme is accounted for by the company as if the scheme is a defined contribution scheme. The total cost of pension contributions for employees of the company during the year was £20,000 *(2012: £184,000)* and there was a creditor of £nil *(2012: £18,000)* in the balance sheet. As at 30th September 2012 all final members of the scheme had exited the business.

Babcock Defined Contribution scheme (formerly Shipbuilding Industries Pension Scheme)
The company also participates in the Babcock Defined Contribution scheme, which was formerly known as the Shipbuilding Industries Pension Scheme (SIPS). The pension cost charge for the year includes contributions made by the company to that fund amounting to £289,000 *(2012: £312,000)* and there was a creditor of £25,000 *(2012: £nil)* in the balance sheet.

Group wide pension schemes
The company, as at 1 April 2008, became a member of two larger group wide pension schemes providing benefits based on final pensionable pay. The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the schemes have been accounted for in these financial statements as if they were defined contribution schemes.

Group wide pension scheme – CITRUS (formerly LAWDC)
The latest full actuarial valuation was carried out as at 31 March 2009 by a qualified independent actuary. This valuation showed a funding shortfall of £4.1million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company.
The pension charge for company in the year was £nil *(2012: £92,000)* and there was a creditor of £nil *(2012: £nil)* in the balance sheet at the year end.

Group wide pension scheme – Shipbuilding Industries Defined Benefit Scheme
The latest full actuarial valuation was carried out as at 31 March 2010 by a qualified independent actuary. This valuation showed a funding shortfall of £87.9million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company. The pension charge for the year was £nil *(2012: £35,000)* and there was a creditor of £2,000 *(2012: £2,000)* in the balance sheet.

Babcock International Group ("BIG") Scheme
In the prior year the Shipbuilding Industries Defined Benefit Scheme and the CITRUS Scheme were both transferred into the main Babcock International Group Defined Benefit Scheme. The latest full actuarial valuation for the BIG scheme was carried out as at 1 April 2010 (pre transfer) by a qualified independent actuary. This valuation showed a funding shortfall of £43.7million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company.

25. Pension commitments (continued)

Local Government Pension Scheme – Surrey Pension Fund

The company also participates in the Local Government Pension Scheme (LGPS), a centralised defined benefits scheme with the assets held in separate trustee-administered funds. During the period ended 31 March 2005 a number of employees of Surrey County Council transferred to the company, but continued to be members of the Surrey Pension Fund. Under the terms and conditions of the transfer, the associated pension fund assets and liabilities are separately identifiable and segregated for funding purposes.

The last formal valuation was carried out at 31 March 2010 and was updated for accounting purposes to 2013 by a qualified independent actuary, using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The market value of the entire LGPS scheme's assets (not just the Surrey Pension Fund section) was £1.94 billion and the actuarial value of those assets represented 72% of the liability for benefits after allowing for expected future increases in earnings.

The latest LGPS scheme valuations have been updated by the actuaries on an FRS 17 basis as at 31 March 2013.

The movement in the defined benefit obligation over the year is as follows:

	2013	2012
	£'000	£'000
Opening present value of the funded defined benefit obligations	**29,700**	28,611
Current service cost	**418**	400
Interest cost	**1,400**	1,600
Employee contributions	**235**	300
Actuarial (gain)/loss on assumptions	**4,333**	(611)
Benefits paid	**(791)**	(600)
Closing present value of the defined benefit obligation	**35,295**	29,700

The movement in the fair value of funded plan assets of the year is as follows:

	2013	2012
	£'000	£'000
Opening fair value of assets	**27,600**	27,194
Expected return on assets	**2,100**	2,200
Actuarial gains/(losses)	**1,931**	(2,760)
Employer contributions	**1,250**	1,266
Employee contributions	**235**	300
Benefits paid	**(791)**	(600)
Closing fair value of assets	**32,325**	27,600

25. Pension commitments (continued)

The major assumptions used in these valuations were:

	2013	2012
Rate of increase in salaries	**2.60%**	2.45%
Rate of increase in pension payments	**2.41%**	2.15%
Discount rate	**4.40%**	4.85%
Inflation assumption	**2.30%**	2.15%
Long term return on equities	**8.40%**	8.40%
Long term return on corporate bonds	**4.34%**	4.85%
Life expectancy from age 65 (male aged 65)	**21.90 years**	21.90 years
Life expectancy from age 65 (male aged 45)	**23.90 years**	23.90 years

	2013 £'000	2012 £'000
Present value of funded obligations	**35,295**	29,700
Fair value of employer assets	**(32,325)**	(27,600)
Net underfunding in funded plans	**2,970**	2,100
Present value of unfunded obligations	**146**	100
Deficit in the scheme	**3,116**	2,200
Related deferred tax asset (note 16)	**(716)**	(528)
Net pension liability	**2,400**	1,672

An analysis of the amount charged to operating profit is as follows:

	2013 £'000	2012 £'000
Current service cost	**418**	400
	418	400

An analysis of the amount credited to other financing cost is as follows:

	2013 £'000	2012 £'000
Expected return on pension scheme assets	**2,100**	2,200
Interest on pension scheme liabilities	**(1,400)**	(1,600)
Net return	**700**	600

25. Pension commitments (continued)

An analysis of the amount which has been recognised in the statement of total recognised gains and losses (STRGL) is as follows:

	2013	2012
	£'000	£'000
Actuarial (loss)/gain recognised in STRGL	**(2,448)**	(2,049)

An analysis of the movement in scheme during the year is as follows:

	2013	2012
	£'000	£'000
Deficit in scheme at beginning of year	**(2,200)**	(1,617)
Current service cost	**(418)**	(400)
Employer contributions	**1,250**	1,266
Net return on assets	**700**	600
Actuarial loss (funded plans)	**(2,402)**	(2,149)
Actuarial (loss)/gain (unfunded obligations)	**(46)**	100
Deficit in scheme at end of the year	**(3,116)**	(2,200)

A history of experience gains and losses at 31 March 2013 is as follows:

	2013	2012	2011
	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets	**1,931**	(2,760)	(3,061)
Value of assets	**32,325**	27,600	27,194
Percentage of scheme assets	**6%**	-10%	-11%
Experience gains on scheme liabilities	**-**	-	1
Total present value of liabilities (funded)	**35,295**	29,600	28,611
Percentage of present value of scheme liabilities	**0.0%**	0.0%	0.0%
Actuarial (losses)/gains recognised in STRGL	**(2,448)**	(2,049)	8,005
Total present value of liabilities (funded)	**35,295**	29,600	28,611
Percentage of present value of scheme liabilities	**7%**	7%	-28%

The Expected Return on Assets is the sum of the yield on a cash return and a risk premium and is assessed by our Actuaries. Life expectancy is based on the PFA92 and PMA92 tables, projected to calendar year 2033 for non pensioners and 2017 for pensioners.

25. Pension commitments (continued)

The fund allocation of the assets of the scheme is as follows:

	2013 £'000	**% of total assets**	2012 £'000	% of total assets
Equities	**23,804**	**74%**	20,300	73%
Property	**1,843**	**5%**	1,600	6%
Corporate and Government Bonds	**5,760**	**18%**	4,900	18%
Other assets	**918**	**3%**	800	3%
Fair value of assets	**32,325**		27,600	

The actual return on scheme assets in the year was a gain of £4,031,000 *(2012: £560,000)*.

History of plans

The history of the plans for the current and prior years is as follows:

Balance sheet

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Present value of scheme liabilities	**(35,441)**	(29,800)	(28,811)	(36,702)	(23,500)
Fair value of scheme assets	**32,325**	27,600	27,194	27,321	18,546
Reimbursement asset	-	-	-	-	2,422
(Deficit)/ surplus in the scheme	**(3,116)**	(2,200)	(1,617)	(9,381)	(2,532)
Experience (losses)/gains on assets	**(2,448)**	(2,760)	(3,061)	6,613	(7,444)
Experience gains/(losses) on liabilities	-	-	1	1	(1)

The company expects to contribute approximately £1,250,000 to its defined benefit plans in the next financial year.

26. Ultimate parent undertaking

Until 8 August 2012, the company's immediate parent undertaking was Babcock Education and Skills Limited, a company registered in England and Wales. On 8 August 2012 the company was acquired by Babcock Education Holdings Limited as part of a re-organisation of the Babcock group corporate structure, and this company (also registered in England and Wales) became the company's immediate parent undertaking from that date.

The company's ultimate parent company and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London W1U 1QX

SURREY COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE
2 September 2013

2012/13 SURREY COUNTY COUNCIL ACCOUNTS AND EXTERNAL AUDIT FINDINGS REPORT

SUMMARY:

The 2012/13 Statement of Accounts was presented to this Committee at its meeting on the 24 June 2013 for review and the recommendations have been incorporated into the final accounts. Grant Thornton, as the council's external auditors are reaching the completion of their audit and the Statement of Accounts is being presented to this Committee to be approved, prior to publication (Annex A). The auditor has provided a commentary and recommendations on the statement of accounts in their Audit Findings Report (attached as Annex B).

The auditor anticipates issuing an unqualified opinion on the financial statements and the Value for Money conclusion stating that the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

PURPOSE:

The purpose of this report is to inform the Committee of the result of the external audit of the council's 2012/13 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation from the Chief Finance Officer & Deputy Director for Business Services (attached as Annex D).

BACKGROUND:

1. The 2011 Accounts & Audit Regulations require that the annual statement of accounts produced by local authorities is published by 30 September, and that they are approved, prior to this date, by a non-executive committee of the local authority. This Committee reviewed the accounts, subject to external audit, on the 25 June 2012 and the amended accounts are now represented to this Committee for re-approval now the audit has concluded.
2. The draft statement of accounts were prepared by the end of May 2013. The external audit of these accounts was substantially complete by the end of July. In light of this achievement and in line with the finance team's Public Value Review (PVR) vision, a provisional timetable for 2013/14 has been agreed with the external auditors to enable the planned approval, by this Committee, of the audited financial statements at the end of July 2014.

CONCLUSION:

2012/13 Statement of Accounts

3. Annex A re-presents the 2012/13 Statement of Accounts, highlighting changes made to the document submitted to this committee in June. The Audit Findings Report, which is included as Annex B, and the table below lists the amendments that have had to be made. These changes do not alter the Council's budget outturn position that was approved by the Cabinet in May and its reserves and balances remain as previously reported.

4. Table 1 – Amendments to draft statements following audit of statements

Page (s)	Statement/Note	Description
14	Comprehensive Income & Expenditure Statement	Gross expenditure and income were both overstated by: Fire Service - £9.8m, due to the firefighters' pensions transactions not be excluded from either income or expenditure. Other operating I&E (also note 9) – both income and expenditure over stated by £2.4m. Financing and investment I&E (also note 10) - both income and expenditure over stated by £0.9m. These adjustments have no impact on the net expenditure in relation to each of these lines or on the total surplus on the provision of services.
15	Balance Sheet	New line added for 'current liabilities' which contains amounts in relation to finance leases and PFI contracts which are repayable in the next 12 months. These amounts have been removed from the 'other long-term liabilities' line and so there is no change to the Council's Net assets/liabilities.
36	Note 6: Events after the Balance Sheet date	A post balance sheet event has been added in relation to the County's share of liabilities in relation to refunds of business relates to ratepayers who have successfully appealed against the rateable value of their properties. This was not included in the draft accounts as the information had not been received from the Boroughs and Districts and therefore we had not taken a view as to the materiality of this liability.

41 & 72	Note 11: Council tax and general grants & contributions & Note 39 Grants & Contributions	The income received from the CLG for non-domestic rates and revenue support grant was not split accurately. This has been adjusted to reflect the total formula grant received. In addition, in note 39 there has been some reclassification of grant amounts. There is no change to the bottom line total for council tax and general grants and contributions.
47	Note 16: Financial Instruments	Various changes to this note to ensure that it discloses all financial instruments in line with the definition in the Code. Cash and cash equivalents have been included in the financial assets totals and third party balances included in the financial liabilities figures. In addition, some of the prior year comparisons were inaccurately quoted and deposits with other local authorities have been separately identified from the institutions with specific credit ratings (in line with discussion at the A&G Committee in June).
76	Note 42: Leases	There has been some payment / income re-profiling changes of the operating leases amounts, both when Surrey is the leasee and the leassor.

5. In addition, there are a number of amendments for typographical errors, rounding differences and additional narrative added for clarification purposes.
6. All material adjustments identified, have been made.
7. Following the changes included above, and the results of the audit, the accounts are now presented to this Committee for approval.

2012/13 Audit Findings

8. The Audit Findings Report summarises the findings of the 2012/13 audit, which is now nearing completion. It includes the messages arising from the audit of the statement of accounts and the results of the external auditor's work undertaken to assess the council's arrangements to secure value for money in the use of resources.
9. The external auditor's 2012/13 report is presented in Annex B and sets out a summary of the work carried out during the audit of the accounts, the conclusions reached and recommendations.
10. At the beginning of the audit the auditors produce an audit plan, which was reported to this Committee in March 2013. The audit plan identified areas of significant risk of material misstatement. The audit findings report summarises the work completed in relation to this risk areas. The audit work undertaken has not identified any issues is respect of these areas, however, two best practice recommendations have been made.
11. The audit fee is in line with the planned fees and there was no unplanned work required.

12. The auditor is anticipating issuing an unqualified opinion on the financial statements and on the arrangements for securing economy, efficiency and effectiveness in its use of resources. There are a small number of items still to be signed off by the auditors before the final opinion can be issued:

- At the time of writing this report, we were awaiting confirmation from one bank of the year-end investment
- Final sign off of the letter of representation - this is attached in annex D and will be completed once it has been considered by this Committee
- Until the final audit opinion is issued, there is potential for there to be additional post balance sheet events
- At the time of writing this report, the auditors still have to complete their testing of the Whole of Government Accounts and Teachers Pensions Returns, both of these are planned for the week commencing the 26 August.

13. Attached at Annex C is the Audit Findings Report for the Firefighters' Pension Fund. The auditors are no longer required to issue a separate opinion on the Fund's financial statements but look at them alongside the County's accounts. The auditors have not identified any adjustments affecting the Fund's financial position.

RECOMMENDATIONS:

14. The committee is asked to:

    i. Approve the 2012/13 Statement of Accounts , as attached in Annex A, for publication on the council's website and in a limited number of hard copies;

    ii. Consider the contents of the 2012/13 Audit Findings Report in Annex B;

    iii. Agree the officer response to recommendations of the external auditor;

    iv. Consider the contents of the 2012/13 Audit Findings Report in relation to the Firefighters' Pension Fund in Annex C;

    v. Note the Chief Finance Officer's letter of representation, which is attached in Annex D;

    vi. Determine if any issues in the Audit Findings Report should be referred to the Cabinet.

IMPLICATIONS:

Financial

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 2012/13 budget has been considered in the outturn report to the Cabinet in May 2013.

Equalities

There are no direct equalities implications of this report.

Risk management

There are no direct risk management implications of this report.

WHAT HAPPENS NEXT:

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

A provisional timetable and working arrangements have been agreed with the external auditors for 2013/14 to enable the planned approval of the financial statements at the end of July 2014.

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

CONTACT DETAILS: Nicola.oconnor@surreycc.gov.uk 020 8541 9263

Sources/background papers:

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

Statement of Accounts 2012/2013 – Report to Audit & Governance Committee 24 June 2013

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

Service Expenditure Reporting Code of Practice 2012/13 - CIPFA

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SURREY COUNTY COUNCIL

STATEMENT OF ACCOUNTS

2012-13

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

DRAFT Opinion on the Authority financial statements

We have audited the financial statements of Surrey County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement, and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

give a true and fair view of the financial position of Surrey County Council as at 31 March 2013 and of its expenditure and income for the year then ended; and

have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;

we issue a report in the public interest under section 8 of the Audit Commission Act 1998;

we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or

we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

securing financial resilience; and

challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects,

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

Surrey County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Delay in certification of completion of the audit
We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion

Andy Mack
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

x September 2013

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 the council, 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 the council'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 decrease in the council'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 council as at 31 March. The balance sheet of the council 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 of this explanatory foreword.

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 council during

2012/13 was £4.3m which is shown in the cash flow statement and note 20. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities:

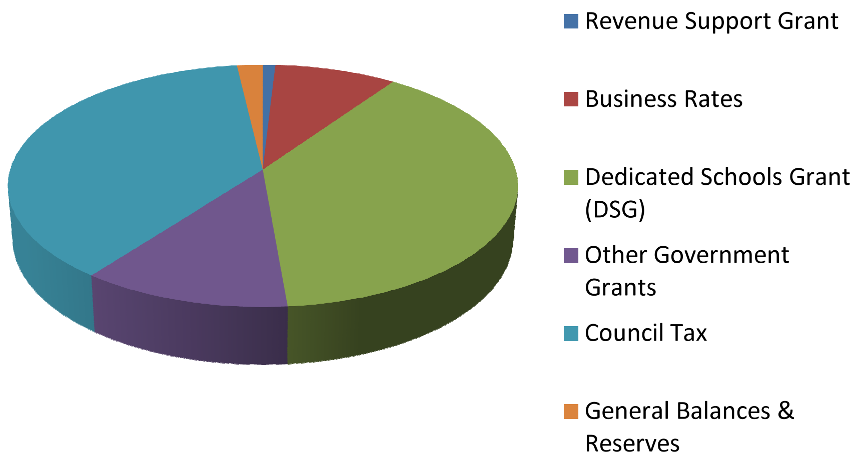
- Operating activities - the amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the council are funded by way of taxation, grant income or from recipients of services provided by an the council.
- Investing activities represent the extent 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 the council (note 28).

3. Budgeted Income & 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: developing plans for efficiencies and reductions in expenditure totalling £71m.

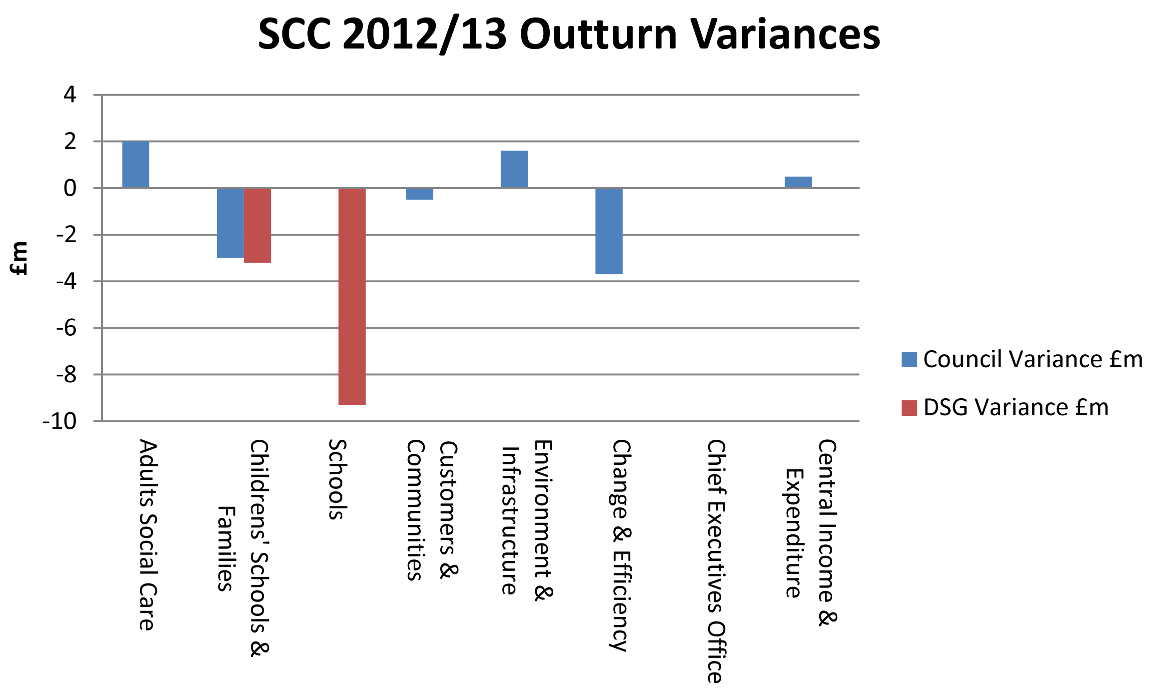
The outturn position for 2012/13 provides a clearer indication of the council's strong financial stewardship during the year than is apparent from the accounting surplus provided in the Comprehensive Income & Expenditure Statement (CIES).

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 (MTFP)), the council 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 council 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.



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 £2.2m.

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.

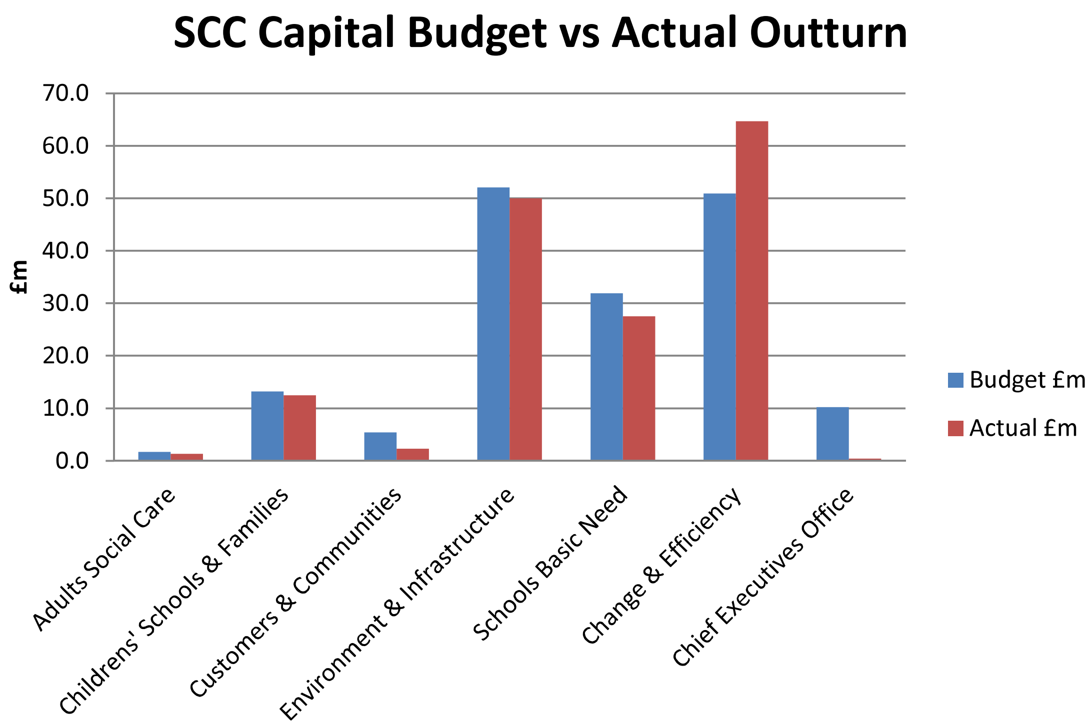
Since December 2011 the council has performed the final accounts closure processes on a quarterly basis. This is in accordance with current best practice and the team won an award for transparency in 2012. Producing and reporting these quarterly position statements has enabled the Council to quicken the publication of the audited final accounts and aided transparency of financial performance in the public interest.

A further example of best practice is that the council reports on budget monitoring forecasts to Cabinet on a monthly basis within around 3 weeks of the month end. The timeliness of this reporting means variations from the budget are considered early and management action can be put in place promptly.

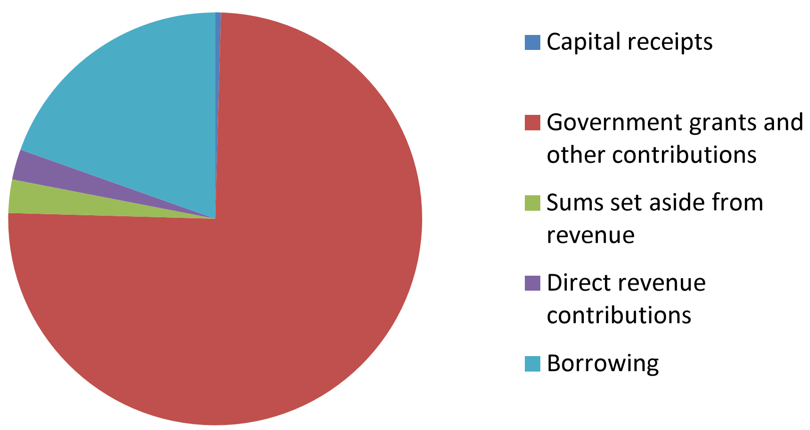
4. Capital Expenditure

In agreeing significant capital investment as part of the MTFP for 2012-17 in February 2012, the council focussed on increasing the statutory provision of school places in Surrey. The total capital programme was £683m over the 5 year MTFP (2012/17) period, with £155.9m planned in 2012/13.

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) .



The 2012/13 capital expenditure was funded as follows:



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

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 incurred in relation to the Private Finance Initiative Schemes the council 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, £27.6m 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 council's balance sheet at the 31 March 2013, has a significant impact on the net worth of the council. The council 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 council 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 council'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 council'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 council 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 council 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 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 council holds on behalf of the Surrey Police and Crime Commissioner.

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. The council's average interest rate on borrowing was 4.2%.

During 2012/13 no additional external borrowing was undertaken. The council 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 council 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 council has a liability to make future payments but the precise timing of the payment and the amount is uncertain, 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 Municipal Mutual Insurance (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 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.

	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	1,112	4,860	-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 council 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 council 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 council has put the following in place to mitigate against these risks and uncertainties for 2013/14:

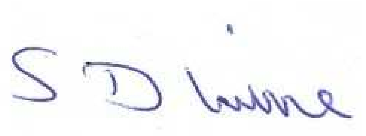
- increased level of risk contingency

- 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 council in the future.

11. Further Information

Additional information on the council'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
24 June 2013

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 93 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 94-96 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 97-134 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.

S D Little

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 (note 7)	-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 (note 8)	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)	-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 Gross Expenditure £000	Income £000	Net Expenditure £000		Year ended 31 March 2013 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	42,321	-1,290	**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**
1,722,136	-824,194	897,942	**Cost of Services - continuing operations**	**1,680,303**	**-785,528**	**894,775**
24,141	-28,573	-4,432	Other Operating Income & Expenditure (note 9)	25,106	-25,237	**-131**
114,114	-74,201	39,913	Financing & Investment Income & Expenditure (note 10)	109,632	-61,400	**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**
1,860,391	-1,892,564	-32,173	**Surplus(-) or Deficit on Provision of Services**	**1,815,041**	**-1,817,281**	**-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		Note:	As at 31.03.2013 £000
1,257,775	Property, Plant & Equipment	12	1,279,980
665	Heritage Assets	14	665
7,148	Intangible Assets	15	5,893
241	Long Term Investments	16	216
503	Long Term Debtors	16	8,833
1,266,332	**LONG TERM ASSETS**		**1,295,587**
	Short Term:		
99,969	Investments	16	104,112
80	Intangible Assets	18	108
4,555	Assets Held for Sale	21	15,279
1,356	Inventories	17	1,264
100,845	Short Term Debtors	16,19	141,521
109,791	Cash & Cash Equivalents	20	114,119
316,597	**CURRENT ASSETS**		**376,403**
	Short Term:		
-15,101	Borrowing	16	-82,089
-194,962	Creditors	16,22	-234,271
-2,564	Provisions	23	-3,300
-157	Revenue Grants Receipts in Advance	39	-205
-1,239	Capital Grants Receipts in Advance	39	-587
-3,691	Other Current Liabilities	42,431	-3,221
-217,714	**CURRENT LIABILITIES**		**-323,673**
-7,903	Provisions	23	-7,202
-306,233	Long Term Borrowing	16	-238,109
-980,852	Other Long Term Liabilities	42,43,45	-1,142,172
-1,294,988	**LONG TERM LIABILITIES**		**-1,387,483**
70,226	**NET ASSETS/LIABILITIES(-)**		**-39,166**
-269,129	Usable Reserves	8,24	-288,445
198,903	Unusable Reserves	25	327,611
-70,226			**39,166**

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**
-190,201	**Net Cash Flows from Operating Activities**	**-149,551**
154,239	Investing Activities (note 27)	**140,455**
4,142	Financing Activities (note 28)	**4,768**
-31,820	**Net Increase (-) / Decrease in Cash & Cash Equivalents**	**-4,328**
-77,971	Cash and Cash Equivalents at the Beginning of the Reporting Period	**-109,791**
-109,791	Cash and Cash Equivalents at the End of the Reporting Period	**-114,119**

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 2013. 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.

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 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). Deficits on the firefighters' pension scheme are covered by a government grant received each year from the Department for Communities & Local Government.

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;
- *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 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

<u>Financial Liabilities</u>
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 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 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 a 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 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 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;
- 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.

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;
- **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:

- 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).

Deprecation is calculated on the following bases:

- 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 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

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.

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 reviews its grants and contributions annually and where the contributions are conditional upon the money being expended in a specific way and the council is satisfied initially that the money could be expended as intended it is set aside in useable reserves (either earmarked revenue or capital un-applied) to be drawn down at a future date. Should circumstances change whereby the council decides that money can no longer be deployed as specified it would be transferred to receipts in advance prior to being refunded.

- 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

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. The council does exercise control over the Henrietta Parker Centre, the income of which supports adult learning. However, the economic activity of this trust fund is not deemed 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.

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 and £42m for the firefighters' pension fund. A 0.5% increase on the "pension increase rate" would result in an increase in the pension liability of £131m for the LGPS and £36m for the firefighters' pension fund.
Debtors	At 31 March 2013, the council had a balance of £141.5m 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 £12.5m for doubtful debts was sufficient.	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 to Costain for the 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.

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

New arrangements for the retention of business rates came into effect on 1 April 2013, as part of these arrangements local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts that were paid over to Central Government in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the authorities, but would have been transferred to DCLG.

Guidance recommends that, despite the fact that these amounts relate to 2012/13 and earlier years, authorities should only recognise their respective share of these liabilities on 1 April 2013, as until then no liability rests with the council. Therefore, these accounts do not reflect any liability in relation to this. Surrey County Council's estimated share of these liabilities as at the 1 April 2013 is £1.6m.

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 are 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 statute 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.

	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**

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

2011/12 adjustments between accounting basis and funding basis under regulations:	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	-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**

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 2012/13.

The council's useable reserves can be classified into the following broad categories;
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 MTFP 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.

	Balance at 01/04/11	Transfers In	Transfers Out	**Balance at 31/03/12**	Transfers In	Transfers Out	**Balance at 31/0313**
	£000	£000	£000	**£000**	£000	£000	**£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**

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 due to the transfer of schools to academy status.

Financial investment reserve: The Financial Investment Reserve was 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.

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

Insurance reserve: This reserve also holds the balance resulting from a temporary surplus or deficit on the council's self insurance fund and is assessed by an actuary for the possible liabilities the council may face. It specifically holds £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 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 9: Other operating income and expenditure

	Gross Expenditure 2012/13 £000	Income 2012/13 £000	**Net Expenditure 2012/13 £000**
Land Drainage Precept	949		**949**
Miscellaneous Income	203	-585	**-382**
Contributions form Trading Services	23,409	-23,815	**-406**
Change in Provisions	545	-160	**385**
Donated Assets		-21	**-21**
Gain on disposal of non current assets		-656	**-656**
	25,106	-25,237	**-131**

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 and Crime Commissioner 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 45)	**92,934**
-69,134	Local government & fire pensions' return on assets (Note 45)	**-58,988**
-5,067	Interest receivable and similar income	**-2,412**
39,913		**48,232**

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:		
152,452	Formula Grant	148,615	
133,504	Non-ringfenced government grants	127,778	
123,187	Capital Grants and contributions	88,817	**365,210**
965,596			**945,116**

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	-3,070	-5,607			-117		**-8,794**
De-recognition - academies	-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 - academies	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).

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				-67			-67
Assets reclassified (to)/from assets held for Sale	-1,426			-94	-500		-2,020
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 or replaced under PFI schemes, please see note 43 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:

- Ranger House, Guildford £14.4m (office building, currently tenanted)
- Egham Town Centre Project £1.8m (office building, currently tenanted)
- 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 has been 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.

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 transferred to academy status (5 Community Schools, 2 Voluntary Aided Schools and 1 Foundation School). Academy schools are owned and managed completely independently of the local authority and therefore the non-current assets do not appear on the local authority balance sheet. As explained above, the academy which was previously a Foundation school and building element of the two voluntary aided schools were already not held on the authority's 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 is 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 collection and certain artefact, furniture and fittings were valued in November 2004 by Sotheby's with the remaining assets valued by Christies in 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
Pictures and paintings at County Hall	530
Artefacts and miscellaneous historical items.	67
Member's Badge of Office at County Hall	5
Total	**665**

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 £2.2m 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**
691	Additions	**975**
23,197	Gross carrying amounts at 31 March	**24,172**
-13,756	Accumulated amortisation at 1 April	**-16,049**
-2,293	Amortisation charge in year	**-2,230**
7,148	Net carrying amount at 31 March	**5,893**

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**	209,760	**218,231**
Available for sale financial assets	130	**137**		
Total Investments	241	**216**	209,760	**218,231**
Debtors				
Financial assets carried at contract amounts*	503	**8,833**	71,121	**106,073**
Total Debtors	503	**8,833**	71,121	**106,073**
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	52,698	**62,176**		
Total Other Long-term Liabilities	52,698	**62,176**		
Creditors				
Financial liabilities carried at contract amounts			169,124	**178,213**
Total Creditors	0	**0**	169,124	**178,213**

* adjusted for provision for bad debt

Income, expense, gains & losses

	2011/12			**2012/13**		
	Financial Liabilities Measured at amortised cost £000	Financial Assets Loans & receivables £000	TOTAL £000	**Financial Liabilities Measured at amortised cost £000**	**Financial Assets 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**

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.

The fair values calculated are as follows:

	31/03/12		**31/03/13**	
	Carrying Amount £000	Fair Value £000	**Carrying Amount £000**	**Fair Value £000**
Financial Liabilities	321,502	390,064	**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	209,760	209,760	**218,231**	**218,231**
Long-Term debtors	744	744	**9,049**	**9,049**

All the investments held by the council at the 31 March 2013 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:

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

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		£000s	%	%	**£000s**
31/03/12		31/03/13	31/03/13	31/03/13	**31/03/13**
	Deposits with banks and financial institutions	(a)	(b)	(c)	**(a x c)**
	Local Authorities	65,150	0.00%	0.00%	
	AAA rated counterparties	48,600	0.00%	0.00%	
36	AA rated counterparties	20,000	0.03%	0.03%	**6**
	A rated counterparties	100,000	0.08%	0.08%	**80**
	Other counterparties*	6,623			
6,263	Trade debtors**	118,534			**6,966**
6,299	Total	358,907			**7,052**

** deposits placed in Icelandic institutions whose credit ratings have reduced since the date of placing the deposit.
** a single percentage has not been applied to trade debtors. The bad debt provision is calculated using various percentage rates of possible default depending on the type and age of the outstanding debt. The estimated maximum exposure to default equates to the total bad debt provision (see note 19).

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 £14.7m of the £153.9m balance (see note 19) 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**

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 £000		**31/03/13 £000**
15,101	Less than one year	**69,243**
68,158	Between one and two years	**-10,401**
263	Between two and five years	**12,493**
9,564	Between five and 15 years	**43,116**
228,247	More than 15 years	**262,333**
321,333		**376,784**

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

31/03/12 £000		**31/03/13 £000**
229,033	Less than one year	**324,304**
229,033		**324,304**

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

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 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.

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: Short Term 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**
47,282	Bodies external to general government (i.e. All other bodies)	**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**

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**
-1,716	Public corporations and trading funds	**-323**
-	Bodies external to general government (i.e.	
127,342	All other bodies)	**-138,599**
-		
194,962	**Total**	**-234,271**

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	Landfill Usage Liability	Unequal Pay Claim	Travel lump sum	Redundancy	Carbon Reduction Commitment Scheme	**Total Provisions**
	£000	£000	£000	£000	£000	£000	£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	0	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	0	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 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 in respect of periods prior to 2006 when the pay and conditions were revised, 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. For 2012/13 and future years 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 2012/13 but for which the expenditure would not be incurred until 2013/14.

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**

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

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

31/03/12 £000		**31/03/13 £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
198,903		**327,611**

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 £000		**31/03/13 £000**	**31/03/13 £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 account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

31/03/12 £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)
(494,130)	Balance at 31 March		**(498,931)**

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

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 £000		**31/03/13 £000**
-4,699	Balance at 1 April	**-6,360**
-1,661	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	**120**
-6,360	**Balance at 31 March**	**-6,240**

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**
-13,774	Settlement or cancellation of accrual made at the end of the preceding year	-15,231	
15,231	Amounts accrued at the end of the current year	13,613	
-1,457	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**
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**
9,197	Proceeds from the sale of property, plant & equipment and intangible assets	**6,284**
-39,594	Movement in short-term and long-term investments	**-4,118**
57	Other receipts/expenditure from investing activities	**-8,330**
-154,239		**-140,455**

Note 28: Cash Flow - Financing Activities

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

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, the council has performed the final accounts closure processes on a quarterly basis, which reconciles the budget requirements with accounting requirements.

	Adults Social Care	Children, Schools & Families	Customer & Communit -ies	Environme -nt & Infrastruct- ure	Central Services & Financing	**TOTAL**
	£m	£m	£m	£m	£m	**£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
						-1,535.6
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**

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
						-1,565.9
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	**-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	**13.0**
- 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**

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 £000		**2012/13 £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 £000		**2012/13 £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 and Crime Commissioner *	**14**
-18	Management fee payable by the Surrey Police and Crime Commissioner	**-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

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
-4,200		-4,200
4,223	Expenditure met from the pooled budget	4,262
23	Surplus(-) or deficit	62
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
-2,234		-2,230
2,124	Expenditure met from the pooled budget	2,206
-110	Surplus(-) or deficit	-24
-59	Surrey County Council share	-13

HOPE services

2011/12 £000		2012/13 £000
	Funding provided to the pooled budget	
-605	- Surrey County Council	-620
-818	- Surrey PCT	-838
-1,423		-1,458
1,423	Expenditure met from the pooled budget	1,490
0	Surplus or (deficit)	32
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
-474		-572
210	Expenditure met from the pooled budget	308
-264	Surplus or (deficit)	-264
-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
1,659		1,651

*(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 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 -	2012/13	210,350	4,053	214,403	31,132	245,535
D McNulty	2011/12	210,000	4,053	214,053	31,080	245,133
Strategic Director of Children, Schools & Families -	2012/13	135,350		135,350	20,032	155,382
N Wilson	2011/12	134,417		134,417	19,894	154,311
Strategic Director of Adult Social Care -	2012/13	144,580		144,580	21,342	165,922
S Mitchell	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 -	2012/13	139,715		139,715	20,772	160,487
T Pugh	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.

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

Remuneration (£)	2011/12 Total Numbers	**2012/13 Total Numbers**	2011/12 Schools Numbers	**2012/13 Schools Numbers**	2011/12 Non School Numbers	**2012/13 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.

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**	68	**7**	1,351	**338**
Total cost included in CIES	234	**49**	103	**72**	337	**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.

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 external auditors with regards to external audit services carried out by the appointed auditor for the year	**174**
8	Fees payable to the external auditors for the certification of grant claims and returns for the year	**8**
3	Fees payable in respect of other services provided by the external auditors 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:

Ref:	2011/12 £000s				**2012/13 £000s**
A	687,968	Final DSG 2012/13 before academy recoupment			**695,265**
B	61,521	Academy figure recouped			**107,121**
C	626,446	Total DSG after academy recoupment			**588,143**
D	7,430	Brought forward from 2011/12			**12,771**
E	4,813	Carry forward agreed in advance			**0**
	629,063		central	ISB	**600,914**
F	673,556	Agreed initial budgeted distribution	77,256	526,462	**603,718**
G	-44,493	In year adjustments	7,941	-10,746	**-2,805**
H	629,063	Final distribution	85,197	515,716	**600,913**
I	64,955	Actual central expenditure	74,098		**74,098**
J	559,497	Actual Individual Schools Budget (ISB)		515,716	**515,716**
K	3,347	Local authority contribution	2,677		**2,677**
L	12,771	Amount carried forward to 2013/14	13,776	0	**13,776**

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

2011/12 £000		**2012/13 £000**
	General Grants & Contributions	
152,452	Formula Grant	**148,615**
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	**6,266**
57,181	Partnership for Schools (Standards Fund)	**36,923**
15,071	Capital S106 developer contributions	**6,975**
8,502	Capital contributions from schools	**7,046**
25,829	Highways Maintenance & Integrated Grant	**22,054**
2,417	Planning Infrastructure Contributions	**0**
1,900	Resilience & Efficiency Grant	**0**
7,521	Walton Bridge Grant	**12,814**
4,766	Other Capital grants & Contributions	**3,005**
409,144		**365,210**

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	**0**
33,852	Young People Learning Agency	**27,099**
5,693	Pupil Premium	**10,640**
2,075	Social Care Reform Grant	**0**
1,287	Children's Workforce Development Council Newly Qualified Social Worker Programme Grant	**0**
23,231	Other revenue grants	**18,837**
	Government "Capital" Grant applied to Revenue Expenditure Funded by Capital under Statute:	
18,408	- Partnership for Schools	**7,094**
3,005	- Single Capital Pot	**0**
1,556	- Highways Maintenance Grant	**0**
0	- Community Capacity grant	**1,129**
0	- Developer Contribution Woking Library	**826**
0	- Capital Contributions from Schools	**616**
974	- Other grants	**41**
721,295	**Total**	**649,055**

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)	
1,239	Capital contributions from developers S106 for Highways and Transport Service	**587**
1,239		**587**
	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**
148	New homes bonus (2012/13 grant)	**0**
157		**205**

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).

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 (REFCUS)	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
540,950	**Closing Capital Financing Requirement**	**559,695**
	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	
3,001	**Increase / (decrease) in Capital Financing Requirement**	**18,745**

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 £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
9,957	Later than one year but not later than five years	12,006
13,178	Later than five year	15,136
27,498		**29,878**

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 Operating leases - land and buildings	**2012/2013 £000**
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:

31/03/12 £000		**31/03/13 £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 year	0
473		**311**

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 £000		**31/03/13 £000**
	Lease liabilities - land and buildings:	
708	Not later than one year	1,091
1,574	Later than one year but not later than five years	2,411
8,930	Later than five year	8,817
11,212		**12,319**

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.

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.

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**

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 14.1% 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. Deficits on the firefighters' pension scheme are covered by a government grant received each year from the Department for Communities & Local Government

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 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				
Cost of Services:				
- 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**		
Financing & Investment Income & Expenditure				
-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	23,423	**57,173**	32,600	**27,800**
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement				
- actuarial (gains) and losses	108,272	**89,042**	6,900	**45,100**
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	131,695	**146,215**	39,500	**72,900**
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	55,500	**55,524**	11,274	**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).

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	-1,564,013	**-1,833,753**	-381,742	**-442,581**

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	1,026,574	**1,205,623**	0	**0**
Net Asset / Liability	-537,439	**-628,130**	-381,742	**-442,581**

* 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 (2011/12: £18.2m).

Scheme History

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	**2012/13 £000**
Present value of liabilities:					
Local Government Pension Scheme	-1,067,912	-1,756,940	-1,459,701	-1,564,013	**-1,833,753**
Firefighters' 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 Pension Scheme	-454,560	-842,926	-461,244	-537,439	**-628,130**
Firefighters' 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 2030.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and the Firefighters' Pension Scheme have been assessed by the council's actuaries, Hymans Robertson using the latest full valuation of the scheme as at 31 March 2010.

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

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Firefighters' pension scheme	
	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 Firefighters' 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**
18	Debt Instruments (Bonds)	**18**
6	Property	**5**
3	Other Assets (Cash)	**1**
100		**100**

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 £117.7m 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

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 (£1.5m related to Surrey Police Authority) 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 lifted.

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	Amount expected at maturity	Interest Rate	Maturity Date	Total paid to date	Carrying Amount
	£m	£m			£m	£m
Glitnir	5.0	5.3	6.25%	31 Oct. '08	4.2	1.1
Glitnir	5.0	5.3	6.20%	31 Oct. '08	4.2	1.1
Landsbanki	10.0	10.6	5.90%	31 Mar '09	4.9	4.5

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

Overall general balances	Total 2011/12 £000	**Total 2012/13 £000**
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	46	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**

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.

<u>Leadership & Behaviour</u>

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 produces an Annual Report that is well received by stakeholders. It demonstrates the delivery of priorities over the year through highlighting key data on performance, notable achievements 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 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 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 Surreyi, 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

David McNulty

Chief Executive

July 2013

Explanatory Foreword

Legal status

The Firefighter 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.
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
-6,278			**-6,272**
		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
13,620		Total amounts payable	**13,871**
7,342		**Net amount receivable for the year before top-up grant**	**7,599**
-4,744	4	Top-up grant received from DCLG	-4,926
-2,598	4	Top-up grant still owing from DCLG	-2,673
-7,342		Net amount payable / receivable for the year	**-7,599**

31 March 2012 £000	**Net Asset Statement**	**31 March 2013 £000**
	Current Assets:	
2,598	Pension Top-up Grant Receivable from Central Government	**2,673**
2,598		**2,673**
	Current Liabilities:	
-2,598	Cash Overdrawn	**-2,673**
-2,598		**-2,673**

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.

Note 3 - Transfer Values

Transfer values are those sums paid to or received from other pension schemes and the fire-fighter 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.

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
75,367	**Total**	**78,809**

Surrey pension fund account

2011/2012 £000		Note	2012/2013 £000
	Contributions and benefits		
138,582	Contributions receivable	7	**141,394**
13,968	Transfers in	8	**31,983**
152,550			**173,377**
-109,800	Benefits payable	9	**-113,893**
-35,835	Payments to and on account of leavers	10	**-7,945**
-1,717	Administrative expenses	14	**-1,867**
-147,352			**-123,705**
5,198	**Net additions from dealings with members**		**49,672**
	Return on investments		
42,887	Investment income	16	**40,645**
1,441	Change in market value of investments	17	**278,985**
-6,150	Investment management expenses	15	**-6,856**
38,178	**Net return on investments**		**312,774**
43,376	**Net increase 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**

Net asset statement

31 Mar 2012 £000		Note	31 Mar 2013 £000
	Investment assets	17	
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	17c	
126	- Futures		**-**
7,939	- Foreign exchange contracts		**2,153**
70,564	Cash		**59,723**
18,281	Other investment balances		**11,128**
	Investment liabilities		
	Derivatives	17c	
-	- 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**	12	**16,335**
9,071	**Current assets**	11	**13,582**
-4,594	**Current liabilities**	13	**-4,305**
2,196,270	**Net assets of the fund at 31 March**		**2,558,716**

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 25 of these accounts.

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 have been adjusted in line with best practice, with the combined IAG and Audit & Governance Committee responsibilities replaced by a single Pension Fund Board.

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.

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	1/80th of final salary	1/60th 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

e) 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 affect those who currently receive pension payments. All pension benefits built up at March 2013 will be treated according to the current scheme rules.

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

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).

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.

These accounts have been prepared on a going concern basis.

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. Contributions due for forthcoming periods is not represented within the financial statements.

b) Transfers to and from other schemes

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

Transfers in/leavers are accounted for when received/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.

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 against the investment income from which it is incurred. Investment income is shown net of irrecoverable tax.

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 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

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

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

i) Market-quoted investments

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

ii) Fixed interest securities

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

iii) Unquoted investments

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

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments 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 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 contacts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year–end with an equal and opposite contract.

k) Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

l) Financial 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 the 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 polices

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2013 was £90 million (£85 million at 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 are summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

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:

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	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

	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.	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: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial 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 date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Funds assets and liabilities. No such adjustments have been deemed necessary.

Note 7: Contributions receivable

By category

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

By employer

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

Note 8: 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**

Group transfers in from other schemes for 2012/13 reflects the merger of the Magistrates Court Services. A detailed explanation is shown in note 12, long term debtors.

Note 9: 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
44	Interest on late payment of benefits	44
109,800		**113,893**

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**

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

Note 10: 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**

Note 11: Current assets

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

Note 12: Long term debtors

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

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 the Local Government Pension Scheme (LGPS) to the Principal 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 the total value of the shortfall was agreed as £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.

Note 13: Current liabilities

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

Analysis of current liabilities

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

Note 14: Administrative expenses

2011/2012 £000		2012/2013 £000
962	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 15: Investment expenses

2011/2012 £000		2012/2013 £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**

Note 16: 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**

Note 17a: 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**

Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

	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**

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 commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1.37m (£1.34m in 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.

Note 17b: 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**

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. 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).

2012/13

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

2011/12

Contract	Expiration Date	Expiration Date Within	Type of Underlying Investment	Economic Exposure	Asset £'000	Liability £'000
Futures	27/06/2012	3 Months	Exchange traded UK Government Bonds	33,666	126	0

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).

2012/13

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

2011/12

No of Contracts	Contract Settlement Date Within	Currency Bought	Currency Sold	Notional Amount (local currency) Bought (000)	Notional Amount (local currency) Sold (000)	Asset £'000	Liability £'000
1	One month	EUR	GBP	40	-33		
8	Two months	EUR	GBP	27,988	-23,362	58	-81
1	One month	GBP	DKK	4	-35		
2	One month	GBP	EUR	939	-1,123	3	
12	Two months	GBP	EUR	117,135	-141,045	103	-577
2	One month	GBP	JPY	43	-5,722		
5	Two months	GBP	JPY	60,774	-7,328,383	5,007	
2	One month	GBP	USD	17	-27		
18	Two months	GBP	USD	203,332	-323,510	2,643	
2	One month	IDR	GBP	628,250	-43		
1	One month	PHP	GBP	26,535	-388		-1
1	Five months	USD	AUD	3,472	-3,285	101	-27
1	Three months	USD	BRL	2,162	-4,018	23	-28
1	Four months	USD	EUR	3,139	-2,439		-70
1	One month	USD	GBP	583	-364		
15	Two months	USD	GBP	85,733	-54,236		-562
1	Four months	USD	GBP	3,637	-2,347		-69
						7,939	**-1,414**

Stock Lending

The fund has not engaged in stock lending.

Note 17d: Investments analysed by fund manager

Market value 31 March 2012 £000	%	Manager	Market value 31 March 2013 £000	%
627,132	30.3	Legal & General Investment Management	792,326	32.8
132,786	6.4	Majedie Asset Management	158,471	6.6
84,999	4.1	Mirabaud Asset Management	98,382	4.1
247,300	11.9	UBS Asset Management	198,809	8.2
274,372	13.2	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	14.7	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	6.1	CBRE Global Multi-Manager	128,307	5.3
2,071,829			**2,417,457**	

The table above excludes the private equity portfolio, 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

Note 18a: 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	Loans and receivables	Financial liabilities at amortised costs		Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial assets			
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		
8,065			Derivatives	2,154		
	70,564		Cash		59,723	
18,281			Other investment balances	11,128		
	9,071		Debtors		29,916	
2,130,940	**79,635**			**2,485,002**	**89,639**	
			Financial liabilities			
-1,414			Derivatives	-7,810		
-8,297			Other investment balances	-3,810		
		-4,594	Creditors			-4,305
-9,711		**-4,594**		**-11,620**		**-4,305**
2,121,229	**79,635**	**-4,594**		**2,473,382**	**89,639**	**-4,305**

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 whist 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.

31 March 2013	**Quoted market price**	**Using observable inputs**	**With significant unobservable inputs**	**Total**
	Level 1	**Level 2**	**Level 3**	
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,376,688	17,978	90,336	2,485,002
Total financial assets	**2,376,688**	**17,978**	**90,336**	**2,485,002**
Financial liabilities				
Financial liabilities though profit & loss	-11,620			-11,620
Total financial liabilities	**-11,620**			**-11,620**
Net financial assets	**2,365,068**	**17,978**	**90,336**	**2,473,382**

31 March 2012	**Quoted market price**	**Using observable inputs**	**With significant unobservable inputs**	**Total**
	Level 1	**Level 2**	**Level 3**	
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,017,344	28,820	84,776	2,130,940
Total financial assets	**2,017,344**	**28,820**	**84,776**	**2,130,940**
Financial liabilities				
Financial assets though profit & loss	-9,711			-9,711
Total financial liabilities	**-9,711**			**-9,711**
Net financial assets	**2,007,633**	**28,820**	**84,776**	**2,121,229**

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 £101,599,103 (£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, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment guidelines in place that specify the manager's investment powers and restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

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.

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%	748,901	575,415
Overseas equities	912,529	12.7%	1,028,420	796,638
Total bonds	347,863	5.3%	366,300	329,426
ILG	99,100	8.0%	107,028	91,172
Cash	59,723	0.0%	59,723	59,723
Property	120,748	2.4%	123,646	117,850
Total Assets	**2,202,121**		**2,434,018**	**1,970,224**

The above table excludes private equity, diversified growth, derivatives and other investment balances.

Asset type	Value at 31 March 2012 £000	% Change	Value on increase £000	Value on decrease £000
UK equities	726,382	15.6%	839,698	613,066
Overseas equities	783,777	15.4%	904,479	663,075
Total bonds	309,600	5.7%	327,247	291,953
ILG	79,752	7.4%	85,654	73,850
Cash	70,564	0.0%	70,564	70,564
Property	120,306	5.8%	127,284	113,328
Total Assets	**2,090,381**		**2,354,926**	**1,825,836**

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 though 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 diverse 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**

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Interest rate risk sensitivity analysis
The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long-term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

Asset type	Carrying amount as at 31 March 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.

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. A significant proportion of overseas assets are invested via pooled funds denominated in Sterling.

Asset type	Value at 31 March 2013 (£)	% Change	Value on increase	Value on decrease
Overseas equities	488,369	6.1%	518,160	458,578
Fixed interest	2,207	6.1%	2,342	2,072
Property unit trust	11,432	6.1%	12,129	10,735
Cash	2,701	6.1%	2,866	2,536
Total	**504,709**	**6.1%**	**535,497**	**473,922**

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%	488,800	401,546
Fixed Interest	8,320	9.8%	9,135	7,505
Property Unit Trust	16,441	9.8%	18,052	14,830
Cash	3,963	9.8%	4,351	3,575
Total	**473,897**	**9.8%**	**520,338**	**427,456**

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

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	Internally Managed Cash	19,253
41,604	Externally Managed Cash	40,470
70,564	**Total Cash**	**59,723**

The fund's cash holding under its treasury management arrangements as at 31 March 2013 was £19.3 million (£29.0 million at 31 March 2012).

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

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 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
55,716		**55,660**

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
1,545		**1,537**

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 £	
17,553	Chief Finance Officer	19,991	1
68,110	Pension Fund & Treasury Manager	58,456	2
51,769	Senior Accountant	51,994	
137,432		**130,441**	

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

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:

Private Equity Manager	Custody Provider
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.

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

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.

Balance sheet

Year ended	31 March 2013 £m	31 March 2012 £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:

	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.

Grant Thornton

The Audit Findings for Surrey County Council

Year ended 31 March 2013

20 August 2013

Andy Mack
Engagement Lead
T 0207 728 3299
E Andy.L.Mack@uk.gt.com

Kathryn Sharp
Senior Manager
T 01293 554 086
E Kathryn.E.Sharp@uk.gt.com

Daniel Woodcock
Assistant Manager
T 01293 554 122
E Daniel.Woodcock@uk.gt.com

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Surrey County Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting (the Code). We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 18 March 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- receipt of one investment confirmation letter
- obtaining and reviewing the final management letter of representation following the Audit and Governance Committee meeting
- updating our post balance sheet events review, to the date of signing the opinion and confirming there are no further amendments to the financial statements
- preliminary testing of the Teachers' Pensions Return; and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. We anticipate issuing our opinion on 5 September 2013. We will issue our certificate closing the audit once we have completed the required work on the Whole of Government Accounts.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified three adjustments affecting the Council's Comprehensive Income and Expenditure Statement and one affecting the Balance Sheet (details are recorded in section 2 of this report). None of the amendments identified affected the net expenditure figure. We have also agreed a number of adjustments to the notes to the accounts to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- The draft financial statements were well prepared , together with good quality supporting working papers. All Council staff responded on a timely basis to our audit queries.
- The findings from our audit of Surrey Pension Fund are included in a separate Audit Findings Report.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We are currently awaiting guidance on the work required in respect of the Whole of Government Accounts. We will complete the work in accordance with the national timetable and will provide a verbal update on progress to Committee members.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. We identified two minor control weaknesses during our audit.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Finance Officer and Deputy Director for Business Services.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Finance Officer and Deputy Director for Business Services and the finance team.

We have agreed a provisional timetable and working arrangements with the finance team for 2013/14 to enable the planned approval of the financial statements at the end of July 2014.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
August 2013

Section 2: Audit findings

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 18 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 18 March 2013.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries have not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.
3.	**Property, Plant and Equipment is materially misstated.** The Council manages schools through a variety of governance arrangements e.g. community schools, voluntary controlled schools, voluntary aided schools, foundation schools and academies. The differences in those arrangements have implications for the accounting treatment of each of these categories. There is a risk that Property, Plant and Equipment may be materially misstated due to the incorrect inclusion or omission of schools on your balance sheet. Audit testing in 2011/12 identified errors in the disclosure of Assets under Construction in the notes to the accounts.	• testing classification of schools • testing schools derecognised in the year • testing additions in the year, including those made to Assets under Construction	Our audit work has not identified any issues in respect of the Council's accounting treatment of schools. CIPFA / LASAAC are currently considering an update to the Code, but changes are not expected until 2014/15 at the earliest. We recommend as best practice for 2013/14 that the Council should disclose in the notes to the accounts the value of land and buildings relating to schools that have not been recognised in the financial statements. This will anticipate the planned changes to the Code. Our audit work has not identified any issues in respect of Assets under Construction.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • tested payments for completeness, classification and occurrence	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Remuneration expenses not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • tested salary payments to ensure they were made to bona fide employees.	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthroughs of the key controls to assess whether those controls are designed effectively • substantively tested revaluations in year.	Our audit work has not identified any significant issues in relation to the risk identified. As permitted under the Code, the Council carries out a rolling programme of revaluations, so that each asset is revalued at least every 5 years. For example, in 2012/13 all youth centres, Runnymede schools and adult education centres were revalued. The Council should ensure that if the revaluation programme highlights significant movements in carrying amounts, it considers the results on the remainder of the asset class.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue from the sale of goods and provision of services is recognised when the Council transfers the goods or completes delivery of a service. • 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.	The accounting policy is adequately disclosed in line with the requirements of the Code. Our testing of government grants and contributions did not identify any instances of inappropriate revenue recognition.	Green
Judgements and estimates	• Key estimates and judgements include – useful life of capital equipment – revaluations – provisions – pensions liability – recoverability of debtors – impairment of Icelandic investments	Critical judgements and estimation uncertainties are disclosed in Notes 3 and 4 of the financial statements and are in line with the requirements of the Code. The Council entered into a PFI contract for waste disposal in 1999. As at 31 March 2013 it had received £117.7 million in PFI credits, and in return has an obligation to invest in waste disposal infrastructure. Planning permission for the Eco Park was granted in March 2012, but a large proportion of this obligation has yet to be delivered. As such the Council has disclosed a contingent liability of £117.7 million in respect of potential repayment of PFI credits received to date. It has not made a provision in the accounts for any repayment of PFI credits as officers are of the view that the possibility of any form of repayment being required is too remote. We have reviewed the most recent communications from DEFRA in respect of the Council's PFI credits and are satisfied that there are no indications at present that these will have to be repaid.	Green

Accounting policies, estimates & judgements [cont'd]

Accounting area	Summary of policy	Comments	Assessment
		The Council last undertook a review of its potential liabilities in respect of closed landfill sites in 2001. It has disclosed a maximum contingent liability of £33.4m. It should carry out a further review in 2013/14 to establish the current value of any liability.	
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	● Green

Assessment

- ● [Red] Marginal accounting policy which could potentially attract attention from regulators
- ● [Amber] Accounting policy appropriate but scope for improved disclosure
- ● [Green] Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	Gross expenditure and income were both overstated due to the firefighters' pensions transactions not being excluded from either income or expenditure.	(9,869) 9,869		0
2	Other operating income and expenditure were both overstated.	(2,389) 2,389		0
3	Financing and investment income and expenditure were both overstated in the Comprehensive Income and Expenditure Account. The figures in the supporting note (Note 10) were correct.	(851) 851		0
4	A new 'current liabilities' line has been added for amounts in relation to finance leases and PFI contracts which are repayable in the next 12 months. These amounts have been removed from the 'other long-term liabilities' line, so there is no change to the Council's net assets/liabilities.	0	(3,221) 3,221	0
	Overall impact	**£0**	**£0**	**£0**

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. In addition, a number of trivial disclosure amendments were made following audit findings.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Note 9: other operating income and expenditure are now disclosed gross to match the figures in the Comprehensive Income and Expenditure statement.	25,106 (25,237)	Other operating income and expenditure	There is no effect on the net position in the Comprehensive Income and Expenditure Statement.
2	Note 11: National non-domestic rates funding and the revenue support grant have been adjusted to reflect the total formula grant received. In addition, some grant amounts have been reclassified in Note 39.	13,761	General Grants & Contributions	There is no change to the bottom line total for council tax and general grants and contributions

Misclassifications & disclosure changes [cont'd]

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
3	Note 16: A number of changes have been made to ensure that it discloses all financial instruments in line with the definition in the Code.	Various	Financial Instruments	There is no impact on the primary financial statements.
4	Note 42: Lease liabilities later than one year but not later than 5 years have been reduced following identification of a calculation error.	(2,294)	Operating Leases	There is no impact on the primary financial statements.
5	Note 42: Lease income has been re-profiled.	345	Operating Leases	There is no impact on the primary financial statements.

Unadjusted misstatements

There are no non-trivial adjustments which have not been made within the final set of financial statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	● Amber	• Our testing of the Council's cash balance identified that within the Networks / Confederations account there is a balance, estimated at £1,418k, that relates to academy schools and should therefore be excluded from the Council's balance sheet.	• The Council should make a reliable estimate of the cash held by Networks / Confederations that belongs to academy schools and exclude these amounts from its balance sheet
2.	● Amber	• Our testing of the Council's cash balance identified that the year-end reconciliations of 120 imprest petty cash balances totalling £306k had not been completed. The total imprest amount was included in the financial statements at the year end.	• During our audit officers contacted all petty cash holders and requested them to complete the reconciliations. As at 20 August 2013, 109 of the balances had been reconciled. The Council should ensure that all petty cash balances are reconciled on a timely basis as part of its standard closedown procedures.

Assessment
- ● [Red] Significant deficiency – risk of significant misstatement
- ● [Amber] Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Governance Committee and been made aware of one relationship currently under investigation arising from the recent National Fraud Initiative (NFI) data matching exercise. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• We have requested a letter of representation from management, which has been drafted and will be approved by the Audit and Governance Committee at its meeting on 2 September 2013. • In particular, representations will be requested from management in respect of the completeness of the related party transactions disclosure in Note 40 as one member has failed to complete a declaration of interests return for the year.
4.	**Disclosures**	• Our review found no material omissions in the financial statements. • A number of notes with immaterial balances are included in the financial statements: Note 18 – Landfill Allowance Trading Scheme and Carbon Reduction Commitment Allowances, Note 31 – Agency Services, Note 32 – Pooled Budgets and Note 49 – Trust Funds. The Council should assess whether these notes are still required.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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02. Audit findings
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05. Communication of audit matters

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2013-14 and beyond, its current arrangements for achieving financial resilience are adequate.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have reviewed the Council's strategic financial planning and decision making processes and its achievement of savings

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Our detailed findings are set out in our Financial Resilience Report.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk	Management response
Communication of the medium- to long-term financial strategy, current financial position and likely financial challenges	Following the recommendations made in the Financial Management Public Value review, budget managers are being trained on using the finance system and self-service reporting has been developed. The Council is progressing a cultural shift so that all managers have clear ownership of their financial responsibilities. As with any initiative requiring behavioural change, it will take time to fully embed.	The Council needs to ensure that it manages the on-going impact of this cultural shift by reviewing the progress made and identifying areas for improvement. This includes monitoring the effectiveness of the new dashboard.	The Finance dashboard went live on 1 August 2013 and a front page s-net communications strategy is planned for early September that links to the Peer Challenge campaign - promoting financial responsibility across all staff. Senior Leader and Member buy-in to the dashboard is strongly evident.
Reserve balances	As at 31 March 2013 the Council's balance sheet shows a net liability of £39m, caused by an increase in the long term pension liability of £134m. We do not consider this to be a significant risk to the Council in the medium term, but is something that should be considered as part of long-term planning.	The Council should continue to review the appropriateness of reserve levels and monitor its liquidity to ensure financial resilience is maintained.	Reserves are reviewed on an on-going basis (most recently at July Cabinet 2013 where Cabinet decided that the Severe Weather Reserve of £5m be used to tackle damaged roads during 2013/14. Reserves will be further reviewed as part of the MTFP (2014-19) process. The pension fund's actuary is currently undertaking the triennial review. This will recommend contribution rates and deficit reduction payments, which the council will consider as a part of the MTFP (2014-19) process

Residual Risk identified	Assurances obtained	Conclusion on residual risk	Management response
Medium Term Financial Plan	The Council has already identified schemes to reflect the majority of savings required within the MTFP but as at 31 March 2013 £79m of savings are still to be identified to 2017/18.	The Council will need to update the MTFP for the implications of SR13 as soon as they can be identified. Due to the ongoing increasing demand for school places caused by a combination of population increases and migration, the Council should continue to review the capital spend required in the mid to long term in order to meet its statutory obligations. Going forward the Council should consider adding the consideration of Adult Social Care volume and schools places as key risks within the relevant MTFP section, although this will not affect the level of consideration it has applied over these areas.	The Cabinet agreed a report on 23 July 2013 that refreshed the MTFP (2013-18) based on the latest information (including SR 2013 and further efficiencies to be delivered – i.e. part of the £79m). During summer 2013 officers will continue to work on MTFP plans in advance of further member workshops from mid-September up until the completion of MTFP (2014-19) in January 2014. To be reflected in S25 report in Feb 2014 budget report.
Monitoring of savings	During 2012-13, the Council achieved recurrent savings of £66m against a target of £71m, although countervailing (one off) savings ensured that an overall revenue underspend was achieved in-year.	During the course of our review we confirmed that countervailing savings were not always identified during the monitoring process. The Council should consider the formal reporting of this so that countervailing savings are clearly identified and their impact on service provision is better understood.	Staring from July 2013 the monthly budget monitoring report to Cabinet highlighted 'countervailing' (or one off) savings separately. With effect from Sept 2013, the level of challenge and review of savings by the Corporate Board will be enhanced.
Partnership working	The Council has begun to use its size and position to create better opportunities for both itself and key partners (e.g. through procurement reviews and joint ventures) .	The Council should look to increase the use of this position going forward in order to maximise value for money.	In July 2013 the Cabinet agreed an Investment Strategy paper – aimed at optimising its use of assets - and an Innovation update – approving invest to save support up to 2016/17. Several services are developing alternative methods of delivery papers that are expected to seek Cabinet approval from September 2013.

Section 4: Fees, non audit services and independence

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit	189,464	189,464
Grant certification	4,200	4,200 [estimated]
Total audit fees	**193,664**	**193,664**

Fees for other services

Service	Fees £
None	Nil

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.

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

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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'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 Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these 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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	We recommend as best practice that the Council should disclose in the notes to the accounts the value of land and buildings relating to schools that have not been recognised in the financial statements.	Low	The Council will evaluate the need for this in the 2012/14 accounts based on the requirements of the Code and the cost to the council of obtaining such valuations.	December 2013 Finance Manager (Assets & Accounting)
2	The Council should ensure it considers the results of the rolling revaluation programme on the remainder of the asset class.	Medium	The Council will consider the impact of changes in valuation of the remainder of the asset class where there are significant movements in the formal valuations carried out, to compliment the annual impairment review already undertaken each year.	December 2013 Finance Manager (Assets & Accounting)
3	The Council should carry out a review of its potential liabilities in respect of closed landfill sites in 2013/14 and consider whether a provision is required.	Medium	A review of the Council's potential liabilities in relation to closed landfill sites will be undertaken during 2012/13 in order to update the contingent liability disclosure and re-assess the need for a provision.	By March 2014 Finance Manager (Assets & Accounting)

Appendix A: Action plan [cont'd]

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4.	The Council should make a reliable estimate of the cash held by Networks / Confederations that belongs to academy schools and exclude these amounts from its balance sheet.	Medium	The Councils plans to use pupil numbers, adjusted for deprivation factors, in order to split the cash balances held by networks and confederations into the elements relating to academies as opposed to SCC maintained schools. In addition the Council plans to include additional instructions in it's 'Financial Guidance to Networks' document which specifies that this will be the basis of apportioning balances should a network/confederation be dissolved, unless an alternative method is agreed by the network itself. Where the network is administered by an academy we will require an audited year-end statement confirming the balance held.	December 2013 Finance Manager (Assets & Accounting) & Senior Principal Accountant (Schools Funding)
5	The Council should ensure that all petty cash balances are reconciled on a timely basis as part of its standard closedown procedures.	Medium	The Council will ensure that timely chasing of the year-end certifications is undertaken in future years.	April 2014 Finance Manager (Assets & Accounting)
6	The Council should remove notes with immaterial balances from its financial statements as part of its 'decluttering' exercise.	Low	The council will consider the value of the notes in question to readers of the accounts, with a view to removing for future years	December 2013 Finance Manager (Assets & Accounting)

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL

DRAFT Opinion on the Authority financial statements

We have audited the financial statements of Surrey County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement, and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
give a true and fair view of the financial position of Surrey County Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:
in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:
securing financial resilience; and
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Surrey County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion

Andy Mack
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

x September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 18 March 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	Yes [see page 13]
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	Yes [see page 13]
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	Yes [see page 14]
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	Yes [see page 14]
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	Yes [see page 14]
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	Yes - Best Practice Recommendation [see page 9]
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	Yes [see page 10]
Heritage assets	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cash & cash equivalents	Bank & Cash	None		No	Yes [see page 17]
Borrowing and other liabilities (long & short term)	Debt	None		No	Yes [see page 13]
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None

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The Audit Findings for Surrey Fire Fighters' Pension Fund

Year ended 31 March 2013

20 August 2013

Andy Mack
Engagement Lead
T 0207 728 3299
E Andy.L.Mack@uk.gt.com

Kathryn Sharp
Senior Manager
T 01293 554 086
E Kathryn.E.Sharp@uk.gt.com

Daniel Woodcock
Assistant Manager
T 01293 554 122
E Daniel.Woodcock@uk.gt.com

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key issues arising from our work on Surrey Fire Fighters' Pension Fund's ('the Fund') financial statements for the year ended 31 March 2013.

Introduction

In the conduct of our work we have had to change our planned procedures, which we communicated to you in our Audit Plan dated 3 July 2013. On 22 July 2013 the Audit Commission advised that there is no longer a requirement to give a specific opinion on the Fire Fighters' Pension Fund within the overall opinion on Surrey County Council's financial statements. We therefore completed our review of the financial statements, including the accounting policies and key judgements and estimates, and carried out testing of journals. We did not undertake any substantive testing of contributions receivable and benefits payable as neither of these figures are material to Surrey County Council's accounts.

Key audit and financial reporting issues

Financial statements opinion

We received draft financial statements and accompanying working papers at the start of our audit.

We have not identified any adjustments affecting the Fund's financial position or made any amendments to improve the presentation of the financial statements.

We are no longer required to issue a separate opinion on the Fund's financial statements.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our work.

Grant Thornton UK LLP
August 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fess, non audit services and independence

04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, issued to the Audit and Governance Committee on 8 July 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

Following guidance issued by the Audit Commission on 22 July 2013 we have changed our Audit Plan as previously communicated to you on 8 July 2013. This advised that there is no longer a requirement to give a specific opinion on the Fund within the overall opinion on Surrey County Council's financial statements. As none of the figures within the Fund's financial statements are material to Surrey County Council as a whole, we therefore did not undertake our planned substantive testing of contributions receivable and benefits payable. Our work was limited to:

- reviewing the financial statements for compliance with the Code
- agreeing the financial statements and notes to the ledger and supporting working papers
- assessing the accounting policies, key judgements and estimates; and
- testing of journals.

Audit opinion

We are no longer required to issue a separate audit opinion on the Fund's financial statements.

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	We have rebutted this presumption and therefore do not consider this to be a significant risk for Surrey Fire Fighters' Pension Fund since: • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • Revenue contributions are made by direct salary deductions from Surrey County Council. 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.	Our work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries have not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefit payments and transfers on account of leavers	Benefits improperly computed/claims liability understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • agreed the figures in the financial statements to the ledger and supporting working papers	Our work has not identified any significant issues in relation to the risk identified.
Contributions	Recorded contributions not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • agreed the figures in the financial statements to the ledger and supporting working papers	Our work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Contributions represent the total amounts receivable from the Council and the pensionable employees. No provision has been made for employee and employer contributions for sums due on pay awards not settled. • Transfer values received are accounted for on a receipts basis.	• Accounting policy is adequately disclosed and in line with the Code • Minimal judgement is involved in determining when revenue should be recognised.	● Green
Judgements and estimates	• Estimating the net liability to pay pensions depends on a number of complex judgements relating to salary increase projections, changes in retirement ages and mortality 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.	• Key judgements and estimates are adequately disclosed in the Explanatory Foreword to the Fire Fighters' Pension Fund accounts.	● Green
Other accounting policies	• The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	• We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting and do not have any comments to make.	● Green

Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Adjusted and unadjusted misstatements, misclassifications & disclosure changes, internal controls

We did not identify any misstatements, misclassification or disclosure changes, or any significant control weaknesses during the course of our work.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our procedures
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from Surrey County Council which also covers the Fund.
4.	**Disclosures**	• Our review found no material omissions in the financial statements
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

01. Executive summary
02. Audit findings
03. Fees, non audit services and independence
04. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit

Fees

	Per Audit plan £	Actual fees £
Fund audit	Included within main audit fee	

Fees for other services

Service	Fees £
None	Nil

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.

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

Section 5: Communication of audit matters

01. Executive summary
02. Audit findings
03. Fees, non audit services and independence
04. Communication of audit matters

Communication of audit matters to 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 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 Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these 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 issues 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		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Grant Thornton

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Annex D

SURREY
COUNTY COUNCIL

Andy Mack
Director
Grant Thornton
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Surrey County Council - Audit for the year ended 31 March 2013

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and members of Surrey County Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2013. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice for Local Authority Accounting in the United Kingdom, which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

There are no non-trivial adjustments which have not been reflected within the final set of financial statements.

Supporting records

I have made available all relevant information and access to persons within the authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Waste PFI grant

I confirm that the PFI grant received to date is unlikely to be repaid and that no provision for repayment is necessary as the likelihood of repayment is too remote. I confirm that the contingent liability in relation to the potential repayment of some or all of the PFI grant received to date has been fully disclosed in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of Surrey County Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework. I am satisfied that there are no omissions despite the failure of one member to return his response. 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 County Council meetings which occurred during the year. He is no longer a County Councillor following in May 2013 elections.

Subsequent events

I have adjusted for or disclosed in the financial statements all the relevant events subsequent to the date of the financial statements.

Signed on behalf of Surrey County Council

Sheila Little
Chief Finance Officer & Deputy Director for Business Services
2 September 2013

I confirm that this letter has been discussed and agreed by the Audit and Governance Committee on 2 September 2013.

SURREY
COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE
2 September 2013

SURREY PENSION FUND
LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2012/2013
AND
GRANT THORNTON AUDIT FINDINGS FOR SURREY PENSION FUND REPORT

SUMMARY:

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2013, in light of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

The external auditor (Grant Thornton) expects to issue an unqualified opinion on the accounts and this is outlined in the Audit Findings for Surrey Pension Fund Report.

PURPOSE:

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

Annex A represents the primary statements and accompanying notes to the accounts. This report summarises the amendments that have been made to the draft financial statements, with an explanation for the changes alongside a reference to the statement or note that has been amended.

The result of the external audit is reported in the Audit Findings for Surrey Pension Fund Report, which is presented at Annex B.

RECOMMENDATIONS:

The Committee is asked to:

(i) Approve the 2012/13 Pension Fund financial statements as attached at Annex A.

(ii) Consider the content of the Audit Findings for Surrey Pension Fund Report (Annex B).

(iii) Determine any issues that need to be referred to Cabinet in relation to the auditor's conclusions and recommendations.

(iv) Consider the content of the draft representation letter as set out in Annex D and authorise the Chief Finance Officer to sign it on the authority's behalf.

2012/13 PENSION FUND ACCOUNTS:

1. Grant Thornton audits both the County Council and Pension Fund accounts and is required to present separate audit opinions on each.

Audited Pension Fund Accounts

2. The Pension Fund statement of accounts was presented to this Committee at its meeting on 24 June 2013 and approved, subject to the completion of the external audit.
3. During the audit, Grant Thornton identified some issues, which have led to minor amendments being made to the 2012/13 draft financial statements and related notes to the accounts.
4. Annex A represents the Pension Fund primary statements and accompanying notes to the accounts, with updated figures and amendments highlighted.
5. A copy of the financial statements and notes to the accounts included in Annex A will replace the version included in the County Council's draft Statement of Accounts which was presented to this Committee on the 24 June 2013 and will be published in the Pension Fund Annual Report 2013.

Notes to the Statement of Accounts

6. Changes to the notes of the statements of accounts are shown in Annex C.

2012/13 ANNUAL GOVERNANCE REPORT:

7. The external auditor is required to report on the Pension Fund financial statements. The Audit Findings for Surrey Pension Fund Report is presented at Annex B and sets out a summary of the work carried out, the conclusions reached and recommendations made.

8. The Committee will note that the auditor is anticipating issuing an unqualified opinion on the financial statements

MANAGEMENT REPRESENTATION LETTER:

9. It is considered good practice for those charged with governance to provide the auditor with a letter of representation in respect of matters that are material to the financial statements, but appropriate audit evidence cannot reasonably be expected to exist.

10. A draft letter of representation is included at Annex D.

IMPLICATIONS:

A) Financial
There are no direct financial implications.

B) Equalities
There are no direct equality implications.

C) Risk management and value for money
Pension Fund risks are proactively monitored by officers and the Surrey Pension Fund Board.

WHAT HAPPENS NEXT:

11. The Pension Fund Annual Report will be received by the Pension Fund Board at its meeting on 20 September 2013 and will subsequently be published and distributed among employing bodies.

12. The Pension Fund annual meeting which is open to all employing bodies in the Fund will take place on 22 November 2013.

REPORT AUTHOR:
Phil Triggs, Strategic Finance Manager

CONTACT DETAILS:
Phil Triggs 020 8541 9894 – phil.triggs@surreycc.gov.uk

Sources/Background Papers:
Closure of Accounts Working Papers 2012/2013
Computerised Accounts of the County Council
Quarterly Investment and Performance reports for the year to 31/3/2013

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Annex A

SURREY PENSION FUND ACCOUNTS 2012/2013

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
75,367	**Total**	**78,809**

Surrey pension fund account

2011/2012 £000		Note	2012/2013 £000
	Contributions and benefits		
138,582	Contributions receivable	7	**159,544**
13,968	Transfers in	8	**13,833**
152,550			**173,377**
-109,800	Benefits payable	9	**-113,893**
-35,835	Payments to and on account of leavers	10	**-7,945**
-1,717	Administrative expenses	14	**-1,867**
-147,352			**-123,705**
5,198	**Net additions from dealings with members**		**49,672**
	Return on investments		
42,887	Investment income	16	**40,645**
1,441	Change in market value of investments	17	**278,985**
-6,150	Investment management expenses	15	**-6,856**
38,178	**Net return on investments**		**312,774**
43,376	**Net increase 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**

Net asset statement

31 Mar 2012 £000		Note	31 Mar 2013 £000
	Investment assets	17	
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	17c	
126	- Futures		**-**
7,939	- Foreign exchange contracts		**2,153**
70,564	Cash		**59,723**
18,281	Other investment balances		**11,128**
	Investment liabilities		
	Derivatives	17c	
-	- 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**	12	**16,335**
9,071	**Current assets**	11	**13,582**
-4,594	**Current liabilities**	13	**-4,305**
2,196,270	**Net assets of the fund at 31 March**		**2,558,716**

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 25 of these accounts.

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 have been adjusted in line with best practice, with the combined IAG and Audit & Governance Committee responsibilities replaced by a single Pension Fund Board.

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.

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	1/80th of final salary	1/60th 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

e) 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 affect those who currently receive pension payments. All pension benefits built up at March 2013 will be treated according to the current scheme rules.

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

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).

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.

These accounts have been prepared on a going concern basis.

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. Contributions due for forthcoming periods are not represented within the financial statements.

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

   Transfers in/leavers are accounted for when received/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.

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 against the investment income from which it is incurred. Investment income is shown net of irrecoverable tax.

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

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

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

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

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

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments 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 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 on the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

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

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in the change in market value.

The value of futures contacts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year–end with an equal and opposite contract.

k) Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

l) Financial 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 the 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 polices

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2013 was £90 million (£85 million at 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 are summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

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:

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: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial 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 date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Funds assets and liabilities. No such adjustments have been deemed necessary.

Note 7: Contributions receivable

By category

2011/2012 £000		2012/2013 £000
106,671	Employers	109,514
31,911	Members	31,880
-	Magistrates Court Services deficit funding	18,150
138,582		**159,544**

By employer

2011/2012 £000		2012/2013 £000
75,435	Administering authority	78,045
52,266	Scheduled bodies	50,889
10,881	Admitted bodies	12,460
-	Magistrates Court Services deficit funding	18,150
138,582		**159,544**

Magistrates Court Services deficit funding for 2012/13 reflects the merger of the Magistrates Court Services. A detailed explanation is shown in note 12, long term debtors.

Note 8: Transfers in from other pension funds

2011/2012 £000		2012/2013 £000
13,968	Individual transfers in from other schemes	13,833
13,968		**13,833**

Note 9: Benefits payable

By category

2011/12 £000		2012/13 £000
86,143	Pensions	94,191
20,667	Commutation and lump sum retirement benefits	16,818
2,946	Lump sum death benefits	2,840
44	Interest on late payment of benefits	44
109,800		**113,893**

By employer

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

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

Note 10: Payments to and on account of leavers

2011/2012 £000		2012/2013 £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**

Note 11: Current assets

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

Note 12: Long term debtors

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

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 the Local Government Pension Scheme (LGPS) to the Principal 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 the total value of the shortfall was agreed as £18.15m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount has been recognised as contributions during 2012/13. 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.

Note 13: Current liabilities

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

Analysis of current liabilities

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

Note 14: Administrative expenses

2011/2012 £000		2012/2013 £000
962	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 15: Investment expenses

2011/2012 £000		2012/2013 £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**

Note 16: 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**

Note 17a: 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**

Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

	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**

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 commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1.37m (£1.34m in 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.

Note 17b: Analysis of investments

	31 Mar 2012	31 Mar 2013
Fixed interest securities	**£000s**	**£000s**
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**

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. 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).

2012/13

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

2011/12

Contract	Expiration Date	Expiration Date Within	Type of Underlying Investment	Economic Exposure	Asset £'000	Liability £'000
Futures	27/06/2012	3 Months	Exchange traded UK Government Bonds	33,666	126	0

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).

2012/13

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

2011/12

No of Contracts	Contract Settlement Date Within	Currency Bought	Currency Sold	Notional Amount (local currency) Bought (000)	Notional Amount (local currency) Sold (000)	Asset £'000	Liability £'000
1	One month	EUR	GBP	40	-33		
8	Two months	EUR	GBP	27,988	-23,362	58	-81
1	One month	GBP	DKK	4	-35		
2	One month	GBP	EUR	939	-1,123	3	
12	Two months	GBP	EUR	117,135	-141,045	103	-577
2	One month	GBP	JPY	43	-5,722		
5	Two months	GBP	JPY	60,774	-7,328,383	5,007	
2	One month	GBP	USD	17	-27		
18	Two months	GBP	USD	203,332	-323,510	2,643	
2	One month	IDR	GBP	628,250	-43		
1	One month	PHP	GBP	26,535	-388		-1
1	Five months	USD	AUD	3,472	-3,285	101	-27
1	Three months	USD	BRL	2,162	-4,018	23	-28
1	Four months	USD	EUR	3,139	-2,439		-70
1	One month	USD	GBP	583	-364		
15	Two months	USD	GBP	85,733	-54,236		-562
1	Four months	USD	GBP	3,637	-2,347		-69
						7,939	**-1,414**

Stock Lending

The fund has not engaged in stock lending.

Note 17d: Investments analysed by fund manager

Market value 31 March 2012 £000	%	Manager	Market value 31 March 2013 £000	%
627,132	30.3	Legal & General Investment Management	792,326	32.8
132,786	6.4	Majedie Asset Management	158,471	6.6
84,999	4.1	Mirabaud Asset Management	98,382	4.1
247,300	11.9	UBS Asset Management	198,809	8.2
274,372	13.2	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	14.7	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	6.1	CBRE Global Multi-Manager	128,307	5.3
2,071,829			**2,417,457**	

The table above excludes the private equity portfolio, 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

Note 18a: 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	Loans and receivables	Financial liabilities at amortised costs		Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial assets			
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		
8,065			Derivatives	2,154		
	70,564		Cash		59,723	
18,281			Other investment balances	11,128		
	9,071		Debtors		29,916	
2,130,940	**79,635**			**2,485,002**	**89,639**	
			Financial liabilities			
-1,414			Derivatives	-7,810		
-8,297			Other investment balances	-3,810		
		-4,594	Creditors			-4,305
-9,711		**-4,594**		**-11,620**		**-4,305**
2,121,229	**79,635**	**-4,594**		**2,473,382**	**89,639**	**-4,305**

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 whist 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.

31 March 2013	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,376,688	17,978	90,336	2,485,002
Total financial assets	**2,376,688**	**17,978**	**90,336**	**2,485,002**
Financial liabilities				
Financial liabilities though profit & loss	-11,620			-11,620
Total financial liabilities	**-11,620**			**-11,620**
Net financial assets	**2,365,068**	**17,978**	**90,336**	**2,473,382**

31 March 2012	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,017,344	28,820	84,776	2,130,940
Total financial assets	**2,017,344**	**28,820**	**84,776**	**2,130,940**
Financial liabilities				
Financial assets though profit & loss	-9,711			-9,711
Total financial liabilities	**-9,711**			**-9,711**
Net financial assets	**2,007,633**	**28,820**	**84,776**	**2,121,229**

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 £101,599,103 (£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, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment guidelines in place that specify the manager's investment powers and restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

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.

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%	748,901	575,415
Overseas equities	912,529	12.7%	1,028,420	796,638
Total bonds	347,863	5.3%	366,300	329,426
ILG	99,100	8.0%	107,028	91,172
Cash	59,723	0.0%	59,723	59,723
Property	120,748	2.4%	123,646	117,850
Total Assets	**2,202,121**		**2,434,018**	**1,970,224**

The above table excludes private equity, diversified growth, derivatives and other investment balances.

Asset type	Value at 31 March 2012 £000	% Change	Value on increase £000	Value on decrease £000
UK equities	726,382	15.6%	839,698	613,066
Overseas equities	783,777	15.4%	904,479	663,075
Total bonds	309,600	5.7%	327,247	291,953
ILG	79,752	7.4%	85,654	73,850
Cash	70,564	0.0%	70,564	70,564
Property	120,306	5.8%	127,284	113,328
Total Assets	**2,090,381**		**2,354,926**	**1,825,836**

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 diverse 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**

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long-term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

Asset type	Carrying amount as at 31 March 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.

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. A significant proportion of overseas assets are invested via pooled funds denominated in Sterling.

Asset type	Value at 31 March 2013 £000	% Change	Value on increase £000	Value on decrease £000
Overseas equities	488,369	6.1%	518,160	458,578
Fixed interest	2,207	6.1%	2,342	2,072
Property unit trust	11,432	6.1%	12,129	10,735
Cash	2,701	6.1%	2,866	2,536
Total	**504,709**	**6.1%**	**535,497**	**473,922**

For comparison last year figures are included below.

Asset type	Value at 31 March 2012 £000	% Change	Value on increase £000	Value on decrease £000
Overseas Equities	445,173	9.8%	488,800	401,546
Fixed Interest	8,320	9.8%	9,135	7,505
Property Unit Trust	16,441	9.8%	18,052	14,830
Cash	3,963	9.8%	4,351	3,575
Total	**473,897**	**9.8%**	**520,338**	**427,456**

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

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	Internally Managed Cash	19,253
41,604	Externally Managed Cash	40,470
70,564	**Total Cash**	**59,723**

The fund's cash holding under its treasury management arrangements as at 31 March 2013 was £19.3 million (£29.0 million at 31 March 2012).

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

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 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
55,716		**55,660**

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
1,545		**1,537**

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 £	
17,553	Chief Finance Officer	19,991	1
68,110	Pension Fund & Treasury Manager	58,456	2
51,769	Senior Accountant	51,994	
137,432		**130,441**	

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

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:

Private Equity Manager	Custody Provider
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.

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

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.

Balance sheet

Year ended	31 March 2013 £m	31 March 2012 £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:

	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.

Grant Thornton

The Audit Findings for Surrey Pension Fund

Year ended 31 March 2013

27 August 2013

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

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

Lynn Clayton
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 those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of the Surrey Pension Fund ('the Fund') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

We received draft financial statements at the end of June and commenced the audit on site on 8 July, in accordance with the dates agreed with management.

We have not altered or changed our audit approach, which we communicated to you in our Audit Plan in June 2013.

Our audit is substantially complete, although we are finalising our procedures in the following areas:

- obtaining and reviewing one independent bank confirmation
- obtaining and reviewing the final management letter of representation following the Audit and Governance Committee meeting
- updating our post balance sheet events review, to the date of signing the opinion and confirming there are no further amendments to the financial statements.

Key audit and financial reporting issues

Financial statements opinion

We did not identify any adjustments on audit which affect the Fund's reported financial position. The draft financial statements recorded net assets at 31 March 2013 of £2,559 million, and this remains the same in the audited financial statements. However ,we highlighted a number of best practice adjustments to disclosures during the audit to enhance the presentation of the financial statements.

We anticipate providing an unqualified opinion on the Fund's financial statements after completion of our final audit procedures.

The key messages arising from our audit of the Fund's financial statements are:

- the financial statements provided for audit were complete and compiled in accordance with the CIPFA Code of Practice for Local Authority. Accounting.
- the Fund produced good working papers to support the figures in the financial statements.
- management agreed to amend the financial statements for all the recommended disclosure changes.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
August 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Future developments

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Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to alter or change our Audit Plan as previously communicated to you in June 2013.

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to the audit plan	Significant audit findings?
Contributions receivable	Scheme Contributions	Other	Recorded contributions not correct	No	No significant audit findings. However, the Committee should note that the £18.15m deficit funding contribution agreed by the Ministry of Justice in 2012/13 has been reclassified on audit from transfers in to contributions based on guidance circulated to auditors by the Audit Commission.
Transfers in	Transfers in to the scheme	Remote		No	
Pensions payable – lump sums and on retirement	Benefit payments	Other	Benefits improperly computed/claims liability understated	No	None
Transfers out - Payments to and on account of leavers	Benefit payments	Other	Transfers improperly computed/liability understated	No	None
Administrative expenses	Administrative expenses	N/A		No	None
Investment income	Investments	Other	Investment activity not valid – income not complete	No	None

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to the audit plan	Significant audit findings?
Changes in value of investments	Investments	Other	Investment activity not valid-investments not valued at fair value	No	None
Taxes on income	Investments	N/A		No	None
Investment management expenses	Investments	Remote		No	None
Investments	Investments	Other	Investments not valid. Fair value measurement not correct	No	None
Current assets	Scheme Contributions, investments and cash	N/A		No	None
Current liabilities	Benefit payments, investments	N/A		No	None

We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance on 24 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our draft audit opinion is set out in Appendix A.

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, this includes a presumed significant risk of management override of controls, which is applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular, we did not identify any issued from our review of journal controls and testing of journal entries. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	Investments not valid Investments activity not valid - Income not complete - Investments not valued at fair value Fair value measurement not correct	• We reconciled investments between information provided by the fund managers, the custodian and the Fund's accounting records. • We selected a sample of the individual investments held by the Fund at the year end and tested 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). • We confirmed the existence of investments directly with the fund managers. • We tested a sample of sales and purchases during the year back to detailed information provided by the custodian and fund managers. • We reviewed the Fund's compliance with its Statement of Investment Principles.	Our audit work confirmed that the investment values, classifications and movements in the Net Assets Statement and supporting notes are not materially misstated. During our review we highlighted one non trivial error in relation to the outstanding commitment disclosures in note 19. The Fund has amended the disclosure to correct this error.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefit Payments	Benefits improperly computed/claims liability understated	• We reviewed controls around benefit payments to ensure key controls over new starters, leavers, deferrals, changes of circumstances and new pensioners were operating effectively. • We selected a sample of individual transfers, pensions in payment (new and existing) and lump sum benefits and tested them by reference to the benefit calculations on the respective member file.	Our testing confirmed that key controls over benefit payments are operating as designed. Our audit work confirmed that benefits payments and payments on account of leavers are not materially misstated. We did not identify any issues or amendments to benefit payments in the financial statements as a result of our audit procedures.
Contributions	Recorded contributions not correct	• We reviewed controls used by the Fund to ensure it all expected contributions from member bodies. • We select a sample of contributions and confirmed that they had been correctly calculated. • We rationalised contributions received with reference to changes in contributor numbers.	Our testing confirmed that key controls over contributions are operating as designed. Our audit work confirmed that contributions receivable from employers and employees are not materially misstated. We recommended one amendment to the contributions receivable in the financial statements to reclassify the deficit funding received from the Ministry of Justice in contributions rather than transfers in, based on guidance circulated to auditors by the Audit Commission.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income to the Fund is accounted for on an accruals basis.	• The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting. • Accounting policies are adequately disclosed in the financial statements. We recommended one minor amendment to the taxation policy, to more accurately describe the accounting policy adopted in practice. Note 3e to the financial statements has been amended accordingly.	Green
Other accounting policies	• The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	• We have reviewed the Fund's accounting policies against the requirements of the Code of Practice on Local Authority Accounting. The Fund's accounting policies comply with the Code	Green
Judgements and estimates	• Key estimates and judgements include; – Actuarial present value of promised retirement benefits – investment valuation of private equity	• The policies adopted for accounting estimates are appropriate under the Fund's accounting framework • Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions. Estimates are calculated based on the best information available when the financial statements were prepared in June 2013 . • The level of judgement required by the Fund is low . Estimates used are supported by adequate working papers. • Disclosure of accounting policies in the financial statements is in line with the recommended disclosures .	Green

Assessment
- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Misclassifications & disclosure changes

We noted one classification issue and a couple of non trivial disclosure errors only in the notes to the financial statements during the audit. The table below provides details. No adjustments were required to the net assets statement or the total movements in the fund account.

All the amendments identified during the audit have been discussed and agreed with management and included within the final financial statements. There are no unadjusted misstatements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Classification	£18,150	Transfers in and contributions receivable	Deficit funding received from the Ministry of Justice reclassified as contributions rather than transfers in, based on guidance circulated to auditors by the Audit Commission.
2	Disclosure	N/A	Taxation accounting policy	The policy has been revised to clarify that the irrecoverable tax is accounted for as a deduction from investment income (as it is not individually material) rather than as separate expense.
3	Disclosure	£2,417,457	Investments analysed by fund manager	The Legal & General figure and the total figure have both been reduced by £5,856,000 to consistently include foreign exchange derivative investments in this note.
4	Disclosure	£89,639 assets and £4,305 liabilities	Notes 18b Financial Assets and liabilities	In note 18b the entries for loans and receivables and financial liabilities at amortised cost have been removed as this notes should only include financial instruments valued at fair value.
5	Disclosure	£101,599	Outstanding commitment disclosure	This disclosure has been amended to correct some errors identified in the individual private equity commitments included in the calculation.

During the audit we also identified a number of narrative presentations and notes in the financial statements where disclosure could be improved in line with best practice. This included some enhancements to the price risk and credit risk disclosures in note 20 to improve the clarity of the investment and cash values which were subject to these risks and sensitivities.

The majority of the recommended amendments have been agreed and applied by the Fund.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

We have not identified any significant weaknesses in internal controls from our work.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have not been made aware of any incidents of fraud. No issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We have not identified any incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Fund and is included on the committee agenda.
4.	**Disclosures**	• Our review confirmed that the financial statements were prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting. During the audit we suggested a number of enhancements to disclosures in the financial statements, which the Fund has implemented.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed in the financial statements.
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Fund audit	26,459	26,459
Total audit fees	**26,459**	**26,459**

Fees for other services

Service	Fees £
None	Nil

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.

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

Section 5: Future developments

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Future developments relevant to your Fund and the audit

Political	Environmental	Social	Technological
Developments relevant to the next financial year			
1. Financial reporting No significant emerging issues effecting the Pension Fund expected for the year ending 31 March 2013.	**2. Legislation** The Pensions Act 2008 requires employers to automatically enrol eligible employees onto the Local Government Pension Scheme. Employees not wishing to participate must opt-out of membership following enrolment.	**3. Actuarial valuation at 31 March 2013** A full actuarial valuation of the Pension Fund is undertaken ever three years. The next full valuation will be undertaken as at 31 March 2013. This valuation will determine the funding position (the extent to which fund assets will meet accrued pension liabilities) and determine future employer contribution rates.	**4. Other issues** The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.
Developments relevant to future periods			
1. Financial reporting CIPFA/LASAAC are currently considering developments to the 2014/15 Code in respect of IFRS 13 Fair Value Measurement which may impact on valuation and disclosures required in the financial statements. Whilst the Fund's financial statements are prepared under the Code, which is based on IAS 26, it also draws on the Pensions SORP in some areas. PRAG has formed a working party to update the Pensions SORP. An updated SORP is not expected until 2014.	**2. Legislation** Under the Local Government Pension Scheme (LGPS 2014) proposals, pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Changes to the pensions administration systems will be required. Funds need to be liaising with software suppliers now to ensure their administration systems can successfully process benefit payments under both the old and new schemes from 1 April 2014.	**3. Actuarial valuation** Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.	**4. Other issues** PRAG has recently released a discussion paper on the valuation of insurance policies, and specifically the option to value buy-in policies at £nil if effective discharge of liabilities has occurred. The discussion paper recommended that such policies are always valued, not recorded at £nil, and this may come through in the revised SORP in due course.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Future developments

05. Communication of audit matters

Communication of audit matters to 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 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 Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these 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 issues 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		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Surrey County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and Deputy Director for Business Services and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer and Deputy Director for Business Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer and Deputy Director for Business Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:
give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Paul Creasey
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

1020 Eskdale Road
Winnersh
Wokingham
Berkshire
RG41 5TS

September 2013

Grant Thornton

Annex C

Note/Statement	Adjustment	Draft	Updated
Pension Fund Account, Note 7, 8,	Recently issued Audit Commission guidance for treatment of £18,150k Magistrates Court Services funding agreement. Changed recognition from transfer in to contributions receivable	Contributions receivable £141,394k Transfers In £31,983k	Contributions receivable £159,544k Transfers In £13,833k
Net Asset Statement (NAS)	Included a disclosure on the face of the NAS indicating the treatment of pension benefits and contributions after year end		
Note 2	Added that these accounts have prepared on a on-going concern basis		
Note 3(e)	Adjusted the wording of accounting policy to make clear the treatment of irrecoverable tax at source from investment income		
Note 3(h)	Adjusted the wording of accounting policy to include amortised cost valuation of loans and receivables		
Note 14	2011/12 total did not tally with individual values due to rounding. Employee related figure updated	2011/12 £961k	2011/12 £962k
Note 17(a)	Added explanation of Diversified Growth		
Note 17(c)	Added comparative figures for 2011/12		
Note 17(d)	Added the currency hedge market value to Legal and General, with adjustment made for 11/12. This had been intentionally excluded from this note along with private equity, internal and residual cash.	2011/12 L&G £620,606k Total £2,065,303k 2012/13 L&G £798,183k Total £2,423,313k	2011/12 L&G £627,132k Total £2,071,829k 2012/13 L&G £792,326k Total £2,417,457k
Note 18(b)	Removed assets and liabilities held at amortised cost from the exclusively fair value note		
Note 19	Adjusted outstanding commitments value for 12/13.	£87,524k	£101,599k
Note 20(a)	Adjusted price sensitivity estimates using the percentage rounded to one decimal place		
Note 20(b)	Adjusted cash balances table to show fund manager cash balances to allow reconciliation with cash figure on the face of the NAS.		

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Annex D

SURREY COUNTY COUNCIL

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Finance
G40, County Hall
Penrhyn Road
Kingston-upon-Thames
Surrey
KT1 2DN

19 August 2013

Dear Sirs

Surrey County Council Pension Fund: Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of the Surrey County Council Pension Fund (the Fund) for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

Financial Statements

1 We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code; in particular the financial statements show a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

2 We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.

3 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

4 Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

5 All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

6 The financial statements are free of material misstatements, including omissions.

7 We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

8 We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

9 We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

Information Provided

10 We have provided you with:

a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b additional information that you have requested from us for the purpose of your audit; and
c unrestricted access to persons from whom you determine it necessary to obtain audit evidence.

11 We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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

13 We are not aware of any fraud or suspected fraud affecting the Fund involving:

a management;
b employees who have significant roles in internal control; or
c others where the fraud could have a material effect on the financial statements.

14 We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

15 We are not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

16 There have been no communications with The Pensions Regulator or other regulatory bodies during the fund year or subsequently concerning matters of non-compliance with any legal duty.

17 We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

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

19 We confirm that no member of the Surrey Pension Fund Board, the Surrey Investment Advisor's Group or the Audit and Governance Committee is connected with, or is an associate of, Grant Thornton UK LLP which would render Grant Thornton UK LLP

ineligible to act as auditor to the Fund under section 27 of the Pensions Act 1995.

Other

20 We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.

21 We confirm that we are not aware of any late contributions or breaches of the payment schedule that have arisen which we considered required reporting under the easement introduced under The Occupational Pension Funds (Miscellaneous Amendments) Regulations 2000.

22 We have not commissioned any advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and payment schedule.

Yours faithfully

Sheila Little
Chief Finance Officer, Deputy Director for Business Services
and Administrator of Surrey Pension Fund

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SURREY
COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE
2 September 2013

2012/13 FINANCIAL RESILIENCE REPORT

SUMMARY:

As part of the statutory external audit of the 2012/13 Statement of Accounts, Grant Thornton, the council's external auditors provide a value for money conclusion. The Value for Money conclusion is based on the following two criteria, specified by the Audit Commission;

- review of the council's arrangements for securing financial resilience
- review of the council's arrangements for challenging how its secures economy, efficiency and effectiveness.

Attached at Annex A is the report of the external auditors outlining the conclusions on their review of the Council's financial resilience. The auditors are required to reach a conclusion as to whether the Council's arrangements are either adequate or inadequate. The auditors consider that the council's current arrangements for achieving financial resilience are adequate.

PURPOSE:

The purpose of this report is to inform the Committee of the results of the external auditors review of the Council's arrangements for securing financial resilience. Their report is attached at Annex A for consideration by this Committee.

BACKGROUND:

1. The 2010 Code of Audit Practice describes the Council's responsibilities to put in place proper arrangements to ensure value for money. Our auditors are required to give a value for money conclusion based on criteria set out by The Audit Commission.

CONCLUSION:

2. Grant Thornton, as our external auditors have undertaken a review of the Council's financial resilience, which considered the Council's arrangements against the following three expected characteristics of proper arrangements, as defined by the Audit Commission:

    - Strategic financial planning
    - Financial Governance
    - Financial Control

3. The overall conclusion of the auditors is that whilst the Council faces some significant risks and challenges during 2013-14 and beyond, its current arrangements for achieving financial resilience are adequate. The conclusion has to be assessed as either adequate or inadequate.

4. The report of the external auditors is attached at Annex A for consideration by this Committee.

RECOMMENDATIONS:

5. The committee is asked to:

   i. Consider the contents of the Financial Resilience Report in Annex A.

   ii. Agree the officer response to the next steps identified by the external auditor;

IMPLICATIONS:

Financial

There are no direct financial implications of this report.

Equalities

There are no direct equalities implications of this report.

Risk management

There are no direct risk management implications of this report.

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

CONTACT DETAILS: Nicola.oconnor@surreycc.gov.uk 020 8541 9263

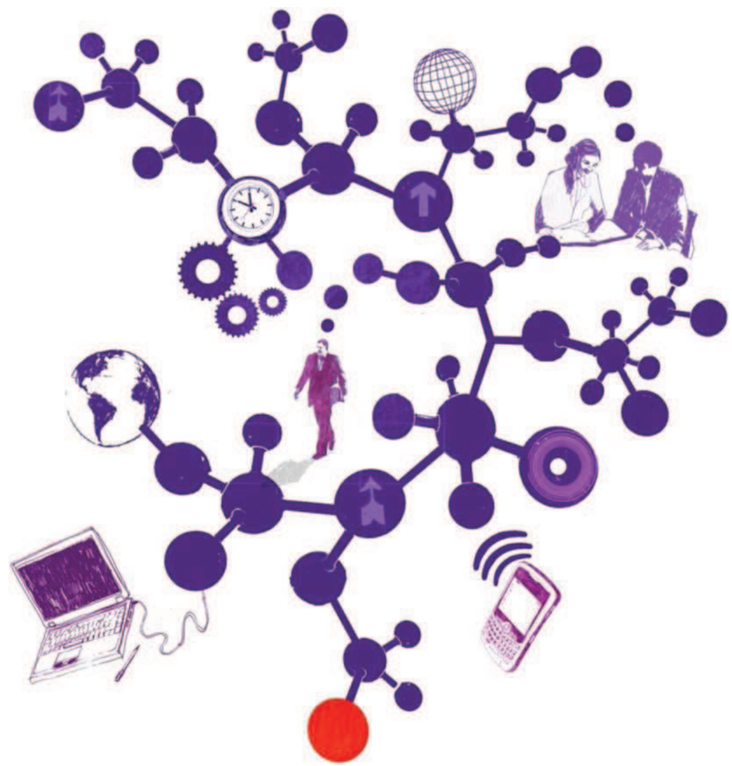
Sources/background papers:

Grant Thornton

Review of the Council's Arrangements for Securing Financial Resilience for Surrey County Council

Year ended 31 March 2013

20 August 2013



Andy Mack
Engagement Lead
T 0207 728 3299
E Andy.L.Mack@uk.gt.com

Guy Clifton
National VFM - Advisory Lead
T 0207 383 5100
E Guy.Clifton@uk.gt.com

Daniel Woodcock
Assistant Manager
T 01293 554 122
E Daniel.Woodcock@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 Council 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.

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1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow.

In determining the Value for Money Conclusion, we are only able to conclude that the Council's arrangements are either inadequate or adequate.

Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2013-14 and beyond, its current arrangements for achieving financial resilience are adequate.

This report needs to read in context that 2012-13 is the second year of the four-year Spending Review (SR10) period, where some of the potential risks and challenges over the medium term have yet to materialise. Our assessment may change in future years, although we would note the Council has systems in place to help address future challenges.

We have used a red-amber-green (RAG) rating with the following definitions.

Green	**Arrangements meet or exceed adequate standards**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and-or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms, with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced a further departmental 1% saving during 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16 (SR13), was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

Local Context

Surrey is a densely populated County in the south-east of England with a population of over one million people spread across eleven boroughs.

The County Council is led by a majority Conservative administration and has a net annual budget of just over £1.5billion.

A challenging savings programme is in place, with plans to deliver savings of £250m in the five years to March 2018. The Council has already achieved savings of £195m in the past three years. In addition to this the Council is forecasting increasing demand for services, particularly in the areas of Adult Social Care and Schools.

The Council is highly constrained with regards to raising funding because 79p in every £1 of the net budget requirement comes from council tax . As a result of this, the Council took the decision for both 2012-13 and 2013-14 to decline the Council Tax Freeze Grant on the basis of avoiding an on-going funding gap.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	• The Council has reduced its minimum cash balance through the repayment of a £68m loan that falls due in September 2013. This is to maximise the benefit of unprecedented low interest rates and the Council's cash balances and it is this transfer from long term to short term borrowing that has caused the reduction in the working capital ratio for the year. • The Council holds comparatively high level of usable reserves as a result of the strategic aim of having low levels of borrowing. • As at March 2013 the average sickness absence was 7.2 days per full time equivalent (FTE). This is below the public sector and local government average. • The Council achieved a positive outturn of £3.1m against its revenue budget in 2012-13 and overspent by£2.7m on its capital budget of £155.9m. For 2012-13 the Council had a savings target of £71.1m, which was set out in its Medium Term Financial Plan (MTFP). At the end of 2012-13 £66.0m of these were achieved, leaving a shortfall of £5.1m, although the MTFP included a prudent risk contingency that fully covered this possibility. • In 2012-13 the Council did not spend £12.5m of its allocated Dedicated Schools Grant compared with £12.8m in 2011-12. However, £7m of the above has already been committed to support in schools budgets in 2013-14. • As at 31 March 2013 the Council has a net liability of £39.2m, which is mainly caused by a long-term pension liability of £1,071m (of which £442.6m relates to the Firefighters' pension liability). The Pension Fund is to be revalued in 2013-14 to reflect the results of the actuarial triennial review. The Council have already planned for increased contributions to reflect their expectations.	Green
Strategic Financial Planning	• The Council has considered all of the areas we would expect in setting the 2013-14 budget and updating its MTFP, including the update for Council Tax and Business Rate changes, estimates for the 2013 Spending Round and changes in service demand, in particular for Schools, caused by increasing migration and pupil numbers, and Adult Social Care, caused by the organisational changes to the NHS resulting in potential variances in the interpretation of what meets the definition of Social Care treatment. • As a result of the planned increase in demand for school places, the Council have planned for total capital expenditure to 2018 to increase by £130m to £370m at current forecasts. • The MTFP is closely linked to both the annual budget and other key strategic plans. • The Council has already identified schemes to reflect the majority of savings required, but as at March 2013 £79m of savings are still to be to 2017-18. The Council recognises the fact that recurrent savings will become more difficult to identify throughout the mid-term but aims to achieve the target through service transformation, particularly in the area of Adult Social Care. • Due to the delay in the completion of the Waste Eco-Park, the Council have prudently planned for the impact of this on the timing of cash-flows related to the project.	Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	• Following the recommendations made in the Financial Management Public Value Review, budget managers are being trained on using the finance system and self-service reporting has been developed. The Council is progressing a cultural shift so that all managers have clear ownership of their financial responsibilities. As with any initiative requiring behavioural change, it will take time to fully embed. • There remains an appropriate level of senior manager and member level engagement in the financial management process. One area of particular good practice is the publication of an attractive and easy to read Annual Report as soon as the Council's outturn position is known. • Issues affecting the current and forecast outturn position are described at both a summary and service level in relation to revenue budgets, which are produced within three weeks of the month-end. The Council does not report the cash-flow forecast-beyond year-end within the budget monitoring reports, but this is compensated through the Treasury Management reporting and quarterly review of the MTFP position. • The information provided to members is complete, accurate and reliable. Members regularly challenge senior officers and ensure progress has been made against recommendations. • Going forward, the Council is currently implementing a new financial dashboard that will allow officers to review the income and expenditure position in real time and drill-down to the level of detail they require quickly and easily. This is expected to be completed in Summer 2013.	Green
Financial Control	• The key budget setting principles underpinning the development of service budgets are that budgets are based upon predicted activity levels rather than incremental budgeting, are owned by the services, reflect projected expenditure and directly managed income and take account of agreed savings plans. The Council no longer completes standalone annual budgets but five-year budgets from which annual budgets are set and this means the in-year budgets are more reliable. • During 2012-13, the Council achieved recurrent savings of £66m against a target of £71m, although countervailing savings ensured that an overall revenue underspend was achieved in-year. • Internal Audit have reviewed all of the key financial systems in 2012-13 and determined that there are some areas that need "some improvement". We do not consider that these areas represent material weaknesses. • The Council performed a Public Value Review on financial management in 2011. A recommendation was made in relation to realigning the structure of the finance department with the Finance Vision and the Council have since restructured the finance department, including shared services, in order to meet that recommendation.	Green

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Financial Performance	• The Council should continue to review the appropriateness of reserve levels and monitor its liquidity to ensure financial resilience is maintained.	CFO	Feb 2014	Reserves are reviewed on an on-going basis (most recently at July Cabinet 2013 where Cabinet decided that the Severe Weather Reserve of £5m be used to tackle damaged roads during 2013/14. Reserves will be further reviewed as part of the MTFP (2014-19) process.
	• As at 31 March 2013 the Council's balance sheet shows a net liability of £39m, caused by an increase in the long term pension liability of £134m. We do not consider this to be a significant risk to the Council in the medium term, but is something that should be considered as part of long-term planning.	CFO	Feb 2014	The pension fund's actuary is currently undertaking the triennial review. This will recommend contribution rates and deficit reduction payments, which the council will consider as a part of the MTFP (2014-19) process
Strategic Financial Planning	• The Council will need to update the MTFP for the implications of the SR 2013 as soon as they can be identified. • The Council has already identified schemes to reflect the majority of savings required within the MTFP but as at March 2013 £79m of savings are still to be identified to 2017-18. • Due to the on-going increase in demand for school places caused by a combination of population increases and migration, the Council should continue to review the capital spend required in the mid to long-term in order to meet its statutory obligations.	CFO	July 2013	The Cabinet agreed a report on 23 July 2013 that refreshed the MTFP (2013-18) based on the latest information (including SR 2013 and further efficiencies to be delivered – i.e. part of the £79m). During summer 2013 officers will continue to work on MTFP plans in advance of further member workshops from mid-September up until the completion of MTFP (2014-19) in January 2014.
	• Going forward the Council should consider adding the consideration of Adult Social Care volume and Schools places as key risks within the relevant MTFP section, although this will not affect the level of consideration it has applied over these areas.	CFO	Sept 2013	To be reflected in S25 report in Feb 2014 budget report.

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
	• The Council has begun to use its size and position to create better opportunities for both itself and key partners (e.g. through procurement reviews and joint ventures) and should look to increase the use of this position going forward in order to maximise value for money.	Strategic Director for Business Services	Feb 2014	In July 2013 the Cabinet agreed an Investment Strategy paper – aimed at optimising its use of assets - and an Innovation update – approving invest to save support up to 2016/17. Several services are developing alternative methods of delivery papers that are expected to seek Cabinet approval from September 2013
Financial Governance	• Following the recommendations made in the Financial Management Public Value Review, budget managers are being trained on using the finance system and self-service reporting has been developed. The Council is progressing a cultural shift so that all managers have clear ownership of their financial responsibilities. As with any initiative requiring behavioural change, it will take time to fully embed, and the Council needs to ensure that it manages the on-going impact of this cultural shift by reviewing the progress made and identifying further actions for improvement. This includes monitoring the effectiveness of the new dashboard..	CFO	On-going	The Finance dashboard went live on 1 August 2013 and a front page s-net communications strategy is planned for early September that links to the Peer Challenge campaign - promoting financial responsibility across all staff. Senior Leader and Member buy-in to the dashboard is strongly evident.
Financial Control	• During the course of our review we confirmed that countervailing savings were not always identified during the monitoring process. The Council should consider the formal reporting of this so that countervailing savings are clearly identified and their impact on service provision is better understood.	Corporate Board	Monthly (from Sept 2013)	Staring from July 2013 the monthly budget monitoring report to Cabinet highlighted 'countervailing' (or one off) savings separately. With effect from Sept 2013, the level of challenge and review of savings by the Corporate Board will be enhanced.

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

Buckinghamshire County Council
Cambridgeshire County Council
Devon County Council
Dorset County Council
East Sussex County Council
Essex County Council
Gloucestershire County Council
Hampshire County Council
Hertfordshire County Council
Kent County Council
Leicestershire County Council
Oxfordshire County Council
Warwickshire County Council
West Sussex County Council
Worcestershire County Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	• The Council's working capital ratio has reduced from 1.71 in 2007-08 to 1.48 in 2011-12, with decreases every year except 2010-11 and 2011-12. The ratio showed a much steeper decline for the Council than for its statistical nearest neighbours, reaching a low of 0.76 in 2009-10, before returning close to the average of 1.5 in 2011-12. The Council ranks 7th out of 16 for this period. • Net current assets decreased by £72m from 2008-09 to 2009-10. The cash - short tem investment balance decreased by £130m due to the repayment of borrowing. £89m of this was a planned repayment and so the decrease in current assets (cash - investments) is offset by a corresponding decrease in current liabilities (short-term borrowing) of £89m. The additional £40m decrease in cash was due to the additional early repayment of borrowing (classified on the balance sheet as long-term borrowing as this was not planned at the end of the previous year). This, added to an increase in creditors of £30m, explains the £70m decrease in net current assets from 2008-09 to 2009-10. • In 2010-11 and 2011-12 the net current asset balance increased, this was mainly due to increases in cash balances - investments which was due to capital underspends and some movements in debtors - creditors. • As at 31 March 2013, the Council's working capital ratio is 1.18 • The Council has reduced its minimum cash balance through the repayment of a £68m loan that falls due in September 2013. This is to maximise the benefit of unprecedented low interest rates and the Council's cash balances and it is this short-term loan that has caused the reduction in the working capital ratio for the year. • The Council should continue to monitor its liquidity to ensure financial resilience is maintained.	Green
Borrowing	• The ratio of long term borrowing to long term assets is 0.18 in 2012-13 compared to 0.24 in 2011-12 and 0.23 in 2010-11 and 2009-10. • The ratio of short term borrowing to revenue is 0.05 in 2012-13 compared to 0.018 in 2011-12 and 2009-10, whilst in 2010-11 it was 0.016. The increase relates to the short-term loan to be repaid in September 2013. • The comparatively low borrowing ratios are a result of the high level of usable reserves held by the Council and the strategic aim of having low levels of borrowing.	Green
Workforce	• The Council Overview and Scrutiny Committee considered a report on sickness absence in the Adult Social Care (ASC) Directorate in April 2012 and this indicated that the Council was performing favourably against benchmarks per a 2011 national report and a 2011 CIPD survey. Targets have been set for each directorate for 2012-13 and it was indicated that achievement of the target of 7 days for ASC is especially challenging. • As part of the quarterly business reports presented to the Council Overview and Scrutiny Committee, sickness absence levels are monitored against directorate-specific and Council-wide targets, as well as against a CIPD local government benchmark. • As at March 2013 the average sickness absence was 7.2 days per FTE. This is below the public sector and local government average. In line with expectations the directorates of Adult Social Care and Children, Schools and Families were the worst performers with 9.71 and 8.31 days respectively, whilst other services such as the Chief Executive's Office perform better.	Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budgets: revenue & capital	• The Council achieved an underspend of £3.1m against its revenue budget in 2012-13 excluding DSG, but including £2.5m of transfers to the 2013-14 budget and £7.9m of roll-forwards. The total positive outturn amounts to £18.1m, which compares to a positive outturn in 2011-12 of £17.1m, and £4.5m in 2010-11. • This demonstrates the presence of robust and effective financial monitoring and control on an on-going basis. • For 2012-13 the Council had a savings target of £71.1m, which was set out in its MTFP. At the end of 2012-13 £66.0m of these were achieved leaving a shortfall of £5.1m. The MTFP 2012-17 savings are long-term, recurrent savings but directorates are supporting long-term saving shortfalls with one-off savings or expenditure under spends in-year. Although this means the in-year budget is met, this increases the pressure to identify efficiencies going forward. • The Council overspent by £2.7m on its capital budget of £155.9m in 2012-13 due to bringing forward projects where it was either financially or operationally more effective to do so. This compares to underspends of £43m in 2011-12 and £31.1m in 2010-11. • This demonstrates the improvement made to capital monitoring within the Council, which followed Internal Audit recommendations being raised previously in relation to the robustness of forecasting capital spend.	Green
Reserve Balances	• As at 31 March 2013, the ratio of useable reserves to gross revenue expenditure is 0.18 compared to 0.16 in 2011-12, 0.11 in 2010-11 and 0.07 in 2009-10. • This is consistent with wider Council policy to increase reserve balances in light of continued reductions in central government funding and the future savings pressures faced. • As at 31 March 2013 the Council has a net liability of £39m (net assets of £70m as at 31 March 2012) caused by an increase in the long term pension liability of £134m. We do not consider this to be a significant risk to the Council in the medium term, but mitigating actions should be considered as part of long-term planning. • The Council should continue to monitor its reserve balances to ensure financial resilience is maintained.	Green
Schools Balances	• In 2012-13 the Council did not spend £12.5m of its allocated Dedicated Schools Grant compared with £12.8m in 2011-12, £7.4m in 2010-11 and £2.5m in 2009-10. Over the same period, the allocation of DSG from central government has increased by over £55m. However, £7m of the above has already been committed to support schools budgets in 2013-14. • Overall the Council's Schools balances to DSG allocation has remained relatively stable in recent years and is consistently slightly above average compared to its nearest statistical neighbours. • Schools overspent by £2.3m against their Devolved Formula Capital allocations where regulations allow them to spend in advance.	Green

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Appendix - Key indicators of financial performance

Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	• The Council's revenue budget for 2012-13 was set in February 2012, along with an updated five-year medium term financial plan (MTFP) for the period 2012-13 to 2016-17. • As a consequence of the October 2010 Spending Review the Council identified, as part of the annual update of the MTFP in 2011-12, required reductions in revenue spending of £71m during 2012-13 and £122m in 2013-14. • During the 2012-13 financial planning cycle assumptions for 2013-14 to 2017-18 were revised based upon updated financial information, including the revenue underspend achieved in-year of £3.1m (excluding schools) plus roll-forwards of £7.9m. • Savings are prioritised as in previous years, and were approached strategically by the Corporate Board with the prioritised aim being improved service provision rather than purely financial savings. At the end of 2012-13 £66m of these were achieved leaving a shortfall of £5.1m, which was met in the short-term through one-off savings or expenditure under spends. • The MTFP 2012-17 set an in-year capital budget for 2012-13 of £155.9m. An in-year overspend of £2.7m has occurred due to the Council bringing forward some schemes and purchases where it has made financial sense to do so. • The main areas we would expect the Council to consider in setting the 2013-14 budget and updating the MTFP include the update for Council Tax and Business Rate changes, estimates for the 2013 Spending Review and changes in service demand, in particular for Schools and Adult Social Care. These areas have all been covered in the update to the 2013-14 to 2017-18 MTFP as demonstrated by the Council declining the Council Tax Freeze Grant and assumptions being made about an additional £33m savings being required in 2017-18.	Green
Scope of the MTFP and links to annual planning	• The Strategic Asset Management, Corporate Workforce Strategic and efficiency plans have been reviewed and are consistent with the MTFP. • The Strategic Asset Management Plan is a high level document with links to the MTFP, Property Services Public Value Review and the Corporate Strategy. • Whilst the Corporate Workforce Strategic Plan does not provide the level of detail regarding pay inflation that the MTFP includes, this is in line with expectations since the main aim of the plan is to create a link between the organisation's strategic goals identified in the corporate plan and the workforce behind meeting those objectives.	Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions	• One of the key areas that the Council is strategically focussing on is innovative income generation in the light of reduced funding. One example of this is the ShiftSurrey scheme whereby the Council has transformed two meeting rooms into specifically innovative spaces for staff to meet and progress innovations. For the medium term the Council has assumed that income will remain relatively static with increases in Council Tax and other income balancing reductions in central funding. Whilst in the past the comparatively low central government funding has been detrimental to the Council, this now means that the reductions in central funding are having less impact at the Council than at other local government bodies. The Council has begun to consider more innovative income generating schemes within the medium term, such as lending to a Joint Venture Company to facilitate a regeneration scheme in Woking at a rate above the PWLB rate. This represents a good return for the Council and provided Woking Borough Council with the additional funding it required to complete redevelopment of its town centre. • The Council has considered inflation in two main formats. Firstly, pay inflation at an average of 2%, which is within the control of the Council and secondly for non-pay at an average of 2.2%, which is in line with current expectations. • The Council has made relatively prudent assumptions regarding potential income towards the end of the MTFP from trading companies. This is an area that the Council will need to update as it progresses towards a live company. • Prior to the formal approval of the updated MTFP, the Council completes a detailed consultation process to ensure that its strategic and operational priorities reflect the needs of the community. This is achieved through the use of SIMALTO (Simultaneous Multi-Attribute Level Trade-Off.), which presents respondents with a series of criteria and asks them where they would like to see improvements and how much they value these improvements. The main result of this was that taxpayers want more spending on highways. The Council also received a peer review during 2012-13 that was used as a benchmarking exercise and this identified no specific concerns regarding strategic priorities. • The Council has been required to vastly amend its capital projections for the 5 year period due to the increasing number of schools places required (4,000 additional places identified). This has led to a planned increased capital spend on schools from £42m to £69m in 2013-14 alone, as identified in 2010-11. The Council is currently revisiting its schools capital projections in light of this because school capital represents one of the biggest long-term financial risks to the Council at present (total capital spend to 2018 will increase by £130m to £370m at current forecasts). • The Council has already identified schemes to reflect the majority of savings required but as at 31 March 2013 £79m of savings are still to be allocated to 2017-18. This is a sector-wide issue and the Council recognises the fact that recurrent savings will become more difficult to identify throughout the medium term but aims to achieve the target through service transformation, particularly in the area of Adult Social Care. • Overall, whilst the Council has sound processes in place over the planning assumptions in relation to the capital spend on schools and the allocation of efficiency savings, the scale of the challenge facing the Council results in an amber rating.	Amber

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Review processes	• The MTFP is constantly being reviewed in light of new data (i.e. on-going discussions over PFI credits with DEFRA in relation to the PFI Waste Scheme) and a formal update is completed on a quarterly basis. These updates consider the latest outturn financial information so that the current year position can be reviewed. This is good practice.	Green
Responsiveness of the Plan	• The Council has prepared the MTFP on the basis of downside outturns in all cases, but is in the process of reviewing these assumptions as part of the quarterly updates. The standard approach taken as part of the MTFP planning process is to start at the worst case and amend where appropriate. • The Council is optimistic about potential income generation but is relatively prudent in its consideration of this within the MTFP. Given the early stage of its position within the process of identify innovative income streams this appears an appropriate position to take. • The Council will need to ensure that the Plan remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan. In the short term this should include the impact of the 2013 Spending Review and the impact of discussions with DEFRA regarding the Waste PFI credits. • The Council has identified a number of key risks to the MTFP being the reduction in Central Government funding, delivery of the transformational change and associated efficiencies, delivery of the waste infrastructure, and changes to health commissioning. Going forward the Council should consider adding the consideration of Adult Social Care volume and Schools places as key risks within the relevant MTFP section, although this will not affect the level of consideration they have applied over these areas. • The Council has a number of mitigating strategies in place with regards potential risks to the MTFP, with the aim of implementing long-term mitigation first , which include identifying further savings going forward, having comparatively high level of usable reserves (£289m as at 31 March 2013) and being able to roll-forward budgets from prior years. This is supported by the level of contingency reserves within the MTFP. The Council is also able to implement short-term strategies such as restricting investments, borrowing (due to having minimal borrowing in place) and being able to make one-off non-recurrent savings through the budget monitoring process.	Green

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Appendix - Key indicators of financial performance

Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	• The Cabinet is informed of financial matters at each meeting through the monthly budget monitoring report. • The financial regulations, including financial management responsibilities, are contained within the Revenue & Capital Financial Regulation and also disclosed within the MTFP. • A number of members have financial or business backgrounds, providing sound financial awareness on a broader scale. To assist this, specific financial training is provided as part of the annual training programme. In addition to this, officers update members on financial updates and service management teams discuss any current and potential changes that may affect their financial position. This is completed through updates such as the Political Group Briefings, monthly Council Performance Team meetings, the phased budget approach and Select Committee engagement. • The Council has a sound understanding regarding the main risks it faces and in the medium term these mainly relate to erosion of the Council's main sources of funding, delivery of the major change programmes and associated efficiencies; delivery of the waste infrastructure; and changes to health commissioning. These have been discussed in detail through the MTFP planning process including Member seminars, which are held frequently to discuss the current budget position on the MTFP and issues going forward. These seminars are jointly led by the Chief Financial Officer and CEO. • Following the recommendations made in the Financial Management Public Value Review, budget managers are being trained on using the finance system and self-service reporting has been developed. The Council is progressing a cultural shift so that all managers have clear ownership of their financial responsibilities and understand how the wider financial environment impacts on their service. • The Council's aim is proactive financial management and excellent financial decision making. • As with any initiative requiring behavioural change, it will take time to fully embed, and there will be different reactions from the staff concerned: some may see the change as an opportunity whilst others may see the change as a threat or challenge. The Council need to ensure that they manage the on-going impact of this cultural shift by reviewing the progress made and identifying further actions for improvement going forward . This is of critical importance to the Council, resulting in the amber rating, and this is an area in which we are intending to review the progress made by the Council going forward.	Amber

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Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Executive and Member Engagement	• The Strategic Director for Business Services is part of the Corporate Board. In addition to this, the CEO meets either formally or informally with the S.151 Officer and Deputy Director for Business Serevices on almost a weekly basis. • From our attendance at Audit and Governance Committee (AGC) meetings and minute review, members and officers robustly challenge and lead effectively. • There remains an appropriate level of senior manager and member level engagement in the financial management process. Stakeholder and resident understanding of the Council's financial position and budgetary pressures is facilitated by the provision of an interactive version of the Medium Term Financial Plan on the Council's website. • One area of particular good practice is the publication of an attractive and easy to read Annual Report as soon as the Council's outturn position is known. The Council's finance team won a bronze award in the 'Progress through Transparency' category at the National Improvement and Efficiency Awards in March 2012. As part of its budget setting process for 2013-14 the Council conducted a public engagement campaign in November and December 2012 in order to understand residents' service priorities and views on spending.	Green
Overview for controls over key cost categories	• As for most County Councils, the key costs for the Council relate to staffing and service provision (44% ad 42% respectively in 2012-13). These items are specifically considered within the MTFP and since budget holders are part of the budget setting process they are aware of the need to control key costs. The remaining 12% relates to central - overhead costs such as premises and supplies and services. • The Council tries to take a multi-pronged approach to controlling its key costs and this is demonstrated within Adult Social care where both unit cost reviews have taken place and £10m was invested during 2012-13 in preventative measures. These measures include the provision of social care staff in hospitals so that patients are supported to return to and remain in their own homes. • Another example is where the Council is working in partnership with other councils in the south east (such as with East Sussex regarding the provision of transactional support and IT hosting services) to identify greater efficiencies across the wider SE7 area.	Green
Budget reporting: revenue and capital	• Budget monitoring reports are presented to Cabinet monthly with year to date and forecast outturn positions at a service level within three weeks. • The analysis of each services' performance begins with a summary of the reasons for variance of the year-end position. • This provides sufficient but not excessive information to enable Cabinet to make effective decisions. This is supported by the level of narrative provided alongside the financial information to aid members who may not be from a financial background. • Going forward, the Council is currently implementing a new financial dashboard that will allow officers to review the budget position in real time and drill-down to the level of detail they require quickly and easily. This is expected to be completed in Summer 2013.	Green

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Understanding and engagement

Area of focus	Summary observations	Assessment
Adequacy of other Committee-Cabinet Reporting	• Issues affecting the current and forecast outturn position are described at both a summary and service level in relation to revenue budgets. Although Cabinet does not consider a detailed cash flow position, the revenue impact and forecast outturn is commentated upon within the monthly budget monitoring report. Additionally, quarterly financial statements are produced that include the year-to-date balance sheet. • The efficiencies position is reported to Cabinet on a monthly basis with full consideration of savings achieved, savings likely to be achieved and savings that are more difficult to achieve. A summary position for each service is also provided. • The key financial risks to the outturn position for each service budget are described at a suitable level to the Cabinet. The monthly report also considers the impact of any financial risks on the risk contingency budget that the Council applying as part of its multi-year budgeting approach. • Reasons are given for variances from the budgeted position, such as slippage against project progress and the realisation of unexpected efficiencies. • Issues affecting the current and forecast outturn position are described at both a summary and service level in relation to capital budgets. • Issues affecting the current and forecast outturn position are described at both a summary and service level in relation to revenue budgets, which are produced within three weeks of the month-end. The Council does not report the cash-flow forecast beyond year-end within the budget monitoring reports, but this is compensated through the Treasury Management reporting and quarterly review of the MTFP position.. • Budget monitoring reports are produced within three weeks of the month-end. From our reviews of Cabinet and Overview & Scrutiny Select Committee minutes the information provided to members (in conjunction with verbal updates where necessary) is complete, accurate and reliable. • Members regularly challenge senior officers and ensure progress has been made against recommendations, thus demonstrating that they take suitable action on the basis of information received. This is further demonstrated through the consideration of management actions that have taken place as a result of the prior month budget report. Basic accountancy training regarding balance sheet-revenue splits for members was identified through the production of the 2013-18 MTFP and as a result of this officers have already provided training in this area as part of the provision of the 2012-13 financial statements to members.	Green

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Appendix - Key indicators of financial performance

Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is a an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	• The key budget setting principles underpinning the development of service budgets are that budgets are based upon predicted activity levels rather than incremental budgeting, are owned by the services, reflect projected expenditure and directly managed income and take account of agreed savings plans. Historical budget issues are addressed through the budget setting process. The Council no longer completes standalone annual budgets but five-year budgets from which annual budgets are set and this means the in-year budgets are more reliable. Further to this, by using five-year budgets, virements between years can be more readily identified (i.e. capital projects spanning a number of years), meaning greater efficiency and more achievable in-year budgets. Budget holders propose a revenue budget that is sustainable for the directorate and the Council. The proposed budgets are collated and presented to Directorate Leadership Team meetings. Strategic Directors and the Chief Finance Officer are responsible for producing a budget that is within the provided cash limit. The Leader presents the budgets to Cabinet in January and Council in February each year, which forms the main part of the Council's MTFP and the Council ensures that the MTFP meets the overall Corporate Strategy. • As part of the budget setting process the Council considers a number of scenarios (e.g. the credit payments for the Waste PFI) and applies the most suitable scenario at the time. This is then updated once further information is obtained. • The Council completes a number of draft budgets throughout the process of creating the final budget, including budgets following additional face to face engagement with the business and voluntary sector, communities, and trade unions, all Member briefings at each phase and resident engagement. Once the budget is set, the actual spend is compared to the budget with explanations for variances to budget provided by each service. on a monthly basis, with a quarterly hard close process in place. Once live, the budget is only amended where new external information is received, which is considered at each quarterly update. • The Council has a strategic asset management plan that considers the balance between service provision and the impact of maintenance on revenue and capital budgets. As part of the strategy Property Services was restructured with a new management team in place and an under-pinning structure that covers the property lifecycle as 'one team'. The purpose of the restructure is to ensure that assets are managed as effectively as possible, which has been furthered through the introduction of a new Property Asset Management System. • Since the Icelandic Bank collapse, the Council is prudent with regards to cash management and investment, which is appropriate in the current market climate.	Green

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Performance against Savings Plans	• The Council had previously identified the annual savings to be made through the implementation of the MTFP. However, this is updated as a result of areas within its control (e.g. choosing to decline the Council Tax Freeze Grant) and those outside its control (e.g. increasingly reduced Central Government funding). In conjunction with directorates, this is then split between the directorates, with the first assumption being that the split should be proportionate to their annual budgets. Each directorate is required to identify the savings to be made and RAG rate this in reporting to Cabinet. These RAG ratings are split between achievability (i.e. how likely it is that the directorate can meet that particular saving) and political acceptability. • As part of the consideration of the directorate performance against the savings plan, the directorates are required to apply prudency in reporting a "worst-case" scenario. Further to this, each directorate is required to identify savings schemes with a total value that is higher than the target to allow for some slippage across the MTFP period. Furthermore, the Council has purposely increased its reserve balances in recent years (and intends to going forward where possible) in order to support future savings required. • During 2012-13, the Council achieved recurrent savings of £66m against a target of £71m, although countervailing savings ensured that an overall revenue underspend was achieved in-year. This compares to 2011-12 where the Council overachieved its savings target by £2.1m (£61.4m against a target of £59.3m). • The Cabinet is updated on a monthly basis regarding the progress of directorates against the savings plan. Each directorate is required to explain the reasons behind any slippage or failure to meet the savings plan and to identify compensating in-year savings. These reports include both the year-to-date and outturn figures. The Council has demonstrated that is has sound project management through proactive delivery management through achieving in-year underspends for a number of years despite not meeting its savings targets. During the course of our review we confirmed that countervailing savings were not always identified during the monitoring process. The Council should consider the formal reporting of this so that countervailing savings are clearly identified and their impact on service provision is better understood.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Key Financial Accounting Systems	• Internal Audit have reviewed all of the key financial systems in 2012-13 and determined that there are some areas that need "some improvement". We do not consider that these areas represent material weaknesses. • The Trust's main accounting system is SAP, which is a well known accounting package that is appropriate to the business. The Council also uses a number of other systems such as SWIFT, Abacus and Minerva, which are specifically designed for their uses and thus are appropriate. The Council may need to revisit this as their service provision alters over time. • SWIFT, which is used by Adult Social Care, has multiple interfaces with the General Ledger on SAP, such as commitments, invoice payments, financial assessments, and accruals and pre-payments. Key interfaces are monitored to identify system failures, should they occur. • The accounting system (SAP) is both accurate and reliable in relation to the coding of activity as demonstrated through the main account walkthroughs completed and the review of the management accounts review process. The budget holder ownership of budgets is particularly strong in the Council since they are held to account for minor variances to the plan.	Green
Finance Department Resourcing	• The Council has a central finance team that provides additional support to each service, meaning that key positions within finance can be covered by other finance team members. The Council employs around 100 staff within financial management roles. The Council is particularly reliant on the Finance Manager (Assets and Accounting) and Capital Accountant, in compiling the financial statements. However, it should be noted that the team produced sound financial statements when the Finance Manager was on maternity leave, demonstrating the depth of ability within the team. • The Council performed a Public Value Review on financial management in 2011. A recommendation was made in relation to realigning the structure of the finance department with the Finance Vision and the process improvements identified as part of the Public Value Review. • As a result of this, the finance team has a total of 97 staff, of which 40 are CCAB qualified accountants, 7 part-qualified and 25 are members of AAT. • The Council has since restructured the finance department, including shared services, in order to meet the recommendation. This has both saved money and improved the effectiveness of the finance team although minor issues have arisen as a result of changes made that the Council is in the process of addressing. • During our fieldwork the Chief Finance Officer was identified by a number of key stakeholders as providing effective leadership of the finance function, and having constructive relationships with the Corporate Board and Cabinet colleagues.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Internal audit arrangements	• The Internal Audit annual plan has been reviewed. On review of this plan, the areas to be covered across the financial year are sufficient for the organisation. The plan is risk-based, but subject to the consideration of materiality and service need. Overall the Internal Audit function performs well at the systems-based audits that form the majority of its work, but some services feel that they are less adaptable in areas where advice or creativity is required. • This is because the Internal Audit service is comparatively compliance-focussed compared to the expectations of some service departments. However, the function has demonstrated that it has provided advisory services where appropriate in areas such as the Public Value Reviews, developing staff analysis tools and working on duplicate payments with the Accounts Payable team prior to external consultants carrying out an Accounts Payable review and the introduction of an add-on to SAP. • The Audit and Governance Committee monitor outstanding recommendations at each meeting. A number of old recommendations are outstanding but progress against each of these is demonstrated. • New IA standards were published with effect from April 2013. The Council received an independent review for compliance with the new Public Sector Standards on Internal Audit Services during the year, for which they were found to be partially compliant with minor improvements required only. The Internal Audit service have already put in place an action plan to ensure they will be fully compliant during 2013-14.	Green
External audit arrangements	• Two prior-year recommendations within the 2011-12 Annual Governance Report and Annual Governance Statement are on-going into 2012-13. These are in relation to the monitoring of capital spending and information governance controls. • The Council has carried out an internal review of its Investment Panel and is now using new Project Systems and Investment Management modules in SAP to improve capital monitoring. The annual managers' assurance statements now include the consideration of information governance to ensure a culture of compliance is fostered. • In 2011-12 the external audit identified that accruals were potentially overstated. Following a detailed review by the finance department the overstatement was quantified as £2.5m and these accruals were reversed, contributing to the overall underspend of £18.1m for the year. • Recommendations are incorporated into the recommendations tracker that is reviewed at every Audit and Governance Committee meeting. They were then addressed by management via a report to members in February 2013.	Green

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Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Assurance framework-risk management	• The risk management process is an iterative process of identification and assessment, monitoring and review, with Directors being responsible for reviewing and reporting on any perceived risks in their areas of responsibility. There are various committees and accountable officers that collate risk management reports and implement mitigation plans. This is completed through all directorates having a standing item on their monthly management meetings to review and update their risk register. These are then linked to the Leadership Risk Register. • The efficacy of the risk management process is monitored through half-yearly risk management reports to the AGC. The AGC gains assurance on the monitoring and review of risks by the register identifying when specific areas have been included on Select Committee agendas and also dates of future Select Committee reviews. • The Cabinet gains assurance over the risk management process through two main routes. Firstly, through the review completed by the AGC at each meeting and secondly through the IA review of the risk management process on an annual basis. The leadership risk register is reviewed by the Strategic Risk Forum (formally the Risk and Resilience Steering Group) and by the Corporate Board. • The basis for risk identification is the objectives and priorities within the Corporate Strategy and relevant directorate strategies and service plans. Each risk is allocated under the responsibility of a specific senior officer and member. Each risk is also aligned for monitoring purposes to a specific committee • The Leadership Risk Register splits the risk assessment between inherent and residual risk scores and key controls that mitigate against the inherent risk are identified for each risk. • Each risk within the Leadership Risk Register is linked to the relevant service-level risk number and is rated either High, Medium or Low risk. • Although the Leadership Risk Register does not contain actions required to mitigate against the risks identified, these are included within the individual directorate risk registers and are discussed as part of the review of the Leadership Risk Register. • On overall review of the size and number of the framework, it appears reasonable for the Cabinet to maintain an adequate review of the main risks to the Council considering the level of detail included within the Leadership Risk Register.	Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

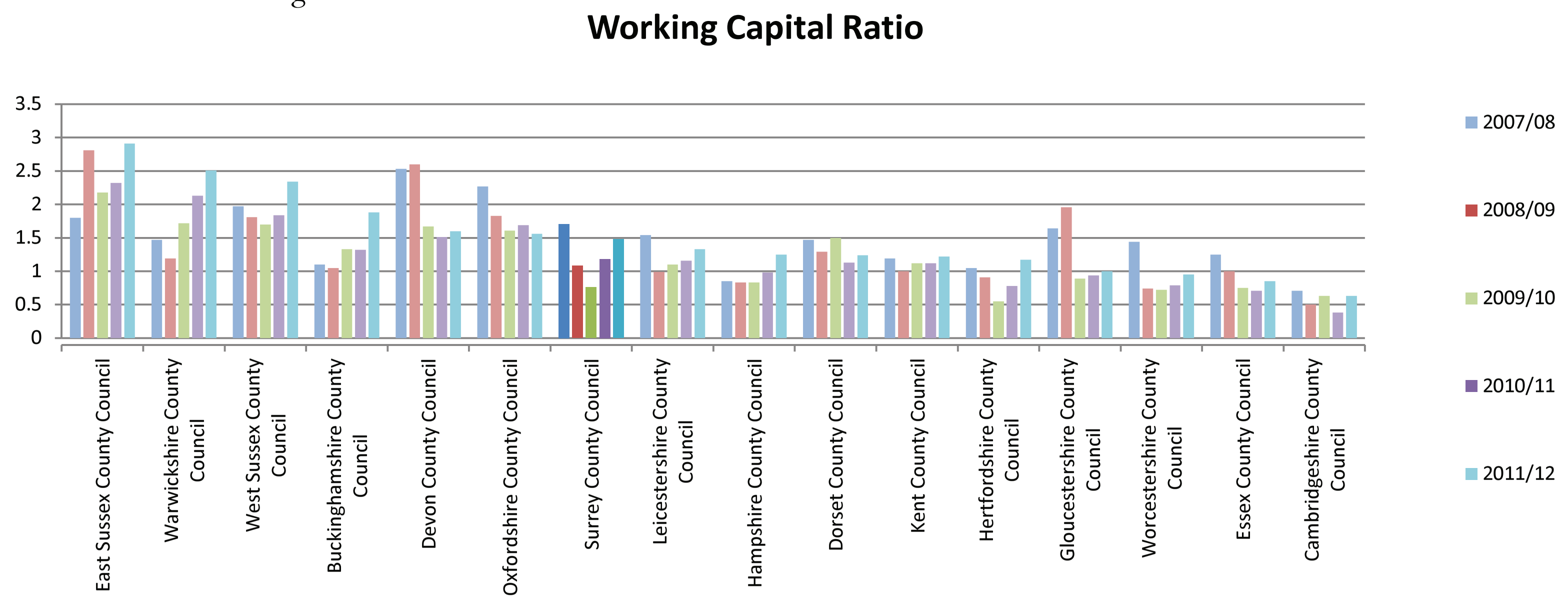
5 Financial Control

Appendix - Key indicators of financial performance

Working Capital - Benchmarked

Definition
The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable , whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

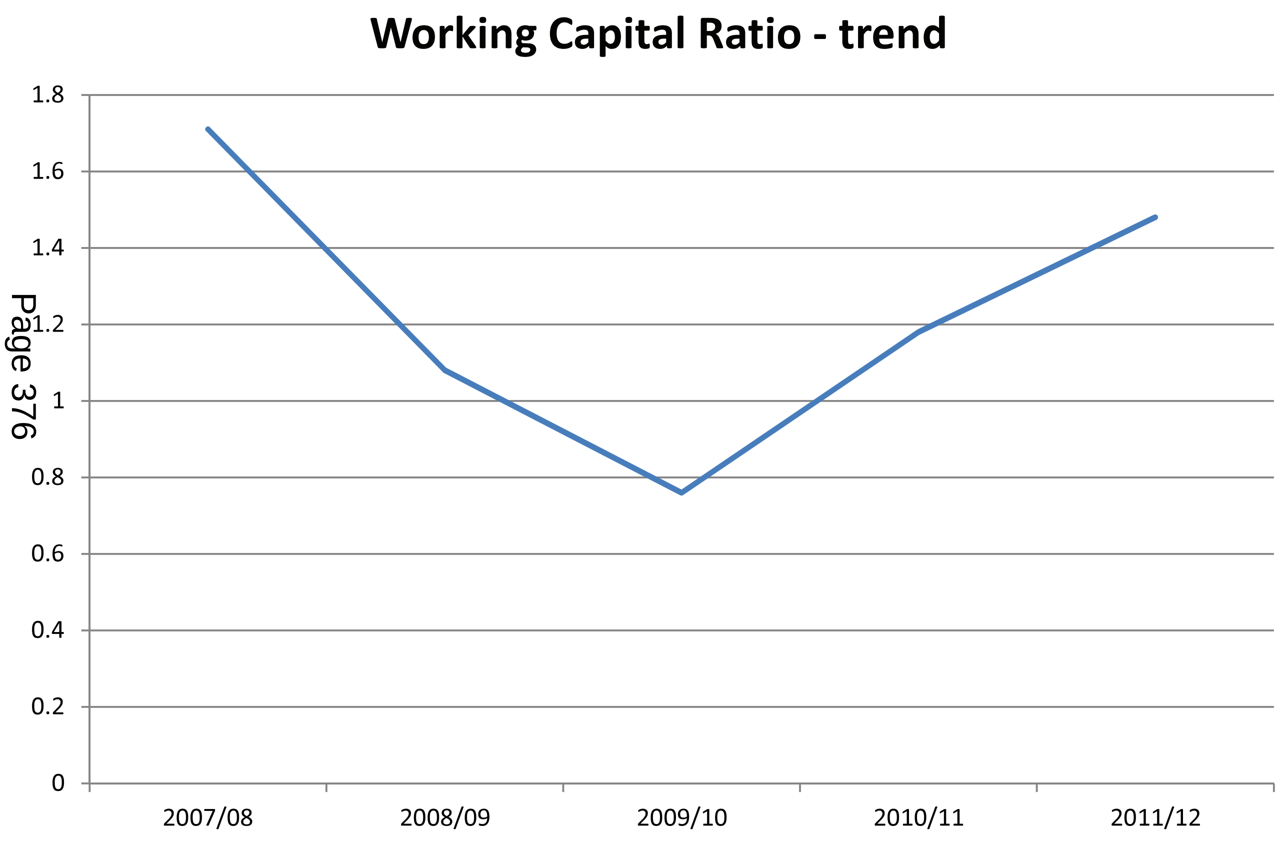
Findings
There is a mixed picture in terms of the movement in working capital ratios across the nearest neighbours. Seven out of the sixteen Councils have increased their working capital ratio from 2007-08 to 2011-12, whilst nine out of the sixteen Councils have seen a decrease over the same period. Of those Councils with a decreasing working capital ratio the average decrease is around 25%. The Council has seen a decrease of 13% and maintains a ratio that is above the average.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Working Capital - Trend



Source: Audit Commission's Technical Directory

Findings

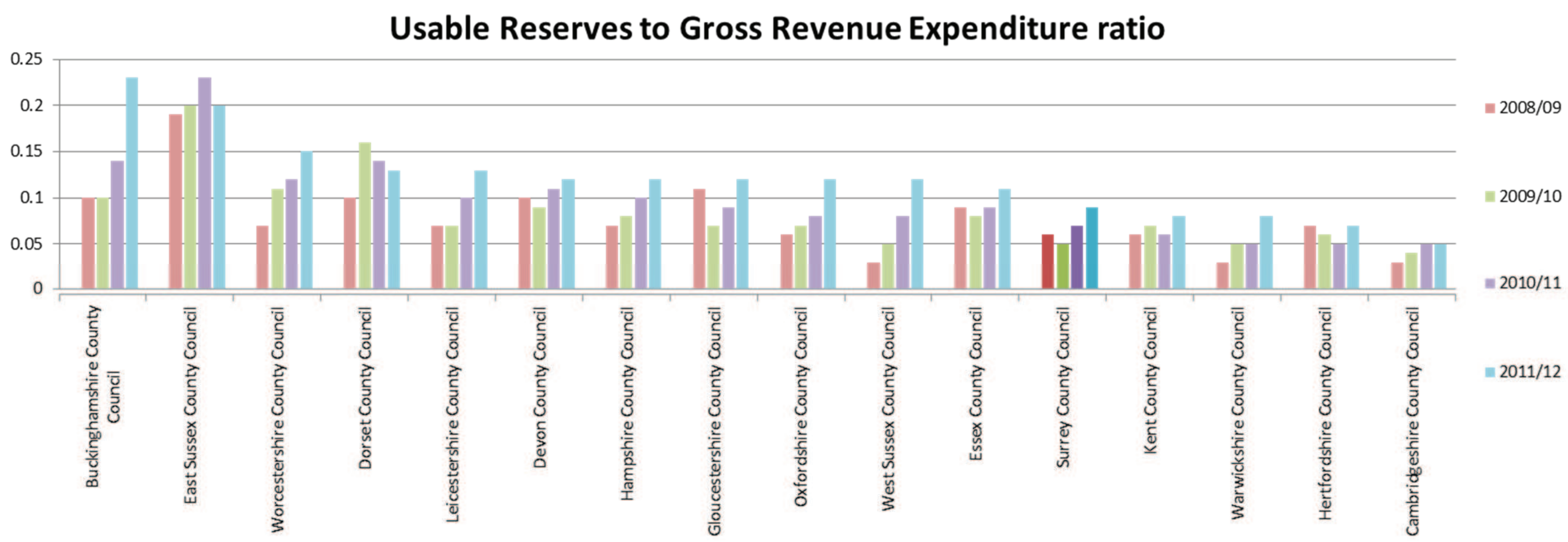
The working capital of the Council reduced from 1.71 to 0.76 in 2009-10. Net current assets decreased by £72m from 2008-9 to 2009-10. The cash - short-term investment balance decreased by £130m due to the repayment of borrowing, £89m of this was a planned repayment and so the decrease in current assets (cash - investments) is offset by a corresponding decrease in current liabilities (short-term borrowing) of £89m. The additional £40, decrease in cash was due to the additional early repayment of borrowing (classified on the balance sheet as long-term borrowing as this was not planned at the end of the previous year). This, added to an increase in creditors of £30m, explains the decrease in net current assets from 2008-09 to 2009-10.

Since that time the ratio has increased again to 1.48 in 2011-12. The net current asset balance increased, which was mainly due to increases in cash balances - investments which was due to capital underspends and some movements in debtors - creditors.

Useable Reserves - Benchmarked

Definition
This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

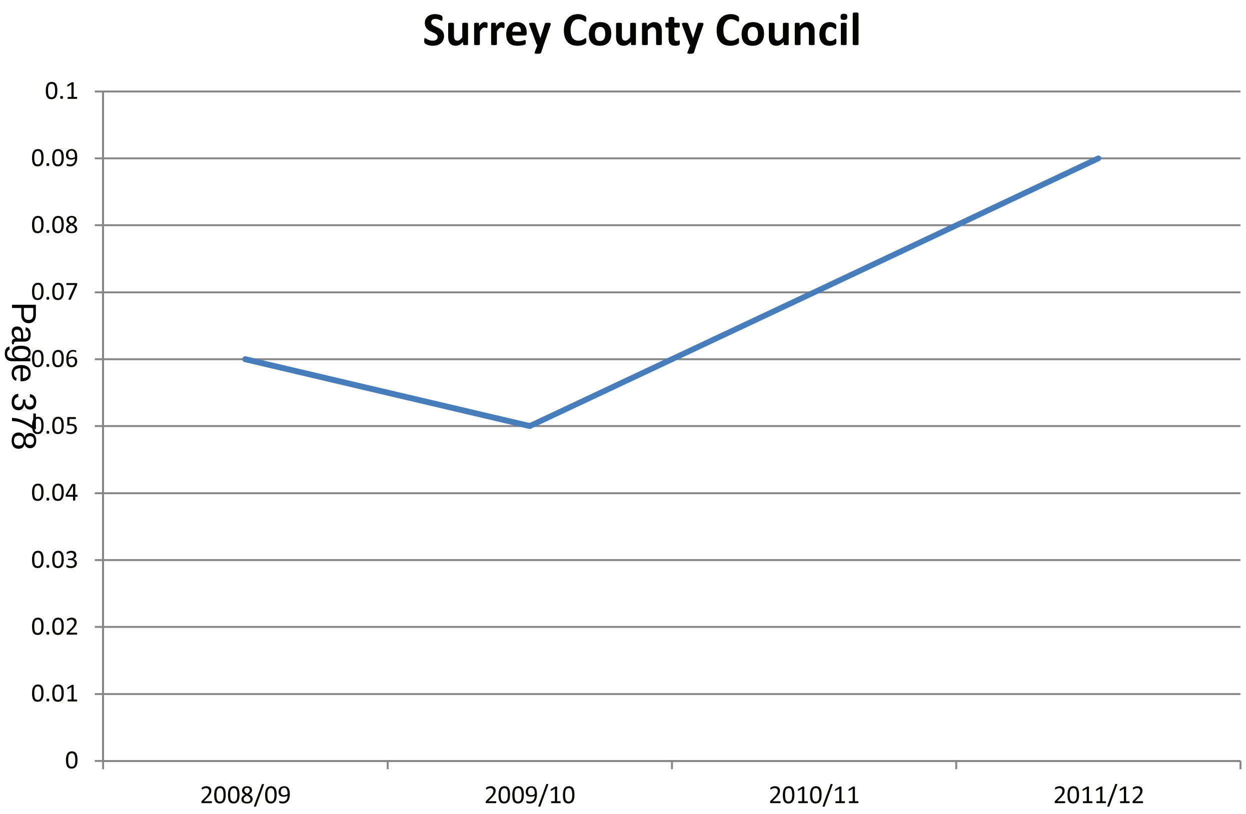
Findings
The Council has maintained a ratio below the average since 2008-09 but has increased its ratio since that time from 0.06 to 0.09. This is an increase of 50% against an average increase of 75% for the nearest neighbours.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Useable Reserves - Trend



Source: Surrey County Council Statement of Accounts 2009-10 to 2011-12

Findings

The Council has increased its ratio of useable reserves to Gross Revenue Expenditure (GRE)since 2009-10.

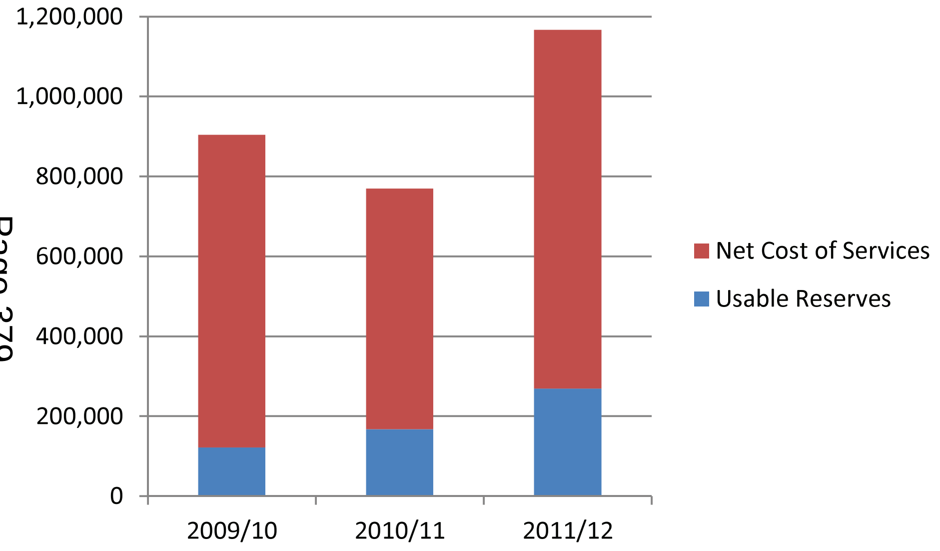
CIPFA's guidance on reserves is that the level should follow the S151 officer's advice to the Council, which should be based on local circumstances.

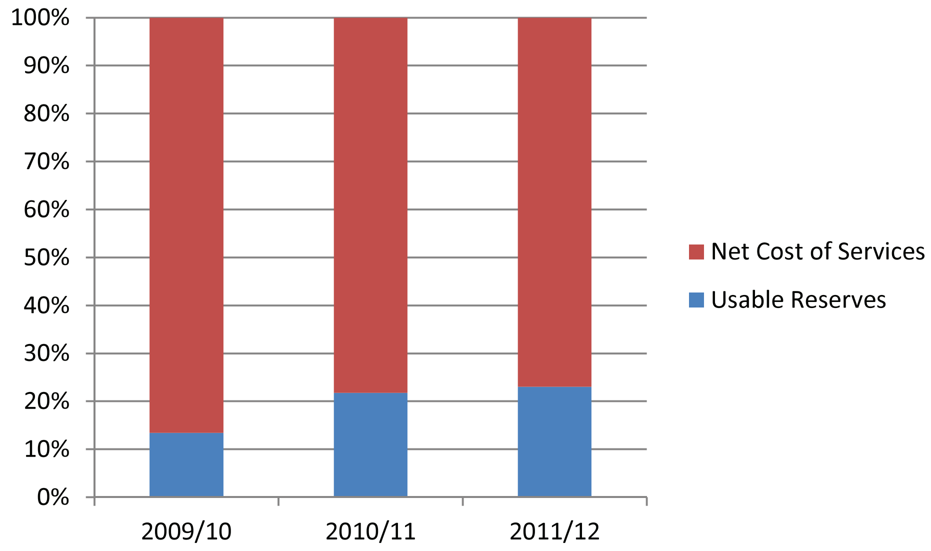
The Council has followed this guidance by increasing the level of its reserves over this period in order to provide mitigation against potential future funding restrictions.

Key Indicators of Financial Performance

Reserves

The graphs below show the level of usable reserves against the net cost of services balance. The first graph shows this in actual terms, the second in percentage terms.





Findings

The Council has increased its usable reserves balance in line with net cost of services increases from 2009-10 to 2011-12. This was a policy decision made in order to provide financial resilience in the face of probable future funding restrictions.

Source: Surrey County Council Statement of Accounts 2009-10 to 2011-12

Key Indicators of Financial Performance

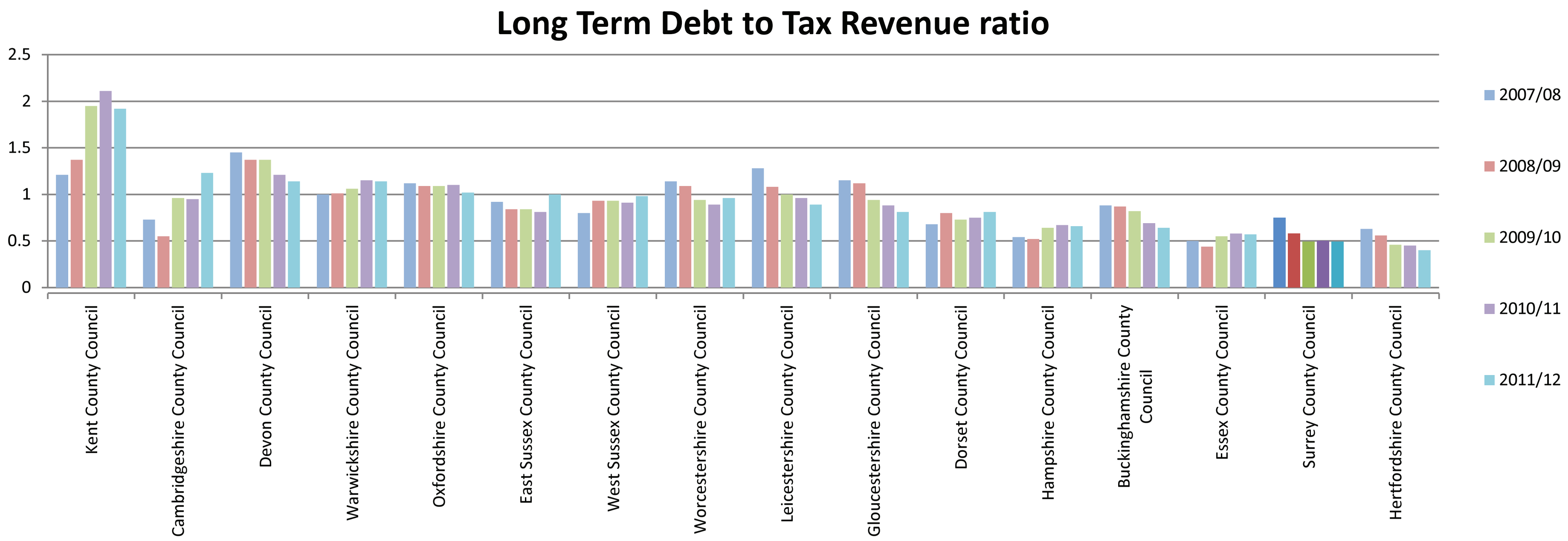
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

Shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

The Council's long term borrowing ratio (as a percentage of tax revenue) has reduced by 35% (from 0.75 in 2007-08 to 0.49 in 2011-12), and is in line with the Council's Treasury Management Strategy. This downward trend has meant the Council maintains one of the lowest ratios across all of its neighbours, which has been enhanced because not all of the nearest neighbour authorities have seen a similar downward trend of borrowing levels from 2007-08 to 2011-12.

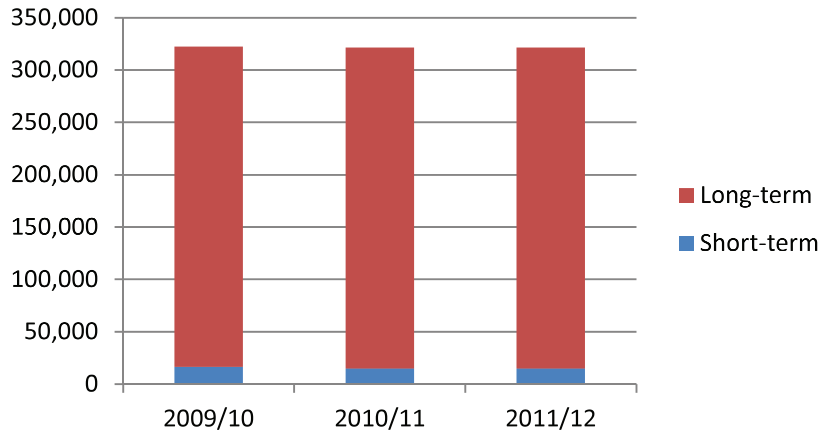


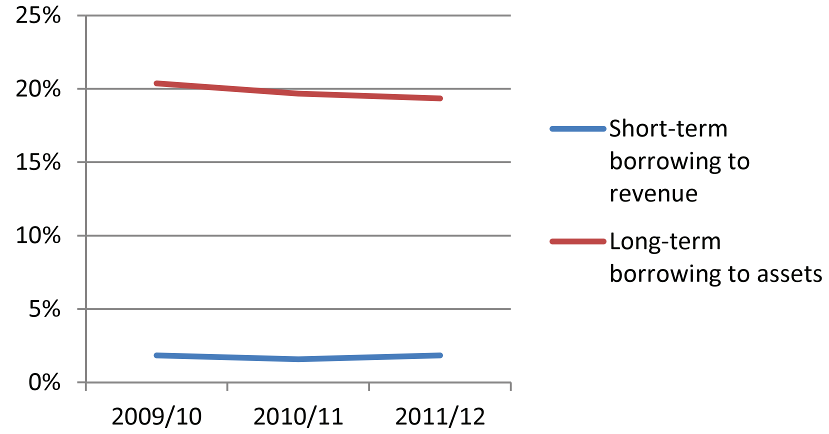
Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Borrowing

The first graph shows borrowing balances for both long and short term borrowing in actual terms, the second graph shows the respective ratios between long term borrowing and assets and short term borrowing and revenue:





Findings

The Council has minimal short-term borrowing compared to long-term borrowing. Overall, both short and long-term borrowing have remained stable since 2009-10. The majority of the Council's borrowing is direct from the Public Works Loan Board.

The Council has maintained low levels of borrowing compared to other Councils as demonstrated by the fact that the Council has good coverage of its short-term borrowing by revenue and of long-term borrowing by assets.

Source: Surrey County Council Statement of Accounts 2009-10 to 2011-12

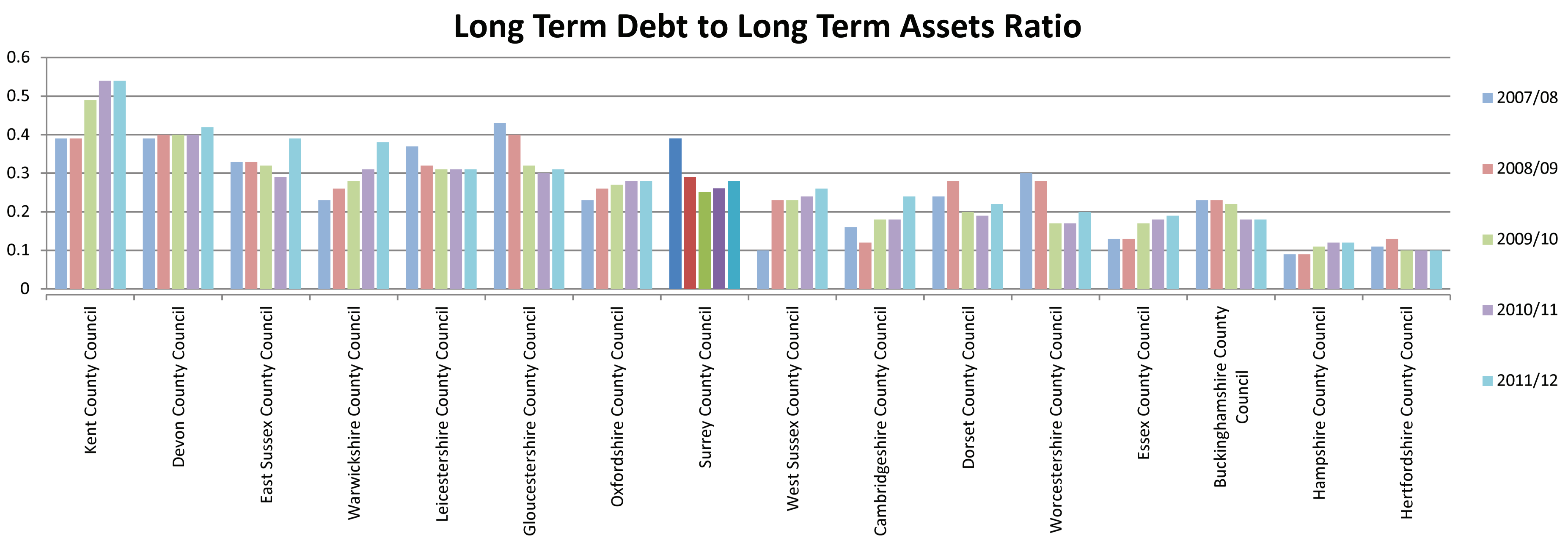
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long tem borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

The Council's long term borrowing to assets ratio has decreased by 28% from 2007-08 (0.39) to 2011-12(0.28), and is in line with the Council's Treasury Management Strategy. There is a mixed picture in terms of the movement across the nearest neighbours with nine out of the sixteen having increased their ratio from 2007-08 to 2011-12, whilst six out of the sixteen Councils have seen a decrease over the same period. Overall the Council is in line with the average across its neighbours.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

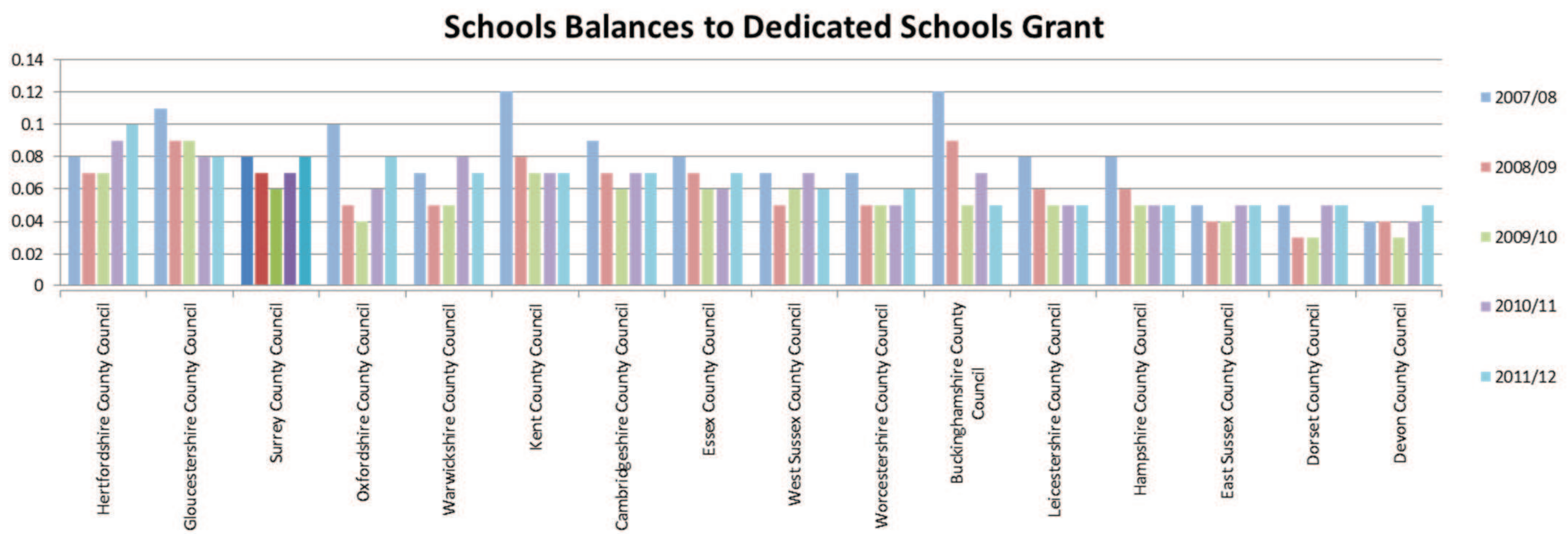
Schools balances to DSG allocation - Benchmarked

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

The Council's ratio has not changed materially over the period, being both 0.08 in 2007-08 and 2011-12. This remains slightly above average across the period compared to its neighbours.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Sickness Absence Levels

Background

The average sickness absence level for the public sector is 9.6 days per FTE, whilst the private sector average is 6.6. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to new tougher sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

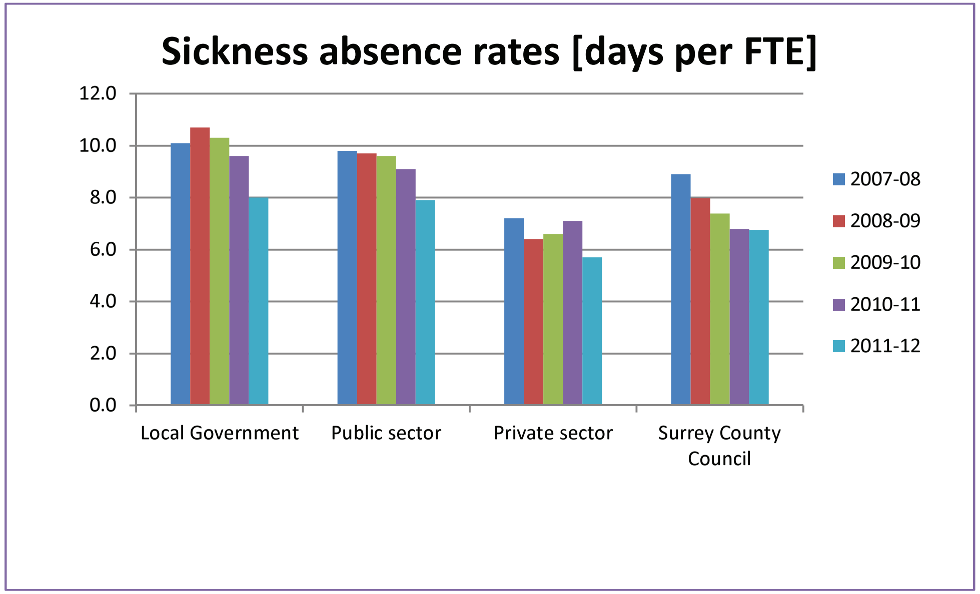
Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".

Definition

This shows the sickness absence rate represented as days per Full-time Equivalent (FTE) per annum.

Findings

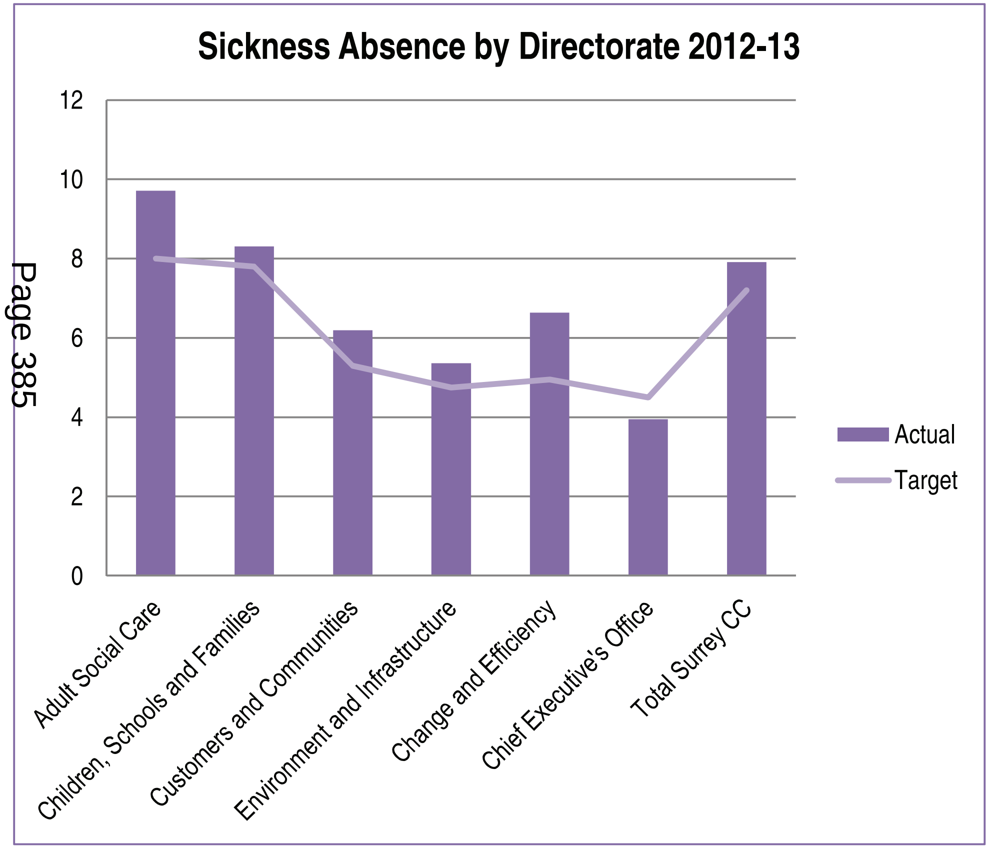
The Council has not only consistently reduced the average sickness rate across the five year period (8.9 to 6.76 FTEs), but has also ensured the rate is below both the public sector and local government averages.



Source: Surrey County Council Workforce Information Reports and CIPD Annual Survey Reports on Absence management

Key Indicators of Financial Performance

Sickness Absence Levels – by Directorate



Source: Surrey County Council Workforce Information Reports

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Findings

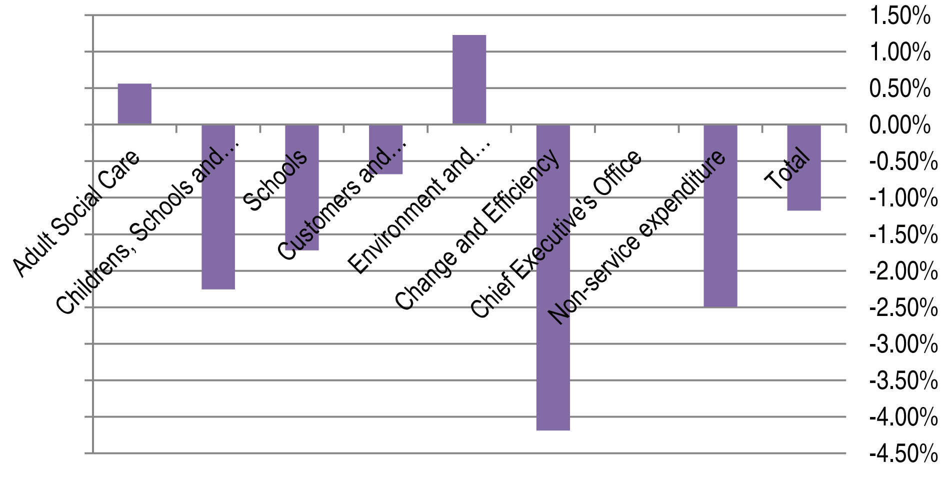
The directorates' sickness absence levels are in line with expectations in that Adult Social Care (9.71 FTEs) and Children, Schools and Families (8.31 FTEs) directorates tend to have higher than average sickness absence due to the nature of their role.

The Chief Executive Office is the only directorate that has met its target, being 3.95 days against a target of 4.50 days. The Council should review this to ensure that any lessons that can be learnt from work completed in that directorate are shared with other services where relevant.

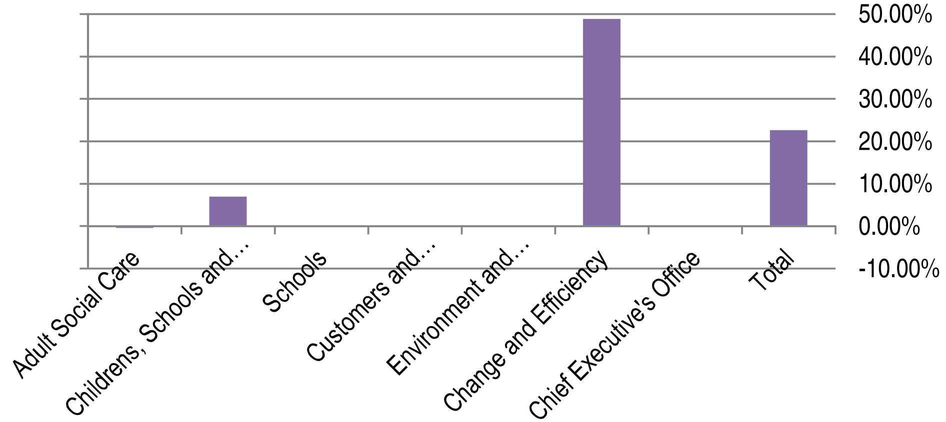
Key Indicators of Financial Performance

Performance Against 2012-13 Budget: Major Variances from Working Budget

% variance against revenue budget



% variance to capital budget



Source: Surrey County Council Draft Outturn Budget Report 2012-13

Findings

The overall revenue outturn position is an underspend of £3.1m including roll forwards. In both cash and percentage terms, the directorate with the best performance is Change and Efficiency, with an underspend of £3.7m (4.19%).

The only directorates with overspends are Adult Social Care and Environment and Infrastructure, which were £1.9m (0.58%) and £1.6m (1.23%) respectively.

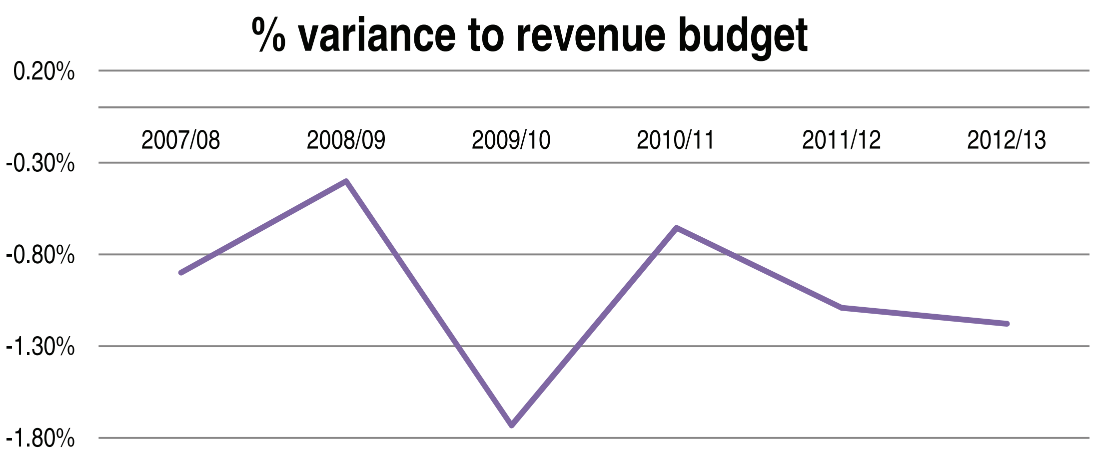
Schools underspent against the DSG budget by £9.3m representing 1.72% of the total schools budget.

Findings

The £16.3m overspend in relation to the Change and Efficiency budget resulted from committed expenditure relating to the purchase of a number of properties that is funded in future years, but was brought forward to 2012-13 as it made financial sense to do so.

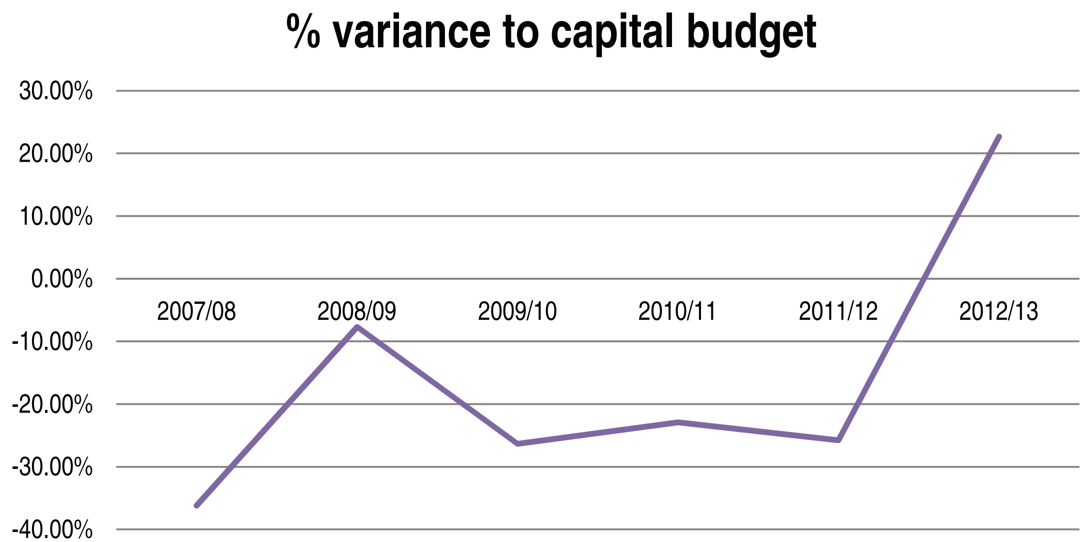
Key Indicators of Financial Performance

Performance Against Budget: Track Record



Findings
The Council has consistently underspent against its revenue budget in the past six years.

The smallest underspend amounted to £2.6m (2008-09), whilst the largest occurred in 2012-13 and amounted to £18.1m.



Findings
For the first time during the past six years the Council has overspent against the capital budget. There are a number of factors that have contributed to this including tighter capital monitoring and the bringing forward of capital projects from future years where the Council determined this represented better value for money. However, this does include £16m of committed expenditure that did not occur until early in 2013-14.

Source: Surrey County Council Draft Outturn Budget Report 2012-13

Grant Thornton

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SURREY
COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE
2 September 2013

RISK MANAGEMENT UPDATE REPORT

SUMMARY AND PURPOSE:

This risk management update report supports the committee's responsibilities for monitoring the development and operation of the council's risk management arrangements.

RECOMMENDATIONS:

Members are asked to consider the contents of this report and confirm they are satisfied with the risk management arrangements.

BACKGROUND:

1. The committee received the Risk and Governance Managers annual risk report at the meeting on 24 June 2013. Since then, Internal Audit has published the findings of its 2012/13 review of risk management. The review focused on the corporate risk management arrangements and processes during 2012/13, it did not look at service specific risk arrangements or assess the risk management culture of the organisation. Therefore the findings of the review were issued as a position statement and included an agreed management action plan. The internal audit position statement is attached at Annex A and progress against the management action plan is at Annex B.

2. This report updates the committee on the actions completed in relation to the 2013/14 areas of focus from the annual risk report and the position statement management action plan, and future activity. The risk management governance structure is attached at Annex C.

ACTIONS COMPLETED:

Documents and guidance

3. The up to date risk management policy statement and strategy was approved by the committee in June and will be presented to Council in October for inclusion into the Constitution.

4. The risk framework has been updated to include risk escalation procedures, cross referencing of risk registers and movement of risk. It has been reviewed by the Strategic Risk Forum (SRF) and is available on the snet. The risk guidance on the snet has also been updated and includes information on risk workshops and a risk induction pack for risk representatives.

Communication and awareness

5. The risk management policy statement, strategy, framework and guidance have been communicated to service risk representatives, SRF and Corporate Board. The Council Risk and Resilience Forum (CRRF) will be updated on the corporate risk arrangements at their meeting on 18 September 2013. Risk representatives also receive regular risk management updates from risk practitioners in order to provide information on cross-council issues and any changes to arrangements.

6. As part of the induction training programme for new and returning members following the recent county council elections, the Finance Service held an all Member briefing on 24 July 2013, which included a presentation on the corporate risk arrangements.

Risk registers and snet

7. Directorate and Service risk registers received from risk representatives are loaded onto the snet by the Risk and Governance Manager. A risk register exception report is now provided to the SRF on a monthly basis, which highlights the status of risk registers on the snet and where directorate risk leads may need to take action.

8. The risk management snet pages now include references to other areas of risk such as business continuity and health and safety.

Strategic Risk Forum

9. The SRF met twice in July 2013. The first meeting focused on reviewing the Leadership risk register in preparation for Corporate Board. The second meeting was a workshop focusing on risk culture and the development of ideas on the work that is required to assess the risk culture across the organisation.

FUTURE ACTIVITY:

10. Following the updating of the risk framework, the Risk and Governance Manager will work with risk representatives to improve the co-ordination of risk registers and ensure they have clear referencing.

11. The SRF will continue to develop the risk culture work with a view to reporting to Corporate Board in early 2014. The SRF will also continue to review the adequacy of the risk arrangements through exception reporting and reviewing documentation to ensure it is effective and fit for purpose.

IMPLICATIONS:

Financial

12. Ineffective risk management arrangements may lead to increased costs or inefficiencies due to poor control measures or lack of timely action.

Equalities

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

Risk management

14. Embedded risk management arrangements will lead to improved governance and will support 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 reports, agendas and minutes.

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SURREY COUNTY COUNCIL
AUDIT REPORT

Position Statement
regarding
Risk Management Arrangements

2012/2013

Prepared for: Sheila Little, Chief Finance Officer and Deputy Director of Business Services
Cath Edwards, Risk and Governance Manager

Prepared by: Siva Sanmugarajah, Lead Auditor

Sue Lewry-Jones
Chief Internal Auditor
Surrey County Council
County Hall
Kingston upon Thames
Surrey
KT1 2EA

July 2013

Additional circulation list:

External Audit	Grant Thornton UK LLP
Service Finance Manager	Sian Ferrison
S151 Officer	Sheila Little
Strategic Director	Julie Fisher
Risk and Governance Manager	Cath Edwards
Audit and Governance Committee	All
Cabinet Member for Business Services	Denise Le Gal
Chairman of Council Overview and Scrutiny Committee	Nick Skellett

Glossary:

ASC	Adult Social Care
ALARM	Association of Litigation and Risk Managers
A&GC	Audit & Governance Committee
BS	Business Services
CIPFA	Chartered Institute of Public Finance and Accountancy
CEO	Chief Executive's Office
CSF	Children, Schools and Families
CRG	Corporate Risk Group
CR&RF	Council Risk and Resilience Forum
C&C	Customers and Communities
E&I	Environment and Infrastructure
HR&OD	Human Resources and Organisational Development
IMT	Information Management and Technology
LRR	Leadership Risk Register
PVR	Public Value Review
R&G	Risk and Governance
R&RSG	Risk and Resilience Steering Group
SRF	Strategic Risk Forum
SCC	Surrey County Council
TIS	Technical and Information Service
S:net	Council's Intranet

1. INTRODUCTION

1.1 Surrey County Council's (SCC) risk management strategy outlines the arrangements in place to ensure that the council identifies and deals with the key risks it faces. The Council has adopted an integrated approach to risk management to ensure openness, transparency and evidence good governance. It also aims to continuously improve its approach to risk management, prompted by new ideas and best practice. This fits in with the One County One Team vision by the Council Leadership to enable the Council to deliver its services to the residents of Surrey in the most effective and efficient way.

1.2 The risk management framework should complement the strategy and provide a consistent approach to risk management across the organisation by detailing the council's approach to risk identification, assessment, control and reporting. It should be reviewed annually by the Risk and Governance (R&G) Manager and revised to reflect the changes that happened during the year.

1.3 A review of the Risk Management arrangements was included as part of the 2012/13 Annual Audit Plan and was undertaken following agreement of the Terms of Reference included at Annex A.

1.4 This audit focussed on the formal corporate arrangements for risk management and did not look at service specific risk management processes, nor did it assess the culture of risk management in service areas. Given the precise nature of this review, this audit report is issued as a position statement and as such does not provide an overall audit opinion on risk management across the organisation.

1.5 During 2013/14, Internal Audit will move to a more risk based approach to internal auditing. This will involve more detailed conversations with services about risk and will provide the Chief Internal Auditor with more substantive evidence on which to base an opinion on the adequacy of risk management arrangements in Surrey County Council.

1.6 Although issued as a position statement, this report includes a number of recommendations for improvement and an agreed Management Action Plan is attached at Annex B.

2. WORK UNDERTAKEN

2.1 Discussions were held with the R&G Manager to understand the changes since the last audit, and clarify arrangements that were in place during 2012/13.

2.2 The information held on the Council's intranet (S:net) on risk management was reviewed on 10 May 2013.

2.3 Discussions were held with directorate and service risk representatives responsible for the identification, recording, monitoring and reporting of risks in their respective services and directorates. These included the impact on risk management, of the numerous service re-structures which happened or concluded within the Council following the Public Value Reviews (PVR) during 2012/13, and the adequacy of interim risk management arrangements.

2.4 Risk registers are maintained at service, directorate and leadership levels. A sample of risk registers at each level was reviewed for their adequacy and completeness. Feedback from Internal Auditors was obtained to establish the reliance they placed on the registers in the course of their audit work during the year.

2.5 Risk management areas reported to the Audit & Governance Committee (A&GC) during 2012/13 were reviewed.

2.6 The Auditor followed up on items reported in the previous audit report as work in progress to ensure completion.

2.7 The Auditor did not look at service specific risk management processes or assess the culture of risk management in service areas.

3. RECOMMENDATIONS SUMMARY

3.1 **Recommendations analysis:**

Rating	Definition	No.	Para.Ref.
High	Major control weakness requiring immediate implementation of recommendation	4	5.4, 5.8, 5.17, 5.24
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	6	5.11, 5.16, 5.23, 5.25, 5.30, 5.42
Low	Recommendation represents good practice but its implementation is not fundamental to internal control		
	Total number of audit recommendations	10	

4. MANAGEMENT SUMMARY

4.1 The 2011/12 audit review of Risk Management Arrangements focused on an assessment against the 2011 CIPFA Risk Governance Checklist. The resultant audit report included four medium priority audit recommendations for which a Management Action Plan was agreed.

4.2 For the purposes of the 2012/13 audit of Risk Management Arrangements, the Auditor has considered progress against these recommendations but has also looked in more detail at the quality and accessibility of service and directorate risk registers as well as the availability of clear and up to date guidance on the risk management process.

4.3 The 2011/12 audit recommendation regarding using the S:net as a “one-stop shop” for maintaining risk information has not been progressed and this audit has identified a number of concerns around the risk information on S:net including:

- The Policy Statement approved by the A&GC on 21 May 2012 was not published on S:net or properly communicated;
- The Risk Management Framework and Strategy had not been updated on S:net despite the above Policy Statement not being implemented;
- Risk guidance was not up to date and the necessary links on S:net to guide the user were not working; and
- Directorate/service risk registers on S:net were not up to date in many instances with three service risk registers dated 2011.

4.4 While it is recognised that the Leadership Risk Register (LRR) has a high profile and is subject to regular review by key officers and Members alike, the Auditor is concerned at the number of service risk registers on the S:net that are out of date. It was not possible to conclude with certainty whether the most recent risk registers have simply not been provided to the R&G Manager by some services in a timely manner, or whether in fact the services have not maintained up to date registers. The Auditor’s requests to service risk representatives to provide their most recent risk registers were not responded to, by four services. In addition, Internal Audit work throughout the year has identified issues with obtaining up to date risk registers for areas being reviewed, suggesting a lack of awareness in services of risk management arrangements.

4.5 This audit has also identified some concerns around reporting of Risk Management to the Audit and Governance Committee in particular:

- It was not possible to fully report the risks within Environment and Infrastructure (E&I) Directorate because the risk register had not been provided despite repeated requests by the R&G Manager and the Chairman of the A&GC.
- The 2012/13 Half Year report presented to the A&G Committee in December 2012 made little or no reference to the progress made on the items that were previously reported in the annual report as the “Focus for 2012/13”. In addition, the fact that the previously approved Policy Statement had not been implemented was not communicated to Members.

4.6 The Risk and Resilience Steering Group (R&RSG) chaired by the Assistant Chief Executive focused on the 2012 Olympics for the first half of 2012/13, and was disbanded in February 2013. In March 2013 it was decided to re-establish the Strategic Risk Forum (SRF). The SRF, chaired by the Chief Finance Officer has so far met twice in 2013/14 and these meetings have been seen by many directorate risk representatives as a welcome move with a sharp focus.

4.7 The auditor is aware that the R&G Manager has had a change in line management during the year and is concerned that the outcome of the Finance re-organisation resulting from the Finance PVR may have distracted the focus on risk management.

4.8 With the Council facing much change over the coming year, it is more important than ever that robust risk management arrangements are in place which ensure transparency. Section 5 of this report sets out the Auditor’s findings in more detail and includes a number of recommendations for improvement. An agreed Management Action Plan is at Annex B and the Auditor suggests the Risk and Governance Manager should report progress on implementation of this Management Action Plan as part of her Half Year Risk Management report to Audit and Governance Committee in December 2013.

5. FINDINGS AND RECOMMENDATIONS

5.1 Risk Management Policy Statement

<u>Finding</u>

5.2 A new Policy Statement for risk management (referred to as the One County, One Team Risk Management) was approved by the A&GC on 21 May 2012. The following items were reported to the Committee about the Policy Statement and its contents:

- It replaced the previous Risk Management Strategy which focused on risk registers. The Policy Statement was to act as an umbrella statement to cover every aspect of risk management and match the new arrangements;
- It was deliberately kept brief so that the risk frameworks for risk registers, business continuity plans and Health & Safety could be aligned with each other;
- It set out the Council’s approach to risk management as being built on the following five principles:
    - Alignment with objectives,
    - Clear guidance,
    - Informs decision making,

    - Achieves measurable value, and
    - Facilitates continuous improvement;

- Its vision for risk management is to maximise opportunities and minimise exposure to risks to ensure that the residents of Surrey remain healthy, safe and confident about the future. The focus of good risk management is the identification and treatment of risks and opportunities;
- Celebrating and communicating successful risk management in turn encourages a more bold and calculated approach.

5.3 The Auditor did not find any of the above information on the S:net pages relating to R&G area and the R&G Manager confirmed that this Policy Statement was not used in 2012/13 and that the Committee was not informed of this change. Instead, S:net had the Risk Management Framework dated March 2011 and Risk Management Strategy dated June 2010, both of which required updating. As such, it was unclear to the Auditor if the risk representatives in the directorates and services were aware of, or understood, which policy, framework or strategy was in place.

<u>Recommendation</u>

5.4 The up to date Policy Statement, framework and strategy for risk management should be maintained on the S:net and publicised to enable all staff in the Council to be aware and fulfil their responsibilities and in turn allow the Council to fully meet its objectives. Any changes to the decisions made by the A&GC should be reported to the Committee for their approval before they take place.

5.5 Risk Management Guidance

5.6 **Guidance on S:net**

<u>Finding</u>

5.7 The S:net guidance section briefly covered areas such as business planning, risk workshops, risk management induction, monthly reporting, reporting to Select Committees and contact information. However, a number of links to risk workshops, risk management induction packs for managers and Corporate Risk Group (CRG), guidance on completing section 4 of the monthly risk reports and the contacts for CRG are not working. It was also noted that the CRG remained on S:net despite being defunct in 2012/13. As a result, the staff may not have had access to up to date guidance to make themselves aware of their risk management responsibilities.

<u>Recommendation</u>

5.8 The risk management guidance on S:net should be comprehensive and up to date with all the links working for staff in services to comply with the Council's requirements for risk management arrangements.

5.9 Guidance from CIPFA's TIS online service

<u>Finding</u>

5.10 It is understood from the R&G Manager that all risk documentation on S:net included information taken from CIPFA's Better Governance Forum, Association of Litigation and Risk Managers (ALARM) and the Institute of Risk Management (IRM) and requires updating. The SCC subscribes to CIPFA's TIS online facility and regular guidance on good practice is received via e mails. Between January 2011 and March 2013, 13 items of good practice guidance were issued. At least three of these items on Risk and Opportunity Policy and Strategy, Integrating Performance and Risk Management, and Counter Fraud and Good Practice Guides contain useful information to incorporate in SCC's guidance.

Despite the readily available comprehensive guidance which is easy to access and could be used to improve SCC's guidance, it has not been fully utilised to facilitate best practice.

Recommendation

5.11 The R&G Manager should consider incorporating the additional useful information available from CIPFA's TIS Online facility to enable the Council to follow best practice.

5.12 Risk Management Procedures

Finding

5.13 The process for recording and reviewing risks is included in the Risk Framework which requires updating. But the process for compiling of risk registers varied significantly between services and directorates creating inconsistencies in identifying, recording and managing risks suggesting that the process is either unclear or not followed. The need for consistency was particularly important during 2012/13 in light of the assumed operation of the new Policy Statement and the number of directorate and/or service re-organisations in SCC, resulting from implementing the recommendations of the PVRs. These re-organisations resulted in a number of changes to staff, impacting on their roles and responsibilities including risk management.

5.14 The Auditor's discussions with directorate and service risk representatives highlighted that the processes followed are neither consistent nor documented as shown in Table 1 below:

Table 1

Ref	Directorate	Arrangements in place
1	Adult Social Care (ASC)	No service risks registers are maintained, but the directorate risk register is updated on a monthly basis following discussions at the Adult Leadership Team. ASC also hold risk registers for various projects, but it is unclear if the risks associated with major projects feature on the directorate risk register or in the corporate risk management arrangements.
2	Children, Schools & Families (CSF)	The directorate risk register is considered monthly by the Directorate Leadership Team. However, the service risk registers have not been updated for more than 12 months.
3	E&I	The directorate risk register has not been updated for more than a year. It is understood that efforts are being made by senior management to update this risk register. The service risk registers which were previously not maintained were updated recently and made available to the Auditor.

5.15 There is no evidence to show that the information on the various risk registers flows in a top down (i.e. from Leadership risk register to Strategic Director risk register to service risk registers) and/or bottom up fashion. It appears that the Leadership and Strategic Director risk registers are compiled and agreed monthly with no regard to the service risk registers which remain out dated for long periods. Some service risk representatives are unaware and unclear of the procedures that they need to follow while others do not follow the procedures of which they are aware. Due to these inconsistencies, it has not been possible for the Auditor to determine the sources of specific risks, the links between them or detect any omissions.

Recommendation

5.16 The procedures for compiling the various risk registers should be streamlined and documented.

5.17 Services and directorates should maintain their risk registers and correctly cross reference them to each other. This should also separately show the risks that have been removed as part of the review so that the management trail is clear and any omissions of risks can be detected and rectified.

5.18 Risk Registers on S:net

Finding

5.19 Leadership Risk Register

The Leadership Risk Register (LRR) is reviewed regularly, published on S:net and reported to the A&GC. The changes during 2012/13 included the addition of Future Funding risks as a separate item to the Medium Term Financial Plan and the removal of four risks, consisting of two risks for 2012 Olympics Project, one for budget transfer of Learners with Learning Difficulties and Disabilities (LLDD) and one for the Resource Allocation System in Adults Personalisation. It had been difficult for the Auditor to assess the evidence for recording the risks in the LRR since it is at high level with no details. Although financial pressure is faced by a number of services in SCC, their impact on each service can be variable depending on the assumptions made during budget setting. The details of these assumptions are not recorded on the risk registers but the Auditor is advised that they are regularly reported as part of the meetings of the Corporate Board.

5.20 Strategic Director Risk Registers

As previously reported, the absence of the E&I directorate risk register on the S:net is noted. There were discrepancies in the dates of directorate risk registers for C&C and the CEO (dated February 2013 and December 2012 respectively) on the S:net and the most recent risk registers provided by the directorate risk representatives for C&C and CEO directorates (dated May and March 2013 respectively).

5.21 Service Risk Registers

Information relating to service risk registers on S:net are summarised in Table 2 below:

Table 2

Ref	Directorate	Services	Risk register date on S:net
1	ASC	Commissioning, Personal Care & Support, Service Delivery, Transformation and Health & Well Being	N/A. ASC do not maintain service level risk registers
2	CSF	Children's Service	Dec 2011
		Schools & Learning	Jan 2012
		Services for Young People	Nov 2011
3	C&C	Customer Services	Mar 2013
		Cultural Service	Not available
		Community Protection (Trading Standards)	Feb 2013
		Surrey Fire & Rescue Service	Jan 2013
4	E&I	Environment	Feb 2013
		Economy, Transport & Planning	Nov 2012
		Highways	Feb 2013
5	CEO	Communications	Nov 2012
		Legal and Democratic Services	Nov 2012
		Policy and Performance	Oct 2012
6	Business Services (BS)	Finance	Feb 2012
		Human Resource and Organisational Development (HR&OD)	Feb 2013
		Information Management and Technology (IMT)	June 2011
		Procurement	Jan 2013
		Property Services	May 2012
		Shared Service Centre	Feb 2012

5.22 The following observations were made from the service risks registers seen on the S:net and discussions held with service risk representatives:

- ASC do not maintain service risk registers according to the directorate risk representative, due to the overlap of risks between services which makes their administration cumbersome. This is not consistent with the recording of other service risk registers mentioned below. However, they maintain separate risk registers for the projects which are managed within the service but it is unclear if they form part of the directorate risk register or corporate risk management arrangements;

- Although Children's Service updates their risk register quarterly or half yearly after discussions with their senior management team, they are not published on the S:net and the service risk representative was unsure of what happens to them. They were not provided to the Auditor as evidence of the process. The Head of Strategic Risk Management for CSF is also the risk representative for Schools and Learning and Services for Young People. He was of the view that the services manage their risks very well by taking a business as usual approach even though it is not documented. Following a request from the Auditor, he provided an updated risk register for Schools and Learning but not for Services for Young People;

- C&C directorate provided their most recent risk registers for Cultural Service and Surrey Fire and Rescue Service both of which were dated April 2013 and Trading Standards dated May 2013. None of these appear on the S:net;

- The E&I service risk registers updated recently were provided to the Auditor (see Table 1 in para 5.14);

- The CEO Service risk registers are out of date on the S:net although the updated risk registers were sent to the R&G Manager by the Performance Officer within Policy and Performance service who also co-ordinates the service risk registers for the directorate. The risk registers for the Emergency Management Team which is part of the CEO directorate, are separately managed and updated regularly on their S:net pages along with the corporate business continuity plans;

- In the Business Services directorate, the service risk registers for IMT and Finance had not been updated since June 2011 and February 2012 respectively. While service risk registers on the S:net matched those provided by the service risk representatives for Procurement and HR&OD, the service risk registers on the S:net for Property Services and the Shared Service Centre were out of date.

Recommendation

5.23 While clear guidelines on risk management should resolve many of the issues above in the short term, management should consider the purchase of an information technology based system in the medium to long term, for managing risks in an integrated manner.

5.24 As in para 5.17 above, the risk registers on S:net should be up to date with correct details, for all staff to rely on and use in their work.

5.25 There should be a formal escalation policy to ensure that non-compliance with risk management responsibilities at all levels in the Council are highlighted in a timely manner and dealt with adequately.

5.26 Risk Groups

Finding

5.27 The risk groups established in 2011/12 were in operation and met regularly with the exception of the Strategic Risk Forum which did not exist during 2012/13. However, the outcomes and follow up actions of the various groups were not clearly publicised on S:net or reported to the A&GC. Olympics 2012 information was posted on the S:net as a separate item.

5.28 The R&RSG continued to be chaired by the Assistant Chief Executive with the main focus in the first half of the year on 2012 Olympics. The focus of this group in the second half of the year was unclear and the group was terminated in February 2013 once it was felt that the goal of managing risk and resilience at a strategic level was achieved. In April 2013, the SRF was re-instated which has also resulted in the shift in responsibility for Strategic Risk Management from the joint arrangement between the Chief Executive Office and the Business Services directorates to solely within the Business Services directorate. The responsibility for resilience however, remains within the Emergency Management Team in the CEO directorate.

5.29 The Council Risk and Resilience Forum (CR&RF) continued to meet with the aim of producing the business impact analyses, the business continuity plans and to develop the link between these and the risk registers. However, the audit found that the development of these links was better demonstrated in some services like HR&OD than in others but the links between these areas on S:net had not been established.

Recommendation

5.30 The roles, responsibilities and focus of the various risk groups should be clearly defined with the outcomes and actions by the groups widely reported on a regular basis. The links between the business activities of the groups should be established on S:net to increase awareness and improve understanding.

5.31 Reports to the Audit & Governance Committee

Finding

5.32 There were seven meetings of the Audit & Governance Committee during 2012/13 and the items reported broadly fall into the following three categories:

1) Leadership Risk Register (see para 5.19 above),
2) The Risk Management Annual Report for 2011/12, and
3) The Half Yearly Risk Management Report for 2012/13.

The details reported to the Committee on items 2) and 3) above are given below:

5.33 The Risk Management Annual Report for 2011/12

Finding

5.34 The Risk Management Annual Report for 2011/12 was presented to the Committee on 21 May 2012 and the key areas identified in this report included the following items:

(i) Background to 2011/12 activities were provided in detail;
(ii) Assurance – Internal Audit Review of 2011/12 and Benchmarking;
(iii) New Risk Management Policy Statement for 2012/13 (see para 5.1 above); &
(iv) "Focus for 2012/13";

The details reported to the Committee on items (ii) and (iv) above are given below:

5.35 Assurance – Internal Audit Review of 2011/12 and Benchmarking

- The Internal Audit review of risk management arrangements during 2011/12 gave an 'Effective' audit opinion for demonstrating good practice and actively pursuing future development. It had four recommendations for implementation and rated 'Medium' priority in its final management action plan signed by the Chief Finance Officer and the Deputy Director for Business Services. The progress update of the management action plan will be reported to the Audit & Governance Committee on 24 June 2013;

- The 2011/12 data was submitted on 11 May 2012 for benchmarking since SCC is a member of the benchmarking club run by CIPFA and ALARM, a public sector risk management association. It was reported that early indications showed that SCC continues to improve within level 4 (out of 5) which means "Embedded and Integrated" and that the final results would be followed up by the R&RSG, CR&RF and the Health & Safety Operations Team for action plans to monitor and improve. The Committee was not updated on this item;

5.36 "Focus for 2012/13"

The following four items were reported as the focus for 2012/13:

(a) Aligning the risk frameworks led by the Risk and Governance Manager through:

- The review of risk register, business continuity and health and safety frameworks and aligning them with each other, and
- The review of S:net pages to ensure that all documents are available and links are working to enable easy navigation;

(b) Embedding key decision-making processes by:

- Aligning LRR with the new Corporate Strategy (One County One Team) to ensure key risks to the achievement of the Council's objectives are identified, reviewed and monitored,
- Strengthening links and references between risks, objectives and performance at all levels of the organisation to provide information to support key decisions, and
- The R&G Manager working with Performance and Change Team to bring together the review and reporting of risk and performance information;

(c) Focusing on outcomes by:

- Shifting the focus towards outcomes and learning from reviews as a result of the improvements shown in 2011/12 by services reviewing the risk registers, business continuity plans and the health and safety incidents, and
- A co-ordinated approach to reporting and recording all incidents and events to enable the Virtual Risk Team to improve their analysis and reporting and the R&RSG to focus on specific actions required to ensure resilience across SCC;

(d) Communication and awareness by:

- Clarifying the expectations of officers and members in relation to risk management through a review of roles and responsibilities across all risk areas led by the Virtual Risk Team, and
- Developing induction and awareness sessions to run through the various risk groups to ensure that the risk representatives have a basic understanding and knowledge of risk to fulfil their role.

5.37 The minutes of the above A&GC meeting showed that in previous years, the committee was concerned that services did not take their risk management responsibility seriously but were pleased that these had been overcome but queried if there were remaining difficulties. R&G Manager said that there were still some challenges around continuity of knowledge and understanding due to frequent re-structuring. But the development of the risk network, regular meetings, planned re-design of the S:net pages should help to overcome previous problems and that the risk registers were being updated at all levels.

5.38 Members queried if responsible officers should be named for the five principles in the New Policy Statement along with another officer with overall responsibility. The R&G Manager was to provide a response which did not however, happen due to identification of officers becoming difficult. The Committee wanted to see the Business Continuity report which summarised the Individual incidents and reported to the Council Overview and Scrutiny Committee.

5.39 The Half Yearly Risk Management report 2012/13

Finding

5.40 The half yearly report for 2012/13 was presented to the A&GC on 6 December 2012 but very little or no reference was made to the progress made on the items that were previously reported in the annual report as the "Focus for 2012/13". In addition, Members were not informed that the previously approved Policy Statement had not been implemented.

5.41 The summary of items reported included the following:

- The line manager for the R&G Manager had changed to Transformation and Development Team Manager, following the Corporate Finance re-structure resulting from the Finance PVR, with effect from 1 September 2012.
- The risk activities between 1 April and 31 October 2012 were listed as the number of meetings attended but did not report their outcomes or follow up actions.
- A one page summary for Strategic Director risk registers had been developed but not included in Committee papers due to confidentiality and the minutes of the meeting showed that Members requested to see this summary. This summary was meant to provide (i) an overview of SCC's risk appetite, (ii) the context for R&RSG and Corporate Board when reviewing the LRR each month and (iii) the consistency across directorates in relation to risk areas and residual risk levels.
- CR&RF previously met six times a year but with effect from Jan 2013 this would be changing to two meetings and four workshops to show (i) changes to risk landscapes, (ii) projects delivering resilience benefits & (iii) briefings on current and emerging risks.
- Clear expectations of risk management communicated by the R&G Manager to improve understanding and awareness did not form part of the Committee papers.
- Risk Network event based on a risk challenge and training was held on 27 November 2012 but was attended by 50% (around 15 individuals) of the risk representatives. Again no information on content was presented. The minutes stated that following good feedback from attendees, the R&G Manager has been invited to management teams to assist with risk registers. The R&G Manager subsequently confirmed that she attended a meeting with Property Services . However, Members were concerned of the low turnout and wanted it to be addressed by inviting the Assistant Chief Executive (chair of the R&RSG) to the Committee to talk on risk management arrangements (**Recommendation tracker ref: A57/12)** and to include a more targeted agenda led by the R&RSG .
- R&G Manager confirmed that risk management arrangements were working well with the LRR and six of the seven Strategic Director risk registers being regularly updated.

<u>Recommendation</u>

5.42 The R&G Manager should report fully, all the work undertaken including changes to existing arrangements to obtain agreement from Members. The information should also be widely communicated on S:net so that officers who require the information can access and use it.

6. ACKNOWLEDGEMENT

6.1 The assistance and co-operation of all the staff involved was greatly appreciated.

TERMS OF REFERENCE

1. BACKGROUND

1.1 The Council's risk management strategy outlines the arrangements in place to ensure that the council identifies and deals with the key risks it faces. The Council has adopted an integrated approach to risk management to ensure openness, transparency and evidence good governance. It also aims to continuously improve its approach to risk management, prompted by new ideas and best practice. This fits in with the One County One Team vision by the Council Leadership to enable the Council to deliver its services to the residents of Surrey in the most effective and efficient way.

1.2 The risk management framework complements the strategy and ensures a consistent approach to risk management across the organisation by detailing the council's approach to risk identification, assessment, control and reporting. It is reviewed annually by the Risk and Governance Team and revised to reflect the changes that happened during the year.

2. PURPOSE OF THE AUDIT

2.1 The purpose of the audit is to provide an independent assessment of the adequacy of risk management arrangements currently in place. This will be established by the review of the

- Items reported in the previous audit report as work in progress;
- New developments in this area during the 2012/13 financial year and;
- Impact on risk management, of the numerous service re-structures which happened or concluded within the Council following the Public Value Review during 2012/13 and the adequacy of interim risk management arrangements.

3. WORK TO BE UNDERTAKEN

3.1 The work during the audit will include the following:

- Discussions with the Risk and Governance Manager and the review of Risk Management Strategy, the processes in place to support the strategy along with any other relevant documentation;
- Discussions with key officers responsible for the identification, recording, monitoring and reporting of risks in their respective services;
- Review of a sample of risk registers; and
- Review of risk areas reported to the Audit & Governance Committee.

4. OUTCOMES

4.1 The findings of this review will form a report to Surrey County Council management, with an overall audit opinion on the effectiveness of systems in place and recommendations for improvement if required. Subject to the availability of resources, and the agreement of the auditee, the audit will also seek to obtain an overview of arrangements in place for:

- Data quality and security;

- Equality and diversity;
- Value for Money;
- Business continuity, and
- Risk management.

4.2 The outcome of any work undertaken will be used to inform our future audit planning processes and also contribute to an overall opinion on the adequacy of arrangements across the Council in these areas.

REPORTING ARRANGEMENTS

Auditor:	Siva Sanmugarajah, Lead Auditor
Supervisor:	David John, Audit Performance Manager
Reporting to:	Sheila Little, Chief Finance Officer and Deputy Director of Business Services Cath Edwards, Risk and Governance Manager Sian Ferrison, Transformation and Development Manager
Audit Ref:	A00520 / 2012/13

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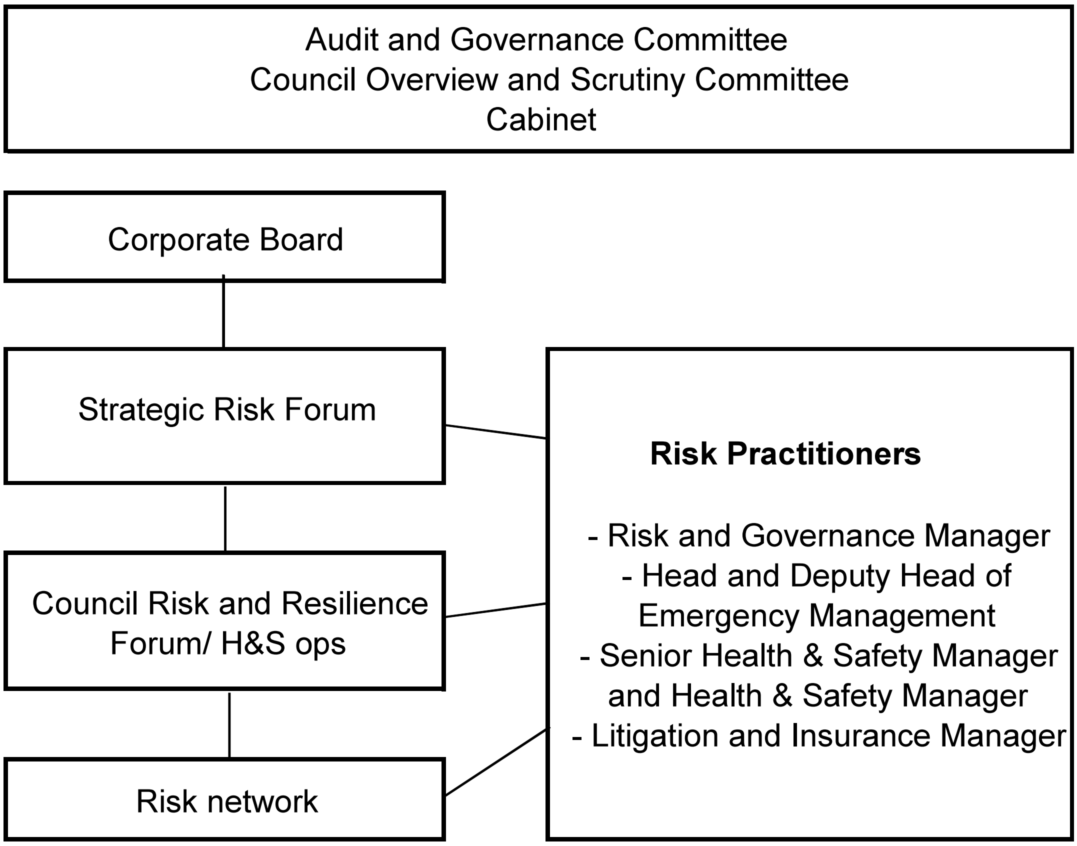
Ref	Recommendation	Priority	Management Action	Timescale	Office responsible	Progress as at 19 August 2013
5.4	The up to date Policy Statement, framework and strategy for risk management should be maintained on the S:net and publicised to enable all staff in the Council to be aware and fulfil their responsibilities and in turn allow the Council to fully meet its objectives. Any changes to the decisions made by the A&GC should be reported to the Committee for their approval before they take place.	High	The up to date Policy Statement and Strategy was approved by A&GC on 24 June 2013 and commended to Council for inclusion into the Constitution.	17 July 2013	R&GM	Completed.
			The Risk Framework will be updated and reviewed by the Strategic Risk Forum (for challenge and moderation) before all documents are loaded onto snet.	31 July 2013	R&GM	Completed: Risk policy and strategy are on the snet. Risk Framework has been updated, reviewed by the SRF and put on the snet.
			Communication of the updated documents will form part of the regular risk updates provided to Corporate Board, Strategic Risk Forum and Council Risk and Resilience Forum.	30 September 2013	R&GM	Completed: Update on the risk policy statement and strategy provided to SRF on 8 July, Corporate Board on 22 July and email sent to service risk reps on 5 July. Update on risk framework communicated via email to risk reps on 9 August. CRRF will be updated at their next workshop on 18 September.
			The link to snet will also be sent to all risk reps.	6 July 2013	R&GM	Completed: Link sent to Audit & Governance Committee on 4 July and to risk reps on 5 July.
			A risk update will be presented to the A&GC at the meeting in September.	2 September 2013	R&GM	On the agenda.
			In the longer term, the Strategic Risk Forum will consider:	31 March 2014	Strategic Risk Forum	SRF met on 31 July to begin to discuss risk culture and the work

			a) how to assess the culture of risk management in service areas and propose an action plan to Corporate Board; b) the adequacy of risk management arrangements in light of Internal Audit shift to a risk based approach and propose an action plan to Corporate Board.			required to assess the risk culture across the organisation.
5.8	The risk management guidance on S:net should be comprehensive and up to date with all the links working for staff in services to comply with the Council's requirements for risk management arrangements.	High	Appropriate and up to date guidance will be put on the snet and communicated as above (see 5.4).	31 July 2013	R&GM	Completed: Risk guidance page updated on snet to include risk induction pack and information on risk workshops. Communicated via email to risk reps on 9 August.
5.11	The R&G Manager should consider incorporating the additional useful information available from CIPFA's TIS Online facility to enable the Council to follow best practice.	Medium	All risk management documentation is currently based on best practice from CIPFA, ALARM and IRM. The current documentation will be reviewed through the Strategic Risk Forum (including TIS online) and the risk documentation updated accordingly.	31 December 2013	R&GM / Strategic Risk Forum	
5.16	The procedures for compiling the various risk registers should be streamlined and documented.	Medium	This will be incorporated into the risk framework as above (see 5.4).	31 July 2013	R&GM	Completed: Risk framework updated to include more detailed guidance (ref 5.4).
5.17	Services and directorates should maintain their risk registers and correctly cross reference them to each other.	High	This will be incorporated into the risk framework as above (see 5.16 and 5.4).	31 July 2013	R&GM	Completed: Risk referencing incorporated into the risk framework (ref 5.4).

	This should also separately show the risks that have been removed as part of the review so that the management trail is clear and any omissions of risks can be detected and rectified.		A movement of risks section will be added to risk registers and communicated to risk reps. The Strategic Risk Forum Terms of Reference include regular review of emerging risks within each Directorate and escalation to Corporate Board as relevant. Minutes of Strategic Risk Forum and Corporate Board will ensure any changes discussed and agreed are recorded.	31 July 2013 Ongoing	R&GM R&GM	Completed: Movement of risks incorporated into the risk framework and communicated (ref 5.4). Strategic Risk Forum notes and actions are available on snet.
5.23	While clear guidelines on risk management should resolve many of the issues above in the short term, management should consider the purchase of an information technology based system in the medium to long term, for managing risks in an integrated manner.	Medium	An options paper evaluating benefits and costs of purchasing an IT system will be prepared and reviewed by the Strategic Risk Forum.	31 March 2014	Strategic Risk Forum	
5.24	As in 5.17 above, the risk registers on S:net should be up to date with correct details, for all staff to rely on and use in their work.	High	Risk registers received by the Risk and Governance Manager will be posted on snet in a timely manner. Strategic Risk Forum will consider the extent to which services rely on s-net to access risk registers to ensure this method of communication is effective and relied upon.	Immediate effect. 31 March 2014	R&GM Strategic Risk Forum	All risk registers received by the R&GM are available on the snet.

5.25	There should be a formal escalation policy to ensure that non-compliance with risk management responsibilities at all levels in the Council are highlighted in a timely manner and dealt with adequately.	Medium	An exception report will be provided to the quarterly Strategic Risk Forum and any issues escalated to Corporate Board as appropriate.	From next SRF meeting (8 July).	R&GM / Strategic Risk Forum	Completed: Monthly exception reports are provided to the SRF.
5.30	The roles, responsibilities and focus of the various risk groups should be clearly defined with the outcomes and actions by the groups widely reported on a regular basis. The links between the business activities of the groups should be established on S:net to increase awareness and improve understanding.	Medium	All risk groups have a terms of reference and the CRRF has an expectation set (available on snet), which include roles and responsibilities. Agendas and minutes are produced and circulated to all risk group members. Each risk group will review its Terms of Reference on a regular basis (at least annually) to ensure they are up to date and relevant. Links on snet will be established between the various risk activities.	 31 March 2014 31 July 2013	 R&GM R&GM	 Completed: Links to all risk activity are on the snet.
5.42	The R&G Manager should report fully, all the work undertaken including changes to existing arrangements to obtain agreement from Members. The information should also be widely communicated on S:net so that officers who require the information can access and use it.	Medium	Continue to present risk updates to the A&GC. Continue to provide risk updates to risk reps and update snet.	With immediate effect.	R&GM	Risk updates are being provided to the A&GC. Emails sent to risk reps with links to snet and relevant documents.

Risk Management Governance Structure



SCC risk management policy statement

Risk management strategy & framework
Health and Safety policy
Emergency Management & Business Continuity policy

Business continuity plans / Business impact analysis
Risk assessments
Risk registers

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AUDIT & GOVERNANCE COMMITTEE
2 September 2013

LEADERSHIP RISK REGISTER

SUMMARY AND PURPOSE:

The purpose of this report is to present the latest Leadership Risk Register and update the committee on any changes made since the last meeting.

RECOMMENDATION:

Review the Leadership Risk Register (**Annex A**) 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.

LEADERSHIP RISK REGISTER:

1 The Leadership Risk Register (Annex A) is owned by the Chief Executive and shows the council's key strategic risks. The register is reviewed by the Strategic Risk Forum (chaired by the Chief Finance Officer) and then by the Corporate Board as part of their performance, finance and risk monitoring.

2 Key changes made to the risk register since the last meeting are:
- Addition of a new risk – Partnership Working (L16);
- Increase in residual risk level from medium to high – IT systems (L4); and
- Removal of a risk – NHS reorganisation.

IMPLICATIONS:

Financial

3 Ineffective risk controls or lack of timely action may impact on reputation, costs or service delivery.

Equalities

4 There are no direct equalities implications of this report.

Risk management

5 Effective risk arrangements will lead to improved governance, value for money and delivery of objectives.

WHAT HAPPENS NEXT:

The Leadership Risk Register will be regularly presented to the Committee.

REPORT AUTHOR: Cath Edwards, Risk and Governance Manager

CONTACT DETAILS: 020 8541 9193 or cath.edwards@surreycc.gov.uk

Leadership risk register as at 16 August 2013

Owner: David McNulty **Annex A**

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 BUS17,21, 22,23 CAC1 CSF4,16,22 EAI1,9	**Future Funding** - Erosion of the council's main sources of funding: • 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). Not withstanding 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	Cabinet / David Hodge	**High**
L1	ASC2,5 BUS9 CAC8,19 CSF4,16,22 EAI1	**Medium Term Financial Plan (2013-18)** - Failure to achieve the MTFP which could be as a result of: • 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	Cabinet / David Hodge	**High**

Leadership risk register as at 16 August 2013 Owner: David McNulty Annex A

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	BUS12 EAI2	**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 CSF4,16	**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: • 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.	Sarah Mitchell and Nick Wilson	Cabinet / Mary Angell and Mel Few	**High**
L16	ASC9 BUS22,23, 24 CSF8,20,23 EAI3	**Partnership working** Failure of: (a) a significant partnership (where the council has entered into a formal partnership) or (b) partner (other public bodies eg NHS) leads to service failure and delivery of savings due to increased reliance on partners to deliver services.	**High**	a) Leadership and managers recognise the importance of building and sustaining good working relationships and having early discussions if these falter. (b) Contracts are managed effectively through strong governance and early warning mechanisms are put in place. - Intelligence on partners is shared and areas of risk identified as a consequence.	Corporate Leadership Team / Susie Kemp	Cabinet	**High**

Leadership risk register as at 16 August 2013 Owner: David McNulty Annex A

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)
L11	ASC12 BUS26 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**
L4	ASC19 BUS20,26	**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 resilience going forwards.	Julie Fisher	Denise Le Gal	**High**
L3	ASC18 CAC8,18,19 CEO3 EAI4,5,7	**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**

Leadership risk register as at 16 August 2013 **Owner: David McNulty** **Annex A**

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)
L2	ASC4,9,20 BUS2 CEO8 CSF4,20 EAI2,3,10	**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**
L5	ASC7 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
BUS = Business Services
CAC = Customers and Communities
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	June 13	⇧	High
L5	Safeguarding	May 10	Medium	-	-	Medium
L6	*Resource Allocation System in adults personalisation*	*May 10*	-	*Aug 12*	*	-
L7	Waste	May 10	High	-	-	High
L8	*Integrated Childrens System*	*May 10*	-	*Feb 11*	*	-
L9	*NHS reorganisation*	*Sep 10*	*High*	*May 13*	*	-
L10	*2012 project management*	*Sep 10*	-	*Aug 12*	*	-
L11	Information governance	Dec 10	High	-	-	High
L12	*LLDD budget transfer*	*May 11*	-	*Mar 12*	*	-
L13	*2012 command, control, coordination and communication*	*Dec 11*	-	*Sep 12*	*	-
L14	Future funding	Aug 12	High	-	-	High
L15	Welfare reform	Feb 13	High	-	-	High
L16	Partnership working	June 13	High	-	-	High

* Removed from the risk register

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Item 12

AUDIT & GOVERNANCE COMMITTEE
2 September 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 June 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 10 audit reports issued since the last report to this Committee in June 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	Reablement	Effective	0
2	Local Sustainable Transport Fund	Some Improvement Needed	0
3	Highways Contract - Follow-up review	n/a	0
4	Head Teachers' Pay	Some Improvement Needed	0
5	Highways Contract - Lot5	Some Improvement Needed	3

6	Financial Assessments Process	n/a	0
7	Risk Management Arrangements	n/a	4
8	Employee Expenses	Some Improvement Needed	0
9	ICS ContrOCC	Some Improvement Needed	3
10	Youth Service Transformation	Some Improvement Needed	0

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.

SELECT COMMITTEE REVIEW:

7 The above audits have not been subject to Select Committee scrutiny.

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

Completed Audit Reports (June – July 2013)

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Reablement	Community based reablement is a short-term service designed to help people maximise independence in their own homes. In 2012/13, reablement services were delivered to over 4,000 service users and the total expenditure for the service was around £6million. A review of the Reablement Service (Domiciliary Care - in house) was included as part of the 2012/13 Annual Audit Plan. Following discussion with service management it was agreed that Internal Audit would support a service-led review of performance and produce an interim position statement.	The Reablement Service has successfully implemented consistent performance metrics across all of its teams, generating a useful set of data. The service is now well equipped to produce high level, graphical summaries of this information for management use. Acknowledging the limits of comparing information between organisations, the council appears to be performing well. In particular, the proportion of time spent in direct contact with service users is greater than that of other councils reviewed while the amount of time spent on staff travel is lower than that of other councils reviewed. Positive outcomes for service users are comparable or better than the other local authorities reviewed and continuing recording of outcomes will enable comparison with the Care Services Efficiency Delivery programme model's longer term objectives.	Effective	n/a – no recommendations made

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Local Sustainable Transport Fund (Large Bid)	In 2011, SCC was successful in its Local Sustainable Transport Fund 'Key Component' grant funding bid of £3.9m for its TravelSMART scheme. TravelSMART's aim is to promote economic growth and increase sustainable travel (walking, cycling and public transport) throughout Surrey. In June 2012, SCC was again successful in securing additional funding of £14.3m to further develop and expand the TravelSMART initiatives via a 'Large Project Bid', with a total pot size of £20.4m.	The value of expenditure on capital works orders was not being fully captured and reported to the DfT or Members during the year. There were problems at the last year-end in accruing appropriate costs incurred. The cost of all staff time on project activities needs charging to the LSTF budget. The use of project management tools to better monitor and deliver the various elements of this substantial project has been ad hoc. Not all grants given have been strictly focused on transport. Some have focused on health and employment objectives. The Lease for land for the Onslow Park & Ride and the Licence to construct are not yet in place, despite work beginning on a temporary licence. The fencing around the construction site at Onslow would not deter unauthorised access (vandals, thieves, children, etc).	Some Improvement Needed	Develop a system for estimating the value of work-in-progress relating to smaller capital works orders for LSTF delivery. **(M)** Strategic Projects staff to submit fully supported details of accrued scheme expenditure for 2013/14 promptly at year-end. **(M)** A comparison of actual to expected time charged to the LSTF projects to be discussed quarterly to the LSTF Project Board. **(M)** Strengthen use of formal project management tools in 2013/14 to improve task monitoring and financial reporting. **(M)** Apply tighter grant funding criteria to ensure a better focus on sustainable transport. **(M)** Secure a signed licence to work on site at the Onslow Park and Ride Scheme. **(M)** Consider improving the perimeter fencing around the Onslow P&R construction site. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Highways Contract Management Lot 1 follow-up	An audit of the core maintenance contract (Lot 1) let to May Gurney was completed in May 2012 and gave an opinion of Major Improvement Needed. This follow-up review sought to assess progress in implementing the Management Action Planned agreed following the May 2012 audit.	There were no recommendations which currently merited a 'Red' rating, i.e. no progress had been made since issue of the report in May 2012. Two 'High Priority recommendations were assessed as 'Amber'. In one case this is due to the incompatibility of current software to be integrated with the desired solution which has led to alternatives having to be sought and evaluated. In the second case, despite the implementation of software amendments, problems continue to persist at the interface stage between client and contractor systems which are being addressed by temporary manual intervention processes to ensure financial control is maintained.	Some Improvement Needed	There were no new recommendations 21 of the original 25 recommendations were completed; the remaining 4 are rated as amber and will continue to be monitored.
Head Teachers' Pay	As a result of an anomaly at one school in the salary of a recently retired Head Teacher a sample of 20 schools was selected to seek assurance that the governors were exercising good governance around Head Teacher pay awards	Minutes of Governor meetings were reviewed for evidence of when and for what purpose the Head Teachers' pay awards were made. For some of the schools reviewed, the evidence was insufficient and the Chairs of governors acknowledged this in communications with the auditor. At this stage there is one school which still has to provide the required information (due to difficulties in accessing the archives). This school has promised to provide the relevant information in the new academic term.	Some Improvement Needed	The Governors' Newsletter to include advice on the need to retain documentary evidence around decisions related to Pay Group; Individual School Range; and, increases in the Leadership Scale. School Improvement Officers to challenge these decisions as appropriate. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Highways Contract Management Lot 5 (highway flood prevention)	The lot 5 contract was awarded to May Gurney and their subcontractor, ACL, to start in 2011. The programme of work for 2012/13 had an estimated cost of £2.172m. This was the first audit review of this area.	Overall the monitoring of the contract is now largely effective in ensuring that the service is being provided as required but Surrey County Council was slow to move to the issue of an early warning notice in September 2012, whereby the contract was placed under special measures with an agreed action plan. Contract performance has been an issue in the past with the sub-contractor given extra time to complete the scheduled cleaning for 2012/13. The sub-contractor on the contract is being replaced. The weekly inspections carried out by the Maintenance Engineers have highlighted some poor or delayed performance and is an area that would benefit from strengthening.	Some Improvement Needed	The sub-contract should be reviewed in the light of the lessons learned to ensure it meets Surrey's contract requirements. **(H)** The new sub-contractor should be closely monitored to ensure that the service improvements over the past six months are not lost. **(H)** It is recommended that procedures to follow up cleansing failures are put in place to ensure they are not overlooked or ignored. **(H)** It is recommended that consideration is given to enabling wider access to Asset Planning data where it will support operational areas. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Financial assessment end to end process	Surrey County Council (SCC) provides a number of care services to its residents. The details of the services provided and their users are held in various systems within the Council. Using this information, some or all of the cost of providing these services may be recharged to the recipient of the services by raising invoices on a regular basis. This review was requested by the Adult Social Care select committee when the expected Rapid Improvement Event (RIE) was delayed.	The scope of the audit has been subject to change since the Terms of Reference were originally agreed. Following the successful conclusion of the RIE on Care Assessment in April, it was decided by the strategic directors to convene one on the Financial Assessment end to end process. The report, therefore, provides the current end to end process map; a review of recent history including some analysis; and, testing of time scales; all of which will be used to inform the RIE. The key pinch points identified were – • Lack of a overall single process owner inhibits resolution of any issues arising • Importance of the Locality teams in the process • Financial Assessment form should be reviewed in line with best practice • Timely update of SWIFT/AIS is critical for the placement approval and service provision. • Sharing of information on individual cases and communication across the authority needs focus • Use of expertise across the authority to streamline decision making, such as Deputyship and Legal.	n/a (Position Statement)	n/a – there were no audit recommendations. The information from this review was used to inform the Rapid Improvement Event that took place in June 2013.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Risk Management Arrangements – Position Statement	The Council's risk management strategy and framework which complement each other outline arrangements in place for the council to identify and deals with the key risks it faces in a consistent manner across the organisation. SCC has adopted an integrated approach to risk management to ensure transparency and good governance. It also aims to continuously improve its approach to risk management which fits in with the 'One County One Team' vision to enable the Council to deliver its services to the residents of Surrey in the most effective and efficient way.	The Leadership Risk Register has a high profile and is regularly reviewed by key officers and Members. However, it was not possible to conclude the same for directorate and service risk registers and the most up to date risk registers were not available on S:net. The Policy Statement approved by the A&GC in May 2012 had not been implemented and the Committee was not informed. The risk management strategy and framework on S:net were not updated in line with this policy S:net information was not comprehensive and up to date for risk management guidance, links to areas related to risk management, service and directorate risk registers etc. Absence of up to date guidelines and the failure to escalate non-compliance with risk management responsibilities did not help in providing an integrated risk management approach.	n/a (Position Statement)	Risk registers on S:net should be up to date with correct details for all staff to rely on and use in their work. (H). The up to date Policy Statement, risk framework and strategy should be maintained on the S:net and publicised to enable all staff in the Council to be aware and fulfil their responsibilities. Any changes to the decisions made by the A&GC should be reported to the Committee for their approval before they take place (H). The risk management guidance on S:net should be comprehensive and up to date with all the links working for staff in services to comply with the Council's requirements for risk management arrangements (H). There should be a formal escalation policy to ensure that non-compliance with risk management responsibilities at all levels in the Council are highlighted in a timely manner and dealt with adequately (M).

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Employee Expenses	Surrey County Council will reimburse employees for reasonable expenses incurred in connection with its business. Employees should not be either financially disadvantaged or advantaged because of genuine business expenses, with some expenses requiring prior approval. In 2012/13 106,301 claims were made totalling £4.4m.	Mileage claims with a 'home to work' element were found to have been made inconsistently by employees, with policy being interpreted differently. Staff doing a small number of miles per annum and receiving the lump sum have excessive per mile costs. The auditor found inconsistent recording of mileage on the TRIP system with some staff recording every stage of every journey and others recording hundreds of miles per line. Misinterpretation of policy has led some staff to claim less than they are entitled to.	Some Improvement Needed	Management should either simplify the policy or consider a GPS technology based solution to recording mileage which would reduce the need for staff to interpret policy. **(M)** Management should consider if the current contractual user bands are appropriate. The auditor recommends that there should be a minimal mileage required. Management should consider meeting the requirement for a contractual driver by other means (such as use of Streetcar). **(L)** A consistent format for inputting travel data onto TRIP should be designed and used across the council. This would ensure all relevant data was available and journeys could easily be verified. **(M)** Management should consider their position regarding historic mileage completed by employees who deducted more miles than necessary according to policy. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
ICS ContrOCC	In November 2010, Surrey County Council's (SCC) Children's and Safeguarding Service (CSS) moved its database from SWIFT to Protocol ICS. As part of the same procurement exercise, SCC purchased Oxford Computer Consultants' ContrOCC. This software is a suite of contract management and financial assessment management modules, and can be integrated with Protocol ICS. ContrOCC went live in November 2012 and is currently being used to administer payments to Surrey in-house foster carers, adopters, special guardians and those with kinship arrangements.	In determining timescales, insufficient consideration may have been given to distinguishing the compulsory element of the project (ICS) from that which was driven by business need (ContrOCC). As such, more time could have been given to understanding ContrOCC prior to scheduling implementation. Neither of the two main project drivers appears to have had a formal business case, and, during implementation, the Project Manager was unable to state whether the perceived benefits of using ContrOCC were still aligned with SCC and CSS strategies, the Finance Public Value Review, or Children's Schools & Families *Fit for the Future* programme. Representation from CSS senior management at Project Board meetings was inconsistent suggesting a lack of full engagement by CSS on the business aspect of its operations. Data quality issues contributed to the 'go live date' being pushed back from July to October 2012, and the recording of some placement changes has been held up by data quality problems in children's records	Some Improvement Needed (additional opinion of Major Improvement Needed on project management elements of the review)	CSS should ensure that, in future, projects are planned in sufficient detail before proceeding to implementation. **(H)** CSS should ensure that all projects are supported by complete and thorough business cases which provide full justification for the expenditure of time and money. **(H)** CSS should ensure that they are appropriately represented at Board meetings for projects which relate to their operations. **(H)** CSS to build upon work already undertaken, and continue its efforts to improve the quality of its data. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Youth Transform-ation	The Public Value Review (PVR) of Services for Young People (SYP), which was approved by Cabinet in December 2010, recommended actions which would use a reduced budget (a revenue budget of £16m in 2012/13) to the greatest benefit of the county's teenagers. A needs assessment led to the development of indicative outcomes for the Service, which will be delivered through eight operating business models. Commissions have now been agreed with providers to implement these models.	Youth Support Service and Surrey Outdoor Learning and Development performance management rests with a different team than that of the other six delivery models. Anecdotal evidence from SYP officers indicate that this arrangement may hamper the flow of information and impede the efficient production and analysis of performance data. The Auditor could not establish that the effectiveness of one-off initiatives (eg free school lunches for some Year 12 learners) was measured in a structured manner similar, for example, to that in the Logframes used for the operating business model commissions.	Some Improvement Needed	SYP should consider reviewing performance management co-ordination to ensure that performance data reflecting the integrated nature of the Service is produced in an efficient manner. **(M)** SYP should ensure that all activities which supplement the work in the delivery models have mechanisms which allow their effectiveness to be evaluated and understood. **(M)**

[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

SURREY
COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE
2 September 2013

WHISTLE BLOWING UPDATE

SUMMARY:

Audit and Governance Committee have requested an update on whistle blowing every six months. Since the last report, usage of the service continues to be fairly consistent, with a slight increase in the average number of calls at around 4 per month and 0.8 investigations compared to 3.3 calls and 0.8 investigations for the same period in 2011-12.

RECOMMENDATION:

The Committee is invited to note the progress outlined in the report.

RECENT SERVICE ACTIVITY:

Usage Table –

Month	Total no. of calls	Total requiring investigation	Main Incidents Reported Directorate	Directorate
Jan 2013	7	2	Conflict of interests Bullying	CSF ASC
Feb	6	1	Breach of company policy	BS
March	4	0	None reported	
Apr	3	0	None reported	
May	4	1	Duty of care	ASC
June	4	1	Discrimination	ASC
TOTAL this period	**28**	**5**		

Summary of recent live cases and outcomes reported via the whistle blowing service:

Month	Nature of complaint	Outcome
Jan 2013	Allegations of financial irregularities and misuse of the SCC purchasing card	Audit were informed and an investigation took place. It was agreed for the service to carry out actions advised by Audit and the individual was contacted to gain further information.
Feb	Allegations of improper recruitment practices regarding a post not being advertised	Investigation revealed that the position in question was regraded under the job evaluation process. Advertisements are only applicable where a service is recruiting to a position. In this case the position was evaluated in December 2012 to accurately reflect the duties and responsibilities of the post.
June	Allegations of discrimination when applying to study for a qualification	Investigation took place and feedback was given explaining why the individual didn't meet the criteria to apply for the training, other people have been told they are not eligible too. All those concerned were sent an email explaining why.

PROMOTIONAL ACTIVITIES

A mix of corporate communications channels is being used to continue to inform and engage the audience groups. This includes:

- A regular anti-fraud campaign has been running on the intranet to encourage staff to report any incidences of fraud, paying false invoices, making fraudulent expense claims.
- A rolling programme of publicity to increase awareness of whistle blowing, as part of our People Strategy, linking to wellbeing
- Information on the s-net pages
- Details of the whistle blowing policy and Expolink's contact number is included in induction and STARS training
- Fairness Champions continue to help promote the scheme and communicate key messages
- The whistle blowing service has been integrated into the Employee Benefits offer as part of the Total Reward package, which receives a high number of viewings on s-net and therefore helps to promote this service
- Expolink is highlighted in the annual benefits survey.

Schools
The importance of encouraging whistle blowing in schools is a regular agenda item on meetings with Babcock 4S.

Publicity includes:

- Information on Expolink and how to report incidents has been placed in the SOS briefings to School Bursars/HR Officers
- An article on whistle blowing and promotion of Expolink has been published in a recent edition of the 'Surrey Governor' newsletter

- Having a whistle blowing policy in place and confirming that this has been communicated to staff is also a key part of the Schools Financial Value Standard and governors reassess the profile of the policy yearly
- Expolink promotional resources are provided on the Babcock 4S website, to encourage schools to promote the service
- As a result of the above, there has been a notable increase in requests for promotional posters, queries about where to download the whistle blowing policy, and about the policy itself.

FUTURE PLANNED PROMOTIONAL ACTIVITIES

- A question and answer article will be placed on 'Inside Surrey' giving further details of the service and how to access it, together with other interventions such as fairness champions
- Whistle blowing promotion will be a topic at a future series of Bursar briefings for schools, to ensure awareness and encourage promotion throughout Surrey County Council schools
- A further article will be included in the autumn term edition of the Surrey Governor newsletter
- Another article will be published in the SOS (School Office Support) bulletin to raise awareness among teachers new to Surrey
- A short survey is being planned, to check on employees' knowledge and understanding of the whistle blowing service, to help target future campaigns
- Information on Expolink is being placed on payslips every two months in 2013.

IMPLICATIONS

Financial :
There are no direct financial implications in this report.

Equalities :
The policies referred to in this report have been updated following consultation with the recognised trades unions and in accordance with the Council's commitment to equality and diversity.

Risk Management :
There are no direct risk management implications in this report.

REPORT AUTHOR: Carmel Millar, Head of HR and Organisational Development

CONTACT DETAILS: 020 8541 9824, carmel.millar@surreycc.gov.uk

Background Papers: None

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SURREY
COUNTY COUNCIL

Audit & Governance Committee
2 September 2013

ETHICAL STANDARDS ANNUAL REVIEW

Purpose of the report:

To report on the operation of the Council's Code of Conduct for its members, training on the Code of Conduct and the Council's arrangements for dealing with complaints that members have breached the Code of Conduct

Introduction:

1. The Localism Act 2011 ("the Act") led to the abolition of the national standards regime. In its place there is now a statutory duty placed on councils to promote and maintain high standards of conduct by their members and co-opted members

2. The Council is required by law to have a Code of Conduct governing elected and co-opted members' conduct, when acting in those capacities. A council's code of conduct must, viewed as a whole, be consistent with the following seven principles: –

   - Selflessness
   - Integrity
   - Objectivity
   - Accountability
   - Openness
   - Honesty
   - Leadership

   The Code must also include provisions which the Council considers appropriate with regard to the registration and disclosure of pecuniary and other interests.

3. Members are required to register "disclosable pecuniary interests" with the Monitoring Officer and these must be published on the Council's website.

4. The Act also requires the Council to appoint "at least one independent person" whose views must be sought after an investigation into a complaint has been conducted and before a decision on it is made. It also allows members who have had an allegation made against them to seek the views of the independent person if they wish.

5. The Council has delegated to the Audit and Governance Committee the roles of:

- monitoring the operation of the Members' Code of Conduct and
- promoting advice guidance and training on matters relating to the Code of Conduct.

6. The Committee is also responsible for granting dispensation to members relating to interests set out in the Members' Code of Conduct.

7. This report sets out how the Council has complied with the requirements of the Act and what training and guidance have been provided to members and co-opted members. It also reports on the operation of arrangements to deal with complaints about members and summarises the complaints received and action taken over the first year of this new local framework.

The Code of Conduct

8. The Council's Members' Code of Conduct is based on the Department of Communities and Local Government ("DCLG") "illustrative" text for a code of conduct for members. It was adopted at the Council meeting of 17 July 2012 and is annexed to this report for ease of reference. The Council agreed that it wanted to adopt a simple high level code and agreed the recommendation of the Ethical Standards Working Group that it should not repeat the requirement of the old national code to treat other people with respect, although it noted that this had been the most frequent reason cited for a complaint under the previous regime.

9. The Code does however make links to other Council protocols, including the Member Officer Protocol which requires both staff and councillors to treat each other with dignity, trust and courtesy.

Independent Person

10. The Act requires the appointment of at least one independent person who cannot be a councillor, officer or a relative or friend of any one of them. It also requires that the recruitment process is public and transparent

11. A person specification and role profile for the Independent Person was drafted and advertised on the County Council's website in the late summer and autumn of 2012. A panel of 3 members, nominated by Group Leaders from within the membership of the Member Conduct Panel interviewed candidates, The panel recommended only one independent person be appointed, Professor Michael Joy OBE. Professor Joy was appointed by Council on 11 December 2012

Arrangements for receiving and handling complaints

12. The Act requires the Council to adopt arrangements for dealing with complaints of a breach of the Members' Code of Conduct. Any such complaints must be dealt with in accordance with those arrangements. Before any final decision is reached on a complaint that has been investigated the Independent Person's views must be sought. The Council agreed its arrangements at the meeting of 17 July 2012. A copy of those arrangements is annexed to this report. The Committee may wish to note that the arrangements are designed to promote informal resolution rather than an adversarial approach. There was a perception, both local and national, that the more adversarial process of the previous regime had resulted in long and expensive investigations of often trivial complaints.

Register of Pecuniary Interests

13. All members are required, by law to notify the Monitoring Officer, within 28 days of taking office, of any disclosable pecuniary interests they have, including those of a spouse, civil partner or someone with whom the member is living as husband and wife or as civil partner. That Register must be published on-line.

14. Legal and Democratic Services prepared guidance for members about disclosable pecuniary interests and a copy of this was enclosed in all members' induction files following the election in May 2013. All members were asked to enter details of their disclosable pecuniary interests on-line and provided with guidance on the process. Staff followed this up with individual assistance to any member who had difficulties in accessing the system.

15. All new members notified the Monitoring Officer of their disclosable pecuniary interests within 28 days of taking up office. Returning members no longer have to completely re-register interests; however they were reminded that they should check their existing entries to ensure that these were up to date.

16. The Committee may wish to note that each elected member's entries on the Register of Interests are now easily accessible on their individual page on the Council's website. Co-opted members have also registered their interests, but these are not available on the Council's website.

Training and Guidance for Members

17. Legal and Democratic Services have provided training, guidance and assistance to members on all aspects of the new ethical standards regime.

18. Initial guidance offered to assist members in understanding the new regime included:

    - On 15 June 2012 the Monitoring Officer sent an email to all county councillors explaining the important changes in the way interests should be registered from 1 July 2012. She then wrote individually to each Member of the Council asking them to check that the interests they had previously recorded were up to date.

- Staff in Democratic Services converted the paper register entries into the new on-line format, updating entries where members had provided new information. These were then published in accordance with the new requirements.
- In March 2013 the DCLG produced a guide for councillors entitled "Openness and Transparency on personal interests". The Monitoring Officer wrote to all Members providing a link to this guidance

19. In May 2013 induction packs sent to every new and returning councillor included:

    - The Code of Conduct
    - Guidance on declaring Interests and Gifts and Hospitality
    - The Member/Officer protocol

20. The Monitoring Officer and then Vice-Chairman of Council and Member Conduct Panel provided training sessions for members on 13 May 2013. This included an introduction to the Code of Conduct, information on the arrangements for dealing with complaints about members and a whole group exercise on declaring interests.

21. The Monitoring Officer and senior colleagues in Legal Services attended four sessions held to brief local committee members during May and June 2013 and give presentations on the Code and Interests, with particular emphasis on matters relating to Local Committee decisions. These sessions were attended by both County and Borough/District Council members of local committees.

Code of Conduct Complaints

22. The first year of the new regime (1 July 2012 to 1 July 2013) has seen six occasions giving rise to a complaint about the conduct of a Member or members. One Member has been the subject of multiple complaints about a single incident. One complaint included allegations against more than one Member and two members have each been the subject of two unrelated complaints. None of the complaints has proceeded to investigation. Three of the complaints were in the context of unpopular or controversial decisions, taken by a committee or by Cabinet.

    Details of each allegation remains confidential but some information is set out below:

    Complaint 1 (December 2012) alleged that several members had pre-determined their decision at a Local Committee. The Monitoring Officer did not accept that this complaint, if proven, would amount to a breach of the Code of Conduct. The complainant was informed of the decision and the matter was closed.

    Complaint 2 (March 2013) alleged that a 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 in view of this correction, the alleged behaviour would not amount to a breach of the Members' Code of Conduct and informed the complainant and the Member. The complaint was closed

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.

Complaint 5 (June 2013): this is in fact multiple complaints about the way that a Member had conducted himself at a public meeting in connection with a locally controversial matter. The Monitoring Officer concluded that the allegations were not allegations of a breach of the Members' Code of Conduct. Allegations were framed in the language of the previous national code and despite being provided with links to the Council's current Code the complainants did not clarify how the behaviour alleged breached these provisions.

Complaint 6 (June 2013) was about a member's delay in replying to emails and a refusal to explain controversial remarks he had made in a Committee meeting. The Monitoring Officer concluded that the behaviour complained of, even if proven did not amount to a breach of the Code of Conduct. The complainant and Member were informed.

23. In addition to the above, two complaints received at the end of 2011/12 were referred to the Member Conduct Panel, under transitional arrangements 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.

Risk Management Implications

24. The Council's Code of Conduct, Register of Interests and arrangements for dealing with complaints are both a statutory requirement and a key element of good governance. A failure of the ethical standards framework would diminish public confidence that Members are transparent about their personal interests and that decisions are taken solely in the public interest. The Council's arrangements for handling complaints have been designed to achieve an informal resolution where appropriate and to ensure that any formal process is proportionate to the behaviour giving rise to the complaint, whilst ensuring that any allegation that a Member has put themselves in a position where their personal interests appear to conflict with their public duty will be taken very seriously. The decision that "lack of respect" would no longer constitute a breach of the Code of Conduct has led to a small number of complaints not being accepted by the Monitoring Officer. Similar complaints received under the previous regime would have been assessed by a Sub Committee of members, including independent representatives, so the new arrangements

give rise to a slightly increased risk of a perception that members' behaviour is not subject to rigorous scrutiny. However the facility to offer a more rapid conciliatory process has led to some positive outcomes which should increase public confidence. This would not have been possible under the more rigid rules of the previous regime.

Conclusion

25. This has been the first year of the new locally determined Standards regime. The Council has met all its statutory obligations and the arrangements for handling complaints are working effectively. Training and guidance have been made available throughout the year.

26. All elected members' registers are available online and all members and co-opted members have been offered training and guidance about registering and declaring those interests.

27. The number of complaints has been comparable with previous years. There have been no complaints relating to a Member's personal interests or allegations that a Member has acted for personal gain. The most frequent reason for a complaint is that the complainant has felt offended by a member's conduct towards them. This again is a similar trend to that of previous years. Decisions taken by Council about the content of the Code of Conduct and the arrangements for dealing with complaints has however changed the approach adopted. Most have been informally resolved or rejected, rather than being subject to a formal assessment and possibly an investigation process.
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Recommendations:

28. That the Committee notes the report and considers how frequently it would like to receive reports to enable it to monitor the operation of the Code of Conduct.
29. In view of the various training opportunities offered in 2013 the Monitoring Officer asks the Committee to endorse her view that no further formal training sessions would be required in the next twelve months and that she should she ensure periodic reminders and guidance to Members are delivered via email.

Report contact: Ann Charlton, Monitoring Officer and Head of Legal and Democratic Services

Contact details: 0208 541 9001 / ann.charlton@surreycc.gov.uk

Sources/background papers:
The Localism Act 2011
County Council agenda and reports 17 July 2013
Guidance on declaring disclosable pecuniary interests
Openness and Transparency on personal interests

Appendix 1

Surrey County Council Member Code of Conduct

As a member or co-opted member of Surrey County Council you shall have regard to the following principles of public life – selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

Accordingly, when acting in your capacity as a member or co-opted member –

1. You must act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate.

2. You must not place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.

3. When carrying out your public duties you must make all choices, such as making public appointments, awarding contracts or recommending individuals for rewards or benefits, on merit and must be impartial and seen to be impartial.

4. You must co-operate fully with whatever scrutiny is appropriate to your office.

5. You must be as open as possible about your decisions and actions and the decisions and actions of Surrey County Council and should be prepared to give reasons for those decisions and actions.

6. You will on occasions be privy to confidential and sensitive information, such as personal information about someone, or commercially sensitive information which, if disclosed, might harm the commercial interests of the Council or another person or organisation. This information must not be revealed without proper authority.

7. You should be mindful of the requirement to declare and record any disclosable pecuniary interests in a manner conforming with the procedures set out in the box below.

8. You must, when using or authorising the use by others of the resources of your authority, ensure that such resources are not used improperly for political purposes (including party political purposes) and you must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986. For guidelines on the personal use of Council IT resources by Members, please refer to the IT Code.

9. You must promote and support high standards of conduct when serving in your public post, in particular as characterised by the above requirements, by leadership and example.

10. In addition to compliance with the Member Code of Conduct, you are expected to comply with the following codes:

    a. Member/Officer Protocol
    b. Planning Code of Best Practice

Registering and declaring pecuniary interests

You must, within 28 days of taking office as a member or co-opted member, notify the authority's monitoring officer of any disclosable pecuniary interest as defined by regulations made by the Secretary of State, where the pecuniary interest is yours, your spouse's or civil partner's, or is the pecuniary interest of somebody with whom you are living with as a husband or wife, or as if you were civil partners.

In addition, you must, within 28 days of taking office as a member or co-opted member, notify the authority's monitoring officer of any gift or hospitality with a value of £100 or above which you have been offered (whether accepted or not).

If an interest has not been entered onto the authority's register, then the member must disclose the interest to any meeting of the authority at which they are present, where they have a disclosable interest in any matter being considered and where the matter is not a 'sensitive interest'[1]

Following any disclosure of an interest not on the authority's register or the subject of pending notification, you must notify the monitoring officer of the interest within 28 days beginning with the date of disclosure.

Unless dispensation has been granted, you may not participate in any discussion of, vote on, or discharge any function related to any matter in which you have a pecuniary interest as defined by regulations made by the Secretary of State. Additionally, you must observe the restrictions the authority places on your involvement in matters where you have a pecuniary interest.[2]

[1] A 'sensitive interest' is described in the Localism Act 2011 as a member or co-opted member of an authority having an interest, and the nature of the interest being such that the member or co-opted member, and the authority's monitoring officer, consider that disclosure of the details of the interest could lead to the member or co-opted member, or a person connected with the member or co-opted member, being subject to violence or intimidation.

[2] There are currently no additional restrictions placed by the authority, however, Members should be aware that adverse interests could be considered as transcending the Code of Conduct.

Appendix 2

SURREY COUNTY COUNCIL

Arrangements for dealing with standards allegations under the Localism Act 2011

1. Context

1.1. Surrey County Council has 80 elected Councillors known as “Members” The Council is committed to promoting and maintaining high standards of conduct amongst its Members and has adopted a Code of Conduct setting out the conduct it expects of its Members and Co-opted Members as they carry out that role.

1.2. These are the Council’s arrangements for dealing with any complaint it receives, alleging that an elected or co-opted Member of Surrey County Council has failed to comply with its Code of Conduct. These arrangements will form the basis for investigating and deciding any such complaints.

1.3. The Council will appoint at least one Independent Person, whose views must be sought by the Council before it takes a decision on any allegation which it has decided should be investigated. The Council may also seek the view of the Independent Person at any other stage it chooses and a Member against whom an allegation as been made can also consult the Independent Person.

2. The Code of Conduct

2.1. A copy of the Council’s Code of Conduct for Members is set out below. It is also available for inspection on the Council’s website and on request from Democratic Services *[Please phone 020 8 5419 122 to speak to somebody in Democratic Services].*

2.2. The Code applies to Members when they go about the work of the Council or their role as a Member. The Council will not investigate complaints relating to a Member’s private life.

3. Making a complaint

3.1. Anyone wishing to make a complaint about the behaviour of a Surrey County Councillor (“Member”), should write or email to-

The Monitoring Officer
Surrey County Council
County Hall
Kingston Upon Thames
KT1 2DN
Or email monitoringofficer@surreycc.gov.uk

3.2. The Monitoring Officer is the member of the Council’s staff who has statutory responsibility for maintaining the Register of Members’ Interests and who is responsible for administering the system in respect of complaints of member misconduct. 3.3 Only written complaints will be investigated and the Council will require a name and a contact address or email address to acknowledge receipt of the complaint and keep the complainant informed of its progress.

The Council does not normally investigate anonymous complaints, unless there is a clear public interest in doing so. The Monitoring Officer will disclose the name of the complainant to the Member unless specifically asked to withhold it. Only in very exceptional cases will the Council be able to progress a complaint to an investigation without disclosing the identity of the complainant to the Member.

4. How a complaint is resolved

4.1. The Monitoring Officer will review every complaint received. Where they are of the view that your complaint, if proven, would not amount to a breach of the Members Code of Conduct they will notify you of this and will not progress the matter further.

4.2. Wherever possible the Monitoring Officer will seek to resolve your complaint through informal resolution. Informal resolution may avoid the need for a formal investigation and could, for example, consist of the Member accepting that their conduct was unacceptable and offering an apology, or other remedial action by the Council. The Monitoring Officer will consult the Chairman of the Member Conduct Panel before recommending informal resolution and will notify you and the Member concerned of any recommendation and how that will be progressed.

5. When a complaint will be investigated

5.1. On some occasions informal resolution will not be possible, because one of the parties does not agree to cooperate with an informal process. If this happens the Monitoring Officer will seek a ruling from the Independent Person, who will decide whether the matter proceeds to an investigation or progresses no further. In order to inform that decision the Monitoring Officer will disclose information to the Independent Person, including details of the complaint, steps taken to achieve informal resolution and why this has not been successful. The complainant and the Member will be notified of the outcome.

5.2. On some occasions the Monitoring Officer may consider that the conduct alleged, if proved to have occurred, would amount to a breach of the Members Code of Conduct and would not be capable of informal resolution. If this is the case, after consultation with the Chairman of the Member Conduct Panel, the Monitoring Officer will decide whether the complaint merits formal investigation. In making that decision the Monitoring Officer will take into account both the seriousness of the alleged breach and the information provided in support of the complaint. Where the Monitoring Officer requires additional information in order to come to a decision, they may contact either the complainant or the Member to request that information.

5.3. If a complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer has the power to call in the Police and other regulatory agencies.

6. How is the investigation conducted?

6.1. If the Monitoring Officer decides that a complaint merits formal investigation, he/she will appoint an Investigating Officer. This may be a member of the Council's staff or an external investigator. The Investigating Officer will decide whether to speak to the complainant and to any other witnesses and may collect written evidence, such as correspondence, or minutes of meetings.

6.2. The Investigating Officer will contact the Member and provide them with a copy of the complaint, and ask the Member to provide his/her explanation of events, and to identify what documents the Investigating Officer needs to see and anyone they should interview. In very exceptional cases, where the Monitoring Officer, after consulting the Independent Person, considers that disclosing details of the complaint to the Member might prejudice the investigation, these will be withheld from the Member until the investigation has progressed sufficiently.

6.3. At the end of their investigation, the Investigating Officer will produce a draft report and will send copies of that draft report, in confidence, to the complainant and to the member concerned, to give them both an opportunity to identify any inaccuracies in the report and to comment on their findings. Having received and taken account of any comments that you may make on the draft report, the Investigating Officer will send his/her final report to the Monitoring Officer.

6.4. The investigation and the Investigating Officer's report will be kept confidential at this stage.

7. What happens if the Investigating Officer concludes that there is no evidence of a failure to comply with the Code of Conduct?

The Monitoring Officer will send a copy of the Investigating Officer's report to the Chairman of the Member Conduct Panel and to the Independent Person and seek their views on whether to convene a member Conduct Hearing Panel. Where a hearing is inappropriate the Monitoring Officer will write to the parties, notifying them that they are satisfied that no further action is required. The Monitoring Officer will send them both a copy of the Investigating Officer's final report, which will no longer be confidential at this point.

8. What happens if the Investigating Officer concludes that there is evidence of a failure to comply with the Code of Conduct?

Where the Investigating Officer concludes that there is evidence of a failure to comply with the Code of Conduct the Monitoring Officer will arrange for the Member Conduct Panel to hold a meeting, within three months of the Investigator's final report being issued, so that it can take a decision on the complaint.

8.1. The Monitoring Officer will invite the Member to reply in writing to the Investigation Officer's report, in particular to identify what is likely to be agreed and what is likely to be in contention at the hearing. The Member will be invited to give a view on whether the Panel should meet in public or in private. The Chairman of the Member Conduct Panel will set a date for the hearing and may issue directions as to the manner in which the hearing will be conducted, including whether or not the Member Conduct Panel will meet in public or private.

8.2. At the hearing, the Investigating Officer will present their report, call such witnesses as they consider necessary and make representations to substantiate their conclusion that the Member has failed to comply with the Code of Conduct.

8.3. The Member will also have an opportunity to give evidence, to call witnesses and to make representations to the Member Conduct Panel as to why they consider that they did not fail to comply with the Code of Conduct.

8.4. After hearing from all the parties the Member Conduct Panel may conclude either:

- that the Member did not fail to comply with the Code of Conduct or
- that the Member did fail to comply with the Code of Conduct, in which case it will also decide what action to recommend or to take.

The Member Conduct Panel will not announce its decision at the Hearing. Before reaching a final decision on the complaint and any sanction, the Chairman of the Member Conduct Panel will report its finding to the Independent Person, whose views will be sought and taken into account by the Panel before a final decision is made.

9. What action can the Member Conduct Panel take where a member has failed to comply with the Code of Conduct?

The Council has delegated to the Member Conduct Panel the power to take such action in respect of individual members as may be necessary to promote and maintain high standards of conduct. Accordingly the Member Conduct Panel may –

9.1. Decide that no action is needed

9.2. Censure the Member

9.3. Recommend to the Member's Group Leader (or in the case of un-grouped members, recommend to Council or to Committees) that he/she consider all any of the following sanction:

- The Member be removed from any or all Committees or Sub-Committees of the Council;
- the Member be removed from the Cabinet, or removed from particular Portfolio responsibilities;
- •the member be removed from all outside appointments to which he/she has been appointed or nominated by the authority

9.4. Report its findings and recommendations to the next available meeting of the County Council.

The Member Conduct Panel has no power to suspend or disqualify the Member or to withdraw members' or special responsibility allowances.

10. How are the Panel's finding communicated to me?

As soon as reasonably practicable after the Panel has made its final decision, the Monitoring Officer will prepare a formal decision notice in consultation with the Chairman of the Member Conduct Panel, and send a copy to the complainant and to the Member and will make that decision notice available for public inspection.

11. Who are the Member Conduct Panel?

The Member Conduct Panel is a cross party Panel of Members of the Council chaired by the Chairman of the County Council. Any hearing will be conducted by three of their number, one of whom shall be the Chairman or Vice Chairman of the Council, who will chair the meeting. In the event that neither the Chairman nor Vice Chairman are able to chair the meeting the hearing will be conducted by three members of the Panel and the election of one of their number to chair the hearing will be the first item of business at the meeting.

12. Who is the Independent Person?

The Independent Person is a person who has applied for the post following advertisement of a vacancy for the post, and is the appointed by a positive vote from a majority of all the members of Council.

A person cannot be "independent" if he/she –

- is, or has been within the past 5 years, a member, co-opted member or officer of the Council; or

- is a relative, partner or close friend, of a member, co-opted member or officer of the Council;

13. Revision of these arrangements

The Council may by resolution agree to amend these arrangements, and has delegated to the Chairman of the Member Conduct Panel the right to depart from these arrangements where they consider that it is expedient to do so in order to secure the effective and fair consideration of any matter.

14. Appeals

A Member is expected to comply with the decisions taken through the process and has no right of appeal against a finding of breach of the Code of Conduct. However a Member may require that a further Member Conduct meeting reviews any sanction imposed at a hearing.

15. Local Government Ombudsman

Where a complainant concludes that the authority has failed to deal properly with a complaint they may make a complaint to the Local Government Ombudsman.

The Council's Code of Conduct

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SURREY
COUNTY COUNCIL

Audit & Governance Committee
2 September 2013

Complaints performance report for 2012/13

Purpose of the report:

The purpose of this report is to give the Audit & Governance Committee an overview of the council's complaint policy, procedures and performance in 2012/13.

1. Introduction:

1.1 The council's complaints policy is an integral component of the council's corporate governance and assurance framework and reflects the council's customer focused values and commitment to listen to and learn from feedback. Every complaint is an opportunity to put things right for the complainant and an opportunity to learn and improve. Table 1 shows the council's complaints policy.

Table 1: Complaints Policy

- We welcome complaints for the opportunities they give us to inform policy and improve service delivery.
- We encourage customers to complain by making it as easy as possible for them to find out how to do so.
- We maintain procedures for the management and investigation of all complaints made to officers and to Members, and continually monitor them to ensure they are fit for purpose.
- We investigate complaints thoroughly, objectively and impartially.
- When complaints are upheld we put things right.
- When we find maladministration has caused injustice we seek a remedy that would, so far as is possible, put the complainant back into the position they would have been but for the fault.

2. Surrey County Council's complaints policy and procedures and response standards:

2.1 The councils' complaints policy and procedures are based upon best practise advice from the Local Government Ombudsman (LGO) whose role is to provide an independent and impartial complaints review service.

2.2 Customer Services manages the complaints process for the council with the exception of complaints regarding Adults Social Care (ASC) and Children, Schools and Families (CSF) which are both governed by separate statutory procedures. Complaints made to ASC and CSF are managed by the ASC Customer Relations Team and the Children's Rights Service respectively. Schools have their own complaints procedures drawn up by governors.

2.3 Customers can make complaints directly to a service or via the council's website. Officers aim to make a satisfactory response in line with the timescales details in Table 2.

Table 2: SCC's complaints procedures and response standards

Area	Procedure	Response standard at a stage 1
Change & Efficiency	A two stage procedure	10 working days
Chief Executives		
Customer & Communities		
Environment & Infrastructure		
Adults social care	A single stage statutory procedure	20 working days
Schools & Learning and Services for Young People	A two stage procedure	10 working days (extendable to 20 if necessary)
Children's social care	A three stage statutory procedure	10 working days (extendable to 20 if necessary)

2.4 Please note: The Department for Health, who created the Adults Social Care complaint regulations in 2009, did not set a timescale for how long to respond. ASC has therefore set its own timescale of 20 working days (with flexibility to extend this with the agreement of the complainant).

3. SCC's complaint handling performance in 2012/13:

3.1 Table 3 gives an overview of the number of complaints received and the response performance in 2012/13.

Table 3: SCC's complaint handling performance in 2011/12 - 2012/13

Area	Response target	2011/12		2012/13	
		Complaints received	Performance against response target	Complaints received	Performance against response target
Change & Efficiency	90% within 10 working days	36	86%	24	88%
Chief Executives		5	100%	2	100%
Customer & Communities		168	94%	199	95%
Environment & Infrastructure		428	95%	463	95%
Adults social care	90% in 20 working days	233	92%	213	94%
Schools & Learning and Services for Young People	80% in 10 working days (extendable to 20 if necessary)	42	67% (within 10 working days) Not recorded	54	86% (within 10 working days) 94% (within 20 working days)
Children's social care	80% in 10 working days (extendable to 20 if necessary)	281	59% (within 10 working days) 80% (within 20 working days)	274	47% (within 10 working days) 71% (within 20 working days)
Total		**1,193**		**1,229**	

3.2 When there has been maladministration by the council which has led to injustice to the complainant compensation is paid. All compensation awards are approved by the relevant Head of Service, and if greater than £1,000 in consultation with the portfolio holder. In 2012/13 £6,694 was paid in compensation.

3.3 Overall the number of complaints being logged has increased from last year. This is likely to be as a result of work undertaken with the Contact Centre to promote complaint logging as an appropriate outcome for dissatisfied callers.

3.4 Despite the increase in volume of complaints, response performance for most Services continues to rise. Adults Social Care has risen from 72% to 94% in the last 3 years. Highways who consistently receive the most complaints have rarely dropped below 97%. It should be noted that the complexities of complaints in Children's Services impact significantly on timescales and that the average time to respond at stage 1 over the year was 17.5 days.

Complaint Escalation

3.5 Officers aim to resolve the complaints satisfactorily at the earliest opportunity however customers who remain dissatisfied can escalate their complaint. Table 2 (above) shows the internal stages prior to escalation to the LGO. The LGO will be unlikely to accept a complaint if it has not followed the council's internal complaints procedure.

3.6 Table 4 shows the number of complaints escalating through all stages and the proportion where fault was identified at the final stage by the LGO.

Table 4: SCC's complaint escalation in 2012/13

<table>
<tr><th rowspan="2">Area</th><th rowspan="2">Complaints received at stage 1</th><th colspan="3">Complaints escalated to:</th><th rowspan="2">Fault found by LGO with investigation</th></tr>
<tr><th>Stage 2</th><th>Stage 3</th><th>LGO</th></tr>
<tr><td>Change & Efficiency</td><td>24</td><td>4</td><td rowspan="6">N/A</td><td>3</td><td>0</td></tr>
<tr><td>Chief Executives</td><td>2</td><td>0</td><td>0</td><td>0</td></tr>
<tr><td>Customer & Communities</td><td>199</td><td>11</td><td>0</td><td>0</td></tr>
<tr><td>Environment & Infrastructure</td><td>463</td><td>151</td><td>16</td><td>0</td></tr>
<tr><td>Adults social care</td><td>213</td><td>N/A</td><td>10</td><td>2</td></tr>
<tr><td>Schools and Learning</td><td>54</td><td>10</td><td>20</td><td>0</td></tr>
<tr><td>Children's social care</td><td>274</td><td>13</td><td>0</td><td>13</td><td>2</td></tr>
</table>

3.6 The LGO rarely find fault in the investigations carried out in the council. This is due to the emphasis put on robust and in-depth investigations.

4. Learning from complaints:

4.1 Every complaint is an opportunity to put things right for the complainant and also learn and improve. An individual complaint may result in corrective action being identified, or a number of complaints about the same thing may identify a need to review a process or the information provided to customers.

Children's Services

4.2 Specific examples of learning identified through the statutory procedures by operational and Children's Right Service (CRS) staff are listed below:

a) Review of local authority's contractual arrangements with transport providers
b) Eligibility criteria for children's disability services revised and made accessible on website
c) Kinship care leaflet revised to ensure information about finance options is clear to carers
d) Guidance to be developed to ensure contact arrangements between children or young people and their families respect cultural and religious needs

4.3 CRS will be working closely with front line teams developing plans to progress learning identified from complaints across the directorate, enabling improved performance and maintaining positive relationships with service users and their families

Schools & Learning

4.4 Specific examples of learning identified by operational and CRS staff are listed below:

a) Special Educational Needs(SEN) Service reviewed arrangements with the Health Authority for provision of advice during the statementing process and agreed an escalation process in cases where there is extended delay in obtaining advice
b) SEN Service developing County wide policy/protocol with all schools to improve the commissioning of speech therapy.

Adults Social Care

4.5 Key learning from complaints within ASC leading to service improvements this year include:

a) Adult Social Care have put appropriate arrangements to ensure individuals funding their own care are supported to source alternative care (the Services Closure Protocol)
b) Regarding services for people with learning disabilities, all assessments are now monitored and reminders sent to ensure that customers receive key documents
c) Teams have been reminded to have systems in place when cases are transferred between Practitioners, in order to keep people using our services fully informed of these changes

Surrey Highways

4.6 Specific examples of learning identified and corrective action taken within Highways include:

a) A new process for notifying property owners about overhanging vegetation
b) Legal and Highways updated the policy on highway encroachment
c) Removal of a poorly designed traffic calming scheme

Other Services

4.7 Examples across other services in the council include:

a) Better management of the houseboat tenancy by Property Services
b) Trading Standards improvements around the use of warrants by Animal Welfare Inspectors
c) Strict enforcement of Local Committee Annexe deadlines

4.8 There has been a cultural shift and an increased commitment to listen and learn from complaints over this year. Highways, who notably receive the most complaints, have made improving customer service a priority this year and have launched a Customer Service Excellence (CSE) programme to drive continuous customer focused improvement.

5. Conclusions:

5.1 What are we doing well?

a) Corporate Customer Relations has seen a cultural shift in the attitude towards complaints. They are now recognised as a mechanism for addressing customer concerns and identifying service failure.
b) Children's Rights Service has seen a significant increase in the number of complaints being made directly by Young People that are supported by advocacy provision.
c) Adults Social Care has seen a year on year increase in meeting the target of responding to complaints within an agreed timescale, achieving 94% this year.
d) Children's Rights Service has seen a decrease in number of complaints escalating to stage 2 or 3 of the process, and a decrease in the number of complaints going to the LGO.
e) Corporate Customer Relations has seen a significant decrease in the number of investigations at Stage 2 of the process where fault is identified.
f) Adults Social Care now feedback learning from complaints to Area Management at Quarterly Accountability Meetings.
g) Continued good working relationship with the LGO.

h) Improved investigations leading to a reduction in cases whereby the LGO find against us.
i) All three teams continue to build positive relationships with services, providing advice, training and support in the management of complaints, leading to improved service delivery.

5.2 What do we need to work on?

a) Continue to improve the speed of response at Stage 1 by supporting services to improve their internal processes.
b) Improve the quality of response at Stage 1 to avoid unnecessary escalation. This will be achieved through training and by working with services to implement quality assurance processes.
c) Continue to promote the value of complaints internally and embed learning within the services through a network of customer service leads and by promoting the Customer Service Excellence programme.
d) Increase awareness to ensure that customers know that we welcome complaints to put things right and help improve our services through promotion on our website and with people using our services

Financial and value for money implications

6. n/a

Equalities Implications

7. n/a

Risk Management Implications

8. n/a

Implications for the Council's Priorities or Community Strategy

9. n/a

Recommendations:

10. Committee to note that the full performance information for Schools & Learning and Children's Services will be published later this year.

11. The Audit & Governance Committee to note the council's complaint policy, procedures and annual performance in 2012/13.

Next steps:

The Audit & Governance Committee to receive information on operation of the council's complaints procedures on an annual basis.

Report contact: Mark Irons, Head of Customer Services
Contact details: 0208 541 8567

Sources/background papers: SCC complaints database, ASC Annual Customer Relations Report, Children's Rights Service