Notice of Meeting

Audit & Governance Committee

Date & time	Place	Contact	Chief Executive
Thursday, 31 July 2014 at **1.00 pm**	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: 29 MAY 2014 (Pages 1 - 14)

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 (*25 July 2014)*.
2. The deadline for public questions is seven days before the meeting (*24 July 2014)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER (Pages 15 - 32)

To review the Committee's recommendations tracker.

6 COMPLETED INTERNAL AUDIT REPORTS (Pages 33 - 48)

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 May 2014.

7 SOCIAL CARE DEBT (Pages 49 - 72)

The Committee has requested a progress report with particular emphasis on the proportion of payments made by direct debit.

8 STATEMENT OF ACCOUNTS 2013/14 (Pages 73 - 278)

To inform the Committee of the result of the external audit of the council's 2013/14 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation from the Director of Finance.

9 SURREY PENSION FUND ACCOUNTS 2013/14 AND GRANT THORNTON EXTERNAL AUDIT FINDINGS REPORT (Pages 279 - 356)

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2014, 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) has issued an unqualified opinion on the accounts and this will be outlined in the Grant Thornton External Audit Findings for Surrey Pension Fund Report.

10 EXTERNAL AUDIT REPORT ON VALUE FOR MONEY FOR SURREY COUNTY COUNCIL (Pages 357 - 414)

The purpose of this report is to inform the Committee of the results of the external auditor's review of the Council's arrangements for securing financial resilience.

11 TREASURY MANAGEMENT OUTTURN REPORT 2013/14 (Pages 415 - 432)

This report summarises the council's treasury management activity during 2013/14, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential Indicators for 2013/14, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities.

12 ANNUAL REPORT OF SURREY COUNTY COUNCIL (Pages 433 - 508)

To formally consider the Annual Report for the authority.

13 LEADERSHIP RISK REGISTER

(Pages 509 - 518)

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.

David McNulty
Chief Executive
Published: Date Not Specified

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Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 29 May 2014 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

Mr Nick Harrison (Chairman)
Mr W D Barker OBE (Vice-Chairman)
Mr Tim Evans
Mr Tim Hall

Apologies:

Mr Denis Fuller
Mr Will Forster

In Attendance

Denise Le Gal, Cabinet Member for Business Services

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

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91/14 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Denis Fuller and Will Forster. Richard Wilson substituted for Denis Fuller.

92/14 MINUTES OF THE PREVIOUS MEETING: 24 MARCH 2014 [Item 2]

The Minutes were agreed as an accurate record of the meeting, subject to one minor correction.

93/14 DECLARATIONS OF INTEREST [Item 3]

There were none.

94/14 QUESTIONS AND PETITIONS [Item 4]

There were none.

95/14 RECOMMENDATIONS TRACKER [Item 5]

Declarations of Interest:
None.

Witnesses:
Sue Lewry-Jones, Chief Internal Auditor
Sheila Little, Director of Finance

Key Points Raised During the Discussion:

1. In relation to R3/12 (Social Care: Direct Payments), the Chairman informed the committee that a full report on social care debt, along with the findings of an audit of social care debt, is on the agenda for 31 July 2014.
2. In relation to A35/13 (Council Tax collection rates), the Director of Finance assured the committee that the issue was on the agenda at every monthly meeting of the Surrey Treasurer's Association. The Chairman suggested that the Audit & Governance Committee would continue to monitor the situation.
3. In relation to A6/14 (briefing Cabinet Members), the Chief Internal Auditor informed the committee that she had discussed the issue with the Chief Executive who would raise it with the Leader of the Council.
4. In relation to A33/13 (ethical standards), the Chairman highlighted the reminder which the Monitoring Officer had sent to Members about registering interests.
5. The committee agreed that the information bulletin was useful and kept the Members up-to-date on relevant issues.

Actions/Further information to be provided:
The recommendations tracker to be updated to reflect the discussion, as noted above.

RESOLVED:
That the recommendations tracker was noted and the committee agreed to remove the completed actions.

Committee Next Steps:
None.

96/14 EXTERNAL AUDIT - AUDIT PLAN SURREY PENSION FUND [Item 6]

Declarations of Interest:
None.

Witnesses:
Kathryn Sharp, Audit Manager (Grant Thornton)

Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager – Pension Fund & Treasury

Key Points Raised During the Discussion:

1. The Audit Manager introduced the report and explained that it was a standard audit plan. The significant risks identified were applicable to all audits.

Richard Wilson joined the meeting at 10.10am.

2. The Chairman welcomed the fee having fallen from the previous arrangements.

Actions/Further information to be provided:
None.

RESOLVED:
That the work that Grant Thornton plans to undertake to deliver the audit be **NOTED**.

Committee Next Steps:
To receive the findings of the audit in July 2014.

97/14 COMPLETED INTERNAL AUDIT REPORTS [Item 7]

Declarations of Interest:
None.

Witnesses:
Rachel Crossley, Democratic Services Lead Manager
Sue Lewry-Jones, Chief Internal Auditor
Sheila Little, Director of Finance
Nicola O'Connor, Finance Manager – Assets & Accounting
Grisilda Ponniah, Corporate Information Governance Manager

Key Points Raised During the Discussion:

1. The Chief Internal Auditor introduced the report and highlighted that Council Overview and Scrutiny Committee had considered the Appraisals Internal Audit report. The Cabinet Member for Business Services informed the committee that on 27 May 2014 Cabinet had tabled a response to the recommendations by Council Overview and Scrutiny Committee. While she shared the concerns of the Committee with regard to appraisal completion, she assured Members that

completion levels were variable and that some departments were doing well. Some departments require a culture change to ensure that appraisal completion levels increase. The Director of Finance pointed out that the process of recording appraisals had been simplified and suggested that this would lead to increased recording. The Chief Internal Auditor stated that there would be a follow-up audit on appraisals.

2. The Vice-Chairman queried which senior officers had been identified as having outside interests. The Chief Internal Auditor stated that a large number of officers have outside interests but that this was acceptable if they are properly disclosed and there are appropriate procedures in place to ensure that there is no conflict of interests. The audit found that procedures were effective. She also stressed that outside interests as identified from Companies House data may relate to companies set up to manage their own living accommodation (eg in a block of flats) etc. The Vice-Chairman went on to express concern about how and when officers are required to make declarations of interests. He agreed to go through the audit papers to assure himself on procedures and report back to the committee (**Recommendations tracker ref: A9/14**).
3. The Chairman commended Internal Audit on its report on Data Mining for Fraud.
4. The Democratic Services Lead Manager and the Corporate Information Governance Manager were in attendance to discuss the audit of Information Governance. The Chairman queried what contact the Information Governance team has with the Information Commissioner's Office (ICO). The Corporate Information Governance Manager explained that there had been no decision notice against the Council for breach of information rights for many years. The Council has a positive relationship with the ICO and if a complaint is received by the ICO, they will not process it until the council has had an opportunity to do an internal review. A few perceived breaches have been reported to the ICO but the Office has decided not to take further action on them.
5. In response to a query, the Democratic Services Lead Manager assured the committee that the misuse of group email accounts which include outside bodies had been addressed. Indications were that this had led to a reduction in the number of data breaches occurring.
6. There was some concern amongst Members about the level of security on electronic devices and the potential to be locked out of programs. The Democratic Services Lead Manager stressed that the Modern Worker project was looking at how people work now and that it was seeking to balance flexibility with information security. The Good app was being replaced with a more secure system. She offered to feedback to IMT the need to consider the Modern Councillor in this work. In response to queries about printing from iPads, the Democratic Services Lead Manager informed the committee that options had been looked at and that she would chase IMT to find out what progress has been made (**Recommendations tracker ref: A10/14**).

7. The Chairman suggested that the Audit & Governance Committee should consider the audit of the General Ledger in detail as it was important the Committee had assurance about the effectiveness of this process before receiving the Council's Statement of Accounts in July 2014. The Finance Manager – Assets & Accounting, informed the committee that the audit had been more through than previous years but that she had welcomed this. The findings were not a surprise but would support the Finance Team in addressing issues that they had already been working on. The Finance Manager – Assets & Accounting agreed that every suspense code had an identified owner. In the past 12 months, the Finance Team had done a lot of work to make sure that the names are up-to-date.
8. The Finance Manager – Assets & Accounting explained that external audit had originally identified an 'aged' GR/IR balance. This relates to a balance which is a commitment on budget codes until the goods are received and the balance paid to the creditor. An investigation showed that there has been an over-accrual against budget codes as services are actually paying less than has been committed against their budget code. This may happen for reasons such as the supplier giving a discount. Numerous small amounts can build up into a substantial balance. An e-learning package would provide advice on handling the final invoice processed in a block procurement order. Finance would also start to produce a list comparing goods receipting with final invoices and send it to budget holders to query. On 31 March 2014, there was a £21.1m GR/IR balance. The end of March is the peak time for the balance as there is a push to record receipt of all goods by the end of the financial year. It was stressed that there would always be a timing difference between receiving goods and services and then paying for them. This means that there would always be a GR/IR balance. Balances which have been written off in the past have been put into the budget equalisation reserve. Of the £21.1m GR/IR balance on 31 March 2014, £2.5m relates to an 'aged' balance of over 12 months old. This is still under investigation. The Director of Finance confirmed that she supported the process undertaken. The Finance Manager – Assets & Accounting agreed to do a briefing on the GR/IR balance for the Committee's next information bulletin (**Recommendations tracker ref: A11/14**).

Actions/Further information to be provided:

i. The Vice-Chairman to review the background papers to the audit of Officer Interests and report back to the committee.
ii. The Democratic Services Lead Manager to discuss with IMT the need to consider the Modern Councillor as part of the Modern Worker project and to chase to establish what progress has been made with being able to print from iPads.
iii. The Finance Manager – Assets & Accounting to prepare a briefing on the GR/IR balance for the Committee's next information bulletin.

RESOLVED:
That the committee notes the report.

Committee Next Steps:
None.

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98/14 INTERNAL AUDIT ANNUAL REPORT 2013/14 [Item 8]

Declarations of Interest:
None.

Witnesses:
Sue Lewry-Jones, Chief Internal Auditor

Key Points Raised During the Discussion:

1. The Chief Internal Auditor introduced her Annual Report and highlighted that the overall audit opinion for the governance and internal control environment was Some Improvement Needed as a few specific control weaknesses had been noted.
2. The Vice-Chairman stressed the importance of audit for any organisation and stated that Internal Audit does a good job. He suggested that Highways continued to be a weak link and asked how Internal Audit can respond to this. The Chief Internal Auditor reminded the committee that her team had lost two experienced auditors with extensive knowledge of Highways issues during the past year. The impact of this needed to be considered and addressed. She informed the committee that she had met with the Assistant Director for Highways who had been very complimentary of how Internal Audit worked with Highways. The areas identified in the Audit Plan for 2014/15 were areas which the Highways service has identified issues with.
3. A Member queried whether recovery rates following damage to Council property had been audited. The Chairman confirmed that this had been audited in the past and that the recovery rate had also been looked at by Environment & Transport Select Committee. The Chief Internal Auditor suggested that as this had not been looked at in a few years, she could look into whether there is a need for an audit in the near future (**Recommendations tracker ref: A12/14**).
4. With regard to the Customer Satisfaction Survey, Members queried who the people were who found little or no value in an audit and why. The Chief Internal Auditor explained that, if an audit finds that a service/process is effective, staff may believe the audit was not worthwhile. The questions in the Customer Satisfaction Survey were being reviewed with the aim of also asking auditees if they get assurance from the completion of an audit.
5. The Chief Internal Auditor explained that there is a very large audit universe and that this is risk assessed to produce the annual Audit Plan.
6. The Chairman suggested raising the Direct Payments Follow-up Audit and the ASC Safeguarding Assurance process with the Chief Executive and Leader of the Council when they arrive for item 12: Annual Governance Statement.

Actions/Further information to be provided:
The Chief Internal Auditor to consider the need for an audit of recovery rates following damage to Council property.

RESOLVED:
To **NOTE** the work undertaken and performance of Internal Audit in 2013/14.

Committee Next Steps:
None.

99/14 FULL-YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS AND ANTI-FRAUD MEASURES (APRIL 2013 - MARCH 2014) [Item 9]

Declarations of Interest:
None.

Witnesses:
Reem Burton, Lead Auditor

Key Points Raised During the Discussion:

1. The Lead Auditor introduced the report and stressed the increased focus on proactive fraud prevention.
2. The Lead Auditor informed the committee that Borough and District Councils had taken different approaches to the Single Person Discount exercise. Some were happy to cancel the discount where responses were not forthcoming but others wished to review each individual case. This would be resolved over time. The Chairman informed the committee that he had discussed this exercise with the Leader of the Council and that he was raising it at the Surrey Leaders' Group.
3. The Lead Auditor confirmed that Internal Audit had a good working relationship with Surrey Police although they may sometimes have different priorities. Some cases would be investigated by Internal Audit but potential fraud with a high material value will be investigated by the police.
4. The Lead Auditor confirmed that alleged corruption can be difficult to prove. However, whistleblowing is a valuable source of information, in particular with regards to planning applications. The Annual Audit Plan includes contract audits, which may include tests to identify irregular supplier practices.
5. The Lead Auditor confirmed that cash thefts are usually small but there are a few examples of fraud cases relating to larger material figures.
6. The Lead Auditor confirmed that the Strategy had only been amended slightly, updating it in relation to new legislation and the renaming of the Change & Efficiency Directorate as Business Services.

Actions/Further information to be provided:
None.

RESOLVED:

a. To **NOTE** the report;
b. To **APPROVE** the updated Strategy against Fraud & Corruption.

Committee Next Steps:
None.

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100/14 RISK MANAGEMENT ANNUAL REPORT [Item 10]

Declarations of Interest:
None.

Witnesses:
Cath Edwards, Risk and Governance Manager
Sheila Little, Director of Finance

Key Points Raised During the Discussion:

1. The Risk and Governance Manager introduced the report and highlighted the minor changes to the Risk Management Policy Statement and Strategy and updates to the Leadership Risk Register.

Tim Hall left the meeting at 11.40am.

2. The Risk and Governance Manager explained that Procurement did understand the importance of risk management but needed support to start conversations with suppliers. Some suppliers, eg small taxi firms, would need more support to improve risk management arrangements than others.
3. The Risk and Governance Manager informed the committee that there needed to be greater clarity on who would be attending the Council Risk and Resilience Forum meetings and what services they were representing. If a service is Priority 1 for the Forum, they will be encouraged to send their own representative and not to share with other services.
4. A Member queried what was meant by 'rewarding appropriate risk taking'. The Risk and Governance Manager explained that this was focussed on performance management.

Tim Hall rejoined the meeting at 11.47am.

The Director of Finance explained that the risk culture leadership guidance produced by the Institute of Risk Management uses private sector language throughout. In the private sector, staff are rewarded for risk-taking. In the public sector there is a need to celebrate where risk-taking has made a positive outcome. It needs to be recognised that taking a risk is not always a negative action.

5. With regard to the Leadership Risk Register, Members suggested that the implications of the Care Act were so fundamental that it should be separated out as a risk in itself. The Director of Finance accepted the significance of the Care Act but stressed that everything on the Leadership Risk Register was a major risk. It was important not to have too many individual risks on the register. The Chairman suggested that Risk L15 (Central Government policy development) needed to be developed to have a greater focus on the Care Act (Recommendations tracker re: A13/14).
6. The Risk and Governance Manager informed the committee that flood relief work was ongoing and lessons on risk management were being learnt.

Actions/Further information to be provided:
Risk L15 (Central Government policy development) to be developed to have a greater focus on the Care Act.

RESOLVED:

a. That the committee is satisfied with the risk management arrangements;
b. To **APPROVE** the Risk Management Policy Statement and Strategy for inclusion in the Constitution; and
c. To **NOTE** the Leadership Risk Register.

Committee Next Steps:
None.

101/14 CODE OF CORPORATE GOVERNANCE [Item 11]

Declarations of Interest:
None.

Witnesses:
Cath Edwards, Risk and Governance Manager

Key Points Raised During the Discussion:

1. The Risk and Governance Manager introduced the report and highlighted the minor changes.

Actions/Further information to be provided:
None.

RESOLVED:
To **APPROVE** the updated Code of Corporate Governance and recommend it to the County Council for inclusion into the Constitution.

Committee Next Steps:
None.

102/14 BRIEFING ON CIPFA'S 2013 EDITION OF AUDIT COMMITTEES: PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE [Item 14]

As witnesses for Item 12 had not yet arrived, it was agreed to consider Item 14 next.

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Chairman introduced the report and suggested that the task group undertaking the committee self-assessment should consist of the Chairman, Vice-Chairman and one other member of the committee. Tim Hall volunteered to participate and this was agreed.

Actions/Further information to be provided:
None.

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RESOLVED:

a. To **NOTE** the publication of CIPFA's revised and updated 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police*.
b. To undertake a self-assessment and review of the committee's training needs.

Committee Next Steps:
To complete the Knowledge and Skills Survey and return it to the Regulatory Committee Manager.

103/14 2013/14 ANNUAL GOVERNANCE STATEMENT [Item 12]

Declarations of Interest:
None.

Witnesses:
David Hodge, Leader of the Council
Sue Lewry-Jones, Chief Internal Auditor
David McNulty, Chief Executive

Key Points Raised During the Discussion:

1. The Chairman asked whether it would be possible to include an update on the comments made about the internal control environment in the previous year's Annual Governance Statement. The Chief Internal Auditor suggested that this was not necessary as either there were no more concerns in a particular area or they had been addressed in the Internal Audit Annual Report.
2. The Chief Executive responded to the comment that the Council does not have a central programme office any longer as there had been a need to make savings in the back office. The previous central programme office had done interesting work but had been an additional layer of bureaucracy. Departments had worked hard to ensure that a common methodology is applied to programmes and that the right skills and tools are available. He stated that he wasn't convinced that there was sufficient merit in having a central programme office to offset the cost involved. The Chairman agreed that sometimes central programme offices can take over the running of projects and reduce responsibility within the service.
3. The Vice-Chairman queried if the leadership felt that Select Committees were challenging enough. The Leader of the Council informed the committee of work with South East employers on improving the effectiveness of Select Committees. Over the past few months the standard of chairmanship of Select Committees had improved. Member coaching was also available to support committees to be challenging in a positive manner. He pointed out that as Leader of the Council he had no control over the overview and scrutiny process but that he did want to see strong Select Committees. The Chief Executive stressed that Select Committees were well-informed and had intellectual integrity. The Cabinet does take feedback from Select Committees seriously and feels sufficiently challenged. The Vice-Chairman suggested that some Select Committees do have issues, for example not taking audit findings seriously. The Chief Executive assured the committee that he is

aware of the issues as perceived by Audit & Governance Committee and that the Chairman of the Committee raises issues with him, which is very helpful.

4. It was suggested that the Statement be more explicit about the work ongoing as part of the flood recovery exercise. The Chief Executive stated that he did not want it to appear that the Council was being self-congratulatory when residents were continuing to suffer from the implications of the flooding. He also felt that a more explicit statement was not necessary in the Annual Governance Statement but suggested that there would be a stronger reference to the flooding in the Council's Annual Report.
5. Concerns were raised about the schools place programme not running effectively. Two Planning and Regulatory Committee meetings in a row had not considered school expansion planning applications when it was known that there are a number in the pipeline. The Chief Executive agreed that the schools place programme is a key objective for the council and of significant scale. However, he wasn't aware of specific governance issues. The committee agreed that it wished the schools place programme to be addressed within the Annual Governance Statement (**Recommendations tracker ref: A14/14**).
6. It was suggested that an emphasis on making physical assets work harder could be set out more strongly under Transparency and Stewardship. The Chief Executive agreed that this could be brought out more strongly (**Recommendations tracker ref: A15/14**).
7. The Chairman stated that he was not convinced that the problems with the Children in Care Health and Dental Checks were only about the timeliness of the paperwork trail but were also due to checks not being undertaken on a timely basis. The Chief Executive confirmed that the Corporate Parenting Board had received an update on Health and Dental Checks. This had shown that CCGs and the private provider Virgin Care had made significant progress on this issue. Increased capacity had been made available and there was improved confidence that checks would be delivered on time. The Corporate Parenting Board would keep a relentless focus on this. The Leader of the Council also informed the committee that he addresses this issue in his accountability meetings with the relevant Cabinet Members. The Chairman requested that the committee be sent the Minutes of the Corporate Parenting Board so that it could reassure itself on these improvements (**Recommendations tracker ref: A16/14**).
8. The Chairman suggested that under 'Focus for 2014/15' or the 'Engagement and Collaboration', reference should be made to the challenges of the Care Act. The Leader of the Council informed the committee that, due to the lack of certainty about what would happen after May 2015, it was preferable for the Council to concentrate on being resilient enough to handle anything that may be required.
9. The Chief Executive asked that the committee acknowledge the tremendous work of the Risk and Governance Manager on the Annual Governance Statement.

Actions/Further information to be provided:

i. The schools place programme to be addressed within the Annual Governance Statement.
ii. An emphasis on making physical assets work harder to be set out more strongly under Transparency and Stewardship.

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iii. The Minute of the Corporate Parenting Board relating to improvements to the Children in Care Health and Dental Checks to be circulated to the Committee.

RESOLVED:

a. To COMMEND the draft Annual Governance Statement, subject to the amendments outlined above, to the Cabinet for publication with the council's Statement of Accounts.

Committee Next Steps:
None.

104/14 PROPERTY ASSET MANAGEMENT SYSTEM IMPLEMENTATION UPDATE [Item 13]

Declarations of Interest:
None.

Witnesses:
Nigel Jones, Performance Manager, Property Services

Key Points Raised During the Discussion:

1. The Performance Manager introduced the report and informed the committee that over time more services would get access to the Property portal. He stressed that the System was very user-friendly. He went on to inform the committee that a review of the benefits was scheduled but that each area would be given 6-12 months from go-live before being reviewed. The Chairman suggested that the review should consider whether staff still felt it necessary to maintain separate spreadsheets outside of the main PAM system. He requested that the committee be made aware of the results of the reviews through the committee's information bulletin (**Recommendation tracker ref: A17/14**).
2. The Performance Manager informed the committee that it had been estimated that the new system would achieve savings of £100,000 per annum across all areas. Some of the savings would come from staff time saving and some from contract efficiency. The return against investment would be far exceeded over five years.
3. The Performance Manager confirmed that there would need to be a culture shift to get the most benefit out of the new system. However, if people see what the new system can provide, he believed that they would use it.
4. The Performance Manager confirmed that Borough and District Councils could buy into the Framework Contract.

Actions/Further information to be provided:
The committee to be made aware of the results of any evaluation of the delivery of expected benefits through the information bulletin.

RESOLVED:
That the committee now recognises this project and the further development of the PAM System as part of Property Service's business as usual delivery, therefore this will be the final report to come to this committee.

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Committee Next Steps:
None.

Meeting ended at: 12.50 pm

Chairman

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SURREY
COUNTY COUNCIL

Audit & Governance Committee
31 July 2014

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 **Annex A**, and the Committee is asked to review progress on the items listed.

The Committee's information bulletin which was circulated by email on 1 July 2014 is attached as **Annex B**.

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
R3/14	29/05/14	2013/14 Annual Governance Statement	To COMMEND the draft Annual Governance Statement, subject to the amendments outlined above, to the Cabinet for publication with the council's Statement of Accounts.	Cabinet	On 24 June 2014, Cabinet approved the Annual Governance Statement for inclusion within the Statement of Accounts and Annual Report. Audit & Governance Committee is to continue to monitor the governance environment and report to Cabinet as appropriate.

Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A32/13	02/09/13	Ethical Standards Annual Review	That the Committee receive an annual report on the operation of the Code of Conduct.	Monitoring Officer	A report will be scheduled for September 2014.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A35/13	02/12/13	Recommendations Tracker	The Chairman agreed to write to the Leader of the Council about concerns over the sharing of data on Council Tax and Business Rates collection	Chairman	A letter was sent to the Leader of the Council, dated 19 December 2013. A response was received dated 7 January 2014. On 24 March 2014, the committee was updated on an officer review of the poor response to the request for monthly data. A new, quarterly format had been developed and would be considered by borough and district revenue managers in April 2014. On 29 May, the Director of Finance assured the committee that the Surrey Treasurers' Association was keeping this issue on the agenda. The Chairman responded that the Audit & Governance Committee would continue to monitor the situation.
A8/14	24/03/14	Transport for Education – Management Action Plan Progress	Officers from Environment & Infrastructure and Children, Schools & Families directorates to jointly conduct a pilot process review of Transport for Education in the South East area after 1 September 2014.	Assistant Director for Schools & Learning Transport Co-ordination Centre Manager	To be scheduled after 1 September 2014.
A9/14	29/05/14	Completed Internal Audit Reports	The Vice-Chairman to review the background papers to the audit of Officer Interests and report back to the committee.	Vice-Chairman	The Vice-Chairman has reviewed the papers and the Chief Internal Auditor has undertaken to do a piece of work.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A12/14	29/05/14	Internal Audit Annual Report 2013/14	The Chief Internal Auditor to consider the need for an audit of recovery rates following damage to Council property.	Chief Internal Auditor	A relevant note has been added to the Audit Universe to highlight this as an area to consider as part of the 2015/16 annual planning process.
A13/14	29/05/14	Risk Management Annual Report	Risk L15 (Central Government policy development) to be developed to have a greater focus on the Care Act.	Risk and Governance Manager	The Risk and Governance Manager to report back.
A17/14	29/05/14	Property Asset Management System Implementation Update	The committee to be made aware of the results of any evaluation of the delivery of expected benefits through the information bulletin.	Performance Manager, Property Services	To be scheduled for future bulletins.

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Audit & Governance Committee Recommendations Tracking

Completed Recommendations/Referrals/Actions – to be deleted

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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	**Direct Payments** Adult Social Care Select Committee reviewed the Direct Payments audit report and has continued to monitor the situation and to lead improvements to the assessment process. Internal Audit is also monitoring progress on the Management Action Plan to address the Direct Payments audit findings. **Social Care Debt** On 2 September 2013, the Chief Internal Auditor confirmed that social care debt is on the Audit Plan for 2013/14. The Chairman requested to review the issue at a future meeting. On 6 March 2014, Adults Social Care Select Committee reviewed the Social Care Debt: Credit Balances Internal Audit report as part of a wider look at social care debt. The Chairman reported back to committee on 24 March 2014. A report on social care debt, along with the findings of an ongoing audit of social care debt is on the agenda for 31 July 2014.
R1/14	29/05/14	Risk Management Annual Report	The Committee approved the Risk Management Policy Statement and Strategy for inclusion in the Constitution.	Council	The Risk Management Policy and Statement was approved by Council for inclusion in the Constitution on 15 July 2014.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
R2/14	29/05/14	Code of Corporate Governance	The Committee approved the updated Code of Corporate Governance and recommended it to the County Council for inclusion into the Constitution.	Council	The updated Code of Corporate Governance was approved by Council for inclusion in the Constitution on 15 July 2014.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A3/14	24/03/14	Recommendations Tracker	References to the police within Babcock 4S' guidance to schools be made more robust, particularly with regard to fraud.	Chief Internal Auditor	Internal Audit have requested that the following two paragraphs be included under the existing information in Section 2.17 Fraud (Surrey Scheme for Financing Schools) "School staff should notify Surrey County Council Internal Audit (Telephone 020 8541 9190) of any matter coming to their attention that involves or is thought to involve corruption or financial irregularity. In addition the council expects the police are made aware of, and investigate independently, any offence where material financial impropriety may have occurred. The link to the council's strategy against fraud and corruption and the confidential hotline telephone number for whistleblowing can be found in Section D of the Schools' Finance Manual". Before amending the Scheme, the LA must consult every maintained school and then seek the approval of the Schools Forum This additional wording was considered by the Schools Forum on 3 July. The proposed changes were approved. The next stage is to formally amend the scheme and advise schools that this has been done (we must legally advise schools of the date from which changes to the Scheme are effective). This will be done in the first Schools Bulletin of the Autumn 2014/15 school term.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A6/14	24/03/14	2013/14 Review of the Effectiveness of the System of Internal Audit	The Chief Internal Auditor to look at how improvements could be made to the briefing of Cabinet Members about internal audit investigations.	Chief Internal Auditor	On 29 May 2014, the Chief Internal Auditor informed the committee that she had discussed the issue with the Chief Executive who would raise it with the Leader of the Council.
A10/14	29/05/14	Completed Internal Audit Reports	The Democratic Services Lead Manager to discuss with IMT the need to consider the Modern Councillor as part of the Modern Worker project and to chase to establish what progress has been made with being able to print from iPads	Democratic Services Lead Manager	IMT has confirmed that the Modern Worker project includes a Modern Councillor dimension. IMT has also confirmed that it is actively assessing two solutions for printing from ipads.
A11/14	29/05/14	Completed Internal Audit Reports	The Finance Manager – Assets & Accounting to prepare a briefing on the GR/IR balance for the Committee's next information bulletin.	Finance Manager – Assets & Accounting	A briefing was included within the July 2014 edition of the Committee bulletin, which is also attached as an appendix to this tracker.
A14/14	29/05/14	2013/14 Annual Governance Statement	The schools place programme to be addressed within the Annual Governance Statement.	Risk and Governance Manager	This was addressed in the final version of the Annual Governance Statement as agreed by Cabinet on 24 June 2014.
A15/14	29/05/14	2013/14 Annual Governance Statement	An emphasis on making physical assets work harder to be set out more strongly under Transparency and Stewardship.	Risk and Governance Manager	This was addressed under Purpose and Outcome in the final version of the Annual Governance Statement as agreed by Cabinet on 24 June 2014.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A16/14	29/05/14	2013/14 Annual Governance Statement	The Minute of the Corporate Parenting Board relating to improvements to the Children in Care Health and Dental Checks to be circulated to the Committee.	Head of Countywide Services	The Minute of the Corporate Parenting Board was circulated by email on 5 June 2014. An addition to the Annual Governance Statement was subsequently agreed between the Chairman and the Chief Internal Auditor. Under *Children in Care Health and Dental Checks*, the sentence 'Further work is required to clear a backlog of health assessments for children placed outside Surrey' was added.

Bulletin

ISSUE: July 2014

Audit & Governance Committee

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Welcome…

Welcome to the Audit & Governance Committee Bulletin.
The purpose of this bulletin is to keep Members and officers up to date with local and national issues relevant to the Audit & Governance Committee.

Contents

Update from previous Audit & Governance Committee meetings

Audit & Governance Committee: Effectiveness Review	At its meeting on 29 May 2014, the Audit & Governance Committee agreed to establish a task group to undertake an effectiveness review for the committee. The task group consists of Nick Harrison, Bill Barker and Tim Hall. The task group has undertaken a number of witness sessions to gather feedback as well as having produced a survey of senior officers and Members. It will use the evidence received to assess the committee according to CIPFA Guidance and will report back in September 2014. As part of this work, the whole committee has also been requested to complete a Knowledge and Skills Survey to enable an effective training programme to be developed.
GR/IR balance	On 29 May 2014, the Finance Manager – Assets & Accounting agreed to prepare a briefing on the GR/IR balance for the Committee bulletin, attached below:

Internal Audit update

Current Audits	The following audits are currently in progress: Apprenticeship Scheme Absence Management Management of CITRIX systems ASC Provider Portal Supply of ASC Equipment Corporate Parenting Board Looked After Children - Personal Monies Bus Operating Contracts Property Asset Management LA Trading Company Governance Arrangements
Staffing	Simon White joined the team on 9 June as the Audit Performance Manager for the Corporate and Environment Team. Simon is CIPFA qualified and joins SCC from LB Richmond where he worked as an Internal Audit Manager. Simon started his career as a CIPFA trainee for SCC and had previously worked on the SCC Internal Audit team as a Lead Auditor. Pascal Barras, a Compliance Auditor on the Internal Audit team, is on a 6 month secondment to Surrey Fire & Rescue Service where he is working on embedding risk management arrangements.
Joint meeting: Audit & Governance Committee and Internal Audit	On 17 June 2014, the Audit & Governance Committee held a meeting with Internal Audit to discuss current work within the team and to engage with officers on how the committee can continue to improve its own effectiveness. The session was very useful for the ongoing Effectiveness Review for the committee. A key action from the session was for the task group to consider whether increased frequency of committee meetings would be the best/preferred option for improving the timeliness of receiving audit reports and for more effective agenda management. It was also suggested that the Chief Internal Auditor consider the need for training of Cabinet Members and Select Committee Chairmen on Internal Audit.

Social Care Debt update

Audit & Governance Committee will receive an update on social care debt, including the findings of the recent audit, at its meeting in July.

Further information

New updated Treasury Management scrutiny tool **7 April 2014**	CIPFA has updated the self-assessment tool to support those undertaking the scrutiny of treasury management.
Contract Management: three questions to ask yourself **16 April 2014**	There is a growing divergence between increased outsourcing of public services and the capability and capacity of the customer to manage outsourced contracts. The evidence is that the quality of client side contract management has not kept pace with increased outsourcing. Just as those responsible for contract management should increase their commercial and wider capabilities, so too must internal audit functions. There is a new article on contract management and internal audit functions on the CIPFA website by Jay Hussain of Moore Stephens.

What does it mean to be a crisis-ready organisation? **23 April 2014**	Most of the work done in the name of crisis management is in fact crisis preparedness. This article looks at how an organization can become 'crisis ready'.
Surrey Choices: the new Local Authority Trading Company update **29 April 2014**	Surrey Choices has now been incorporated as a limited company at Companies House with Simon Laker appointed as the Managing Director. This follows last year's Cabinet agreement to transfer certain Day Care Services from the Adult Social Care Directorate into a Local Authority Trading Company (LATC). The new business will go live in August this year and will involve the transfer across to the new company of c. 310 staff. A small project team is working as part of Surrey Choices to support the transition and set up all the components of the new business. There are three key elements of the project underway: 1. **Business Establishment -** led by Jon Savage This includes establishing Surrey Choices as the receiver of services transferring, setting up systems and operational processes, reporting, contracts, and negotiations on things such as buildings and assets minibuses, IT, office equipment. 2. **Support Services -** led by Brian Smith (Shared Services) This includes all support functions currently being provided to the Services affected at present within Surrey County Council. The team supporting Brian include; • **Property**; Sarah Walker • **Procurement**; Keith Coleman • **Legal**; David Cogdell & Sarah Baker • **Shared Services**; Sadie Lynch & Vicky Starkings • **IMT**; Bron Robinson & Steph MacDonald • **Finance**; Susan Smyth & Mel Evans • **HR**; Anita Bhabuta & Pauline Russell 3**. Transferring Services Readiness -** led by Katharine Macann (Adult Social Care) These activities include staff engagement, mapping current processes, gathering data and activity volumes, and working with the operational teams to identify what aspects of front line services could be done better to help them become more effective in their roles. As well as the three key project areas described above there is also direct engagement between Surrey County Council Finance and Legal colleagues and Surrey Choices to ensure that due diligence is undertaken on both financial and contractual matters. You can find further information here.
FRC's work to enhance justifiable confidence in audit **28 April 2014**	The Financial Reporting Council (FRC) has set out its work to give justifiable confidence in the quality of audit. The programme has been developed, in part, in response to a survey commissioned by the FRC, which benchmarked the views of key audit stakeholders undertaken in 2013. The FRC will focus on the expansion of its audit inspection work and will also develop best practice guidance for audit committees on assessing audit quality. The survey found that auditors and companies are generally confident in the value of audit. However, the largest proportion of stakeholders, and in particular many

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	investors, call for more change including more transparency in auditor reporting and a more open and competitive appointment process to help improve their confidence in the independence of auditors and the transparency of their audit conclusions.
MPs highlight poor financial management in Free Schools **9 May 2014**	The Public Accounts Committee (PAC) has published the 'Establishing free schools' report, in which it has warned the standards of financial management and governance in some free schools are a cause for concern. The Public Accounts Committee has urged both the Department for Education and the Education Funding Agency to improve the audit and accountability arrangements of free schools to ensure taxpayers' money was being used correctly. The committee also suggested tighter management capital costs were needed, and urged the Department for Education to work with local authorities to identify appropriate sites and help ensure land costs are not inflated.
CIPFA Consults on New Counter Fraud Code **14 May 2014**	The consultation was announced by CIPFA Chief Executive Rob Whiteman at CIPFA's Audit Conference. The voluntary CIPFA Code of Practice on Managing the Risk of Fraud and Corruption will form a statement of high level principles that sets out counter fraud good practice across the public sector. The code will build on CIPFA's current guidance, Managing the Risk of Fraud, commonly known as the 'Red Book', and with supporting guidance will replace this existing recommended practice. Details of the Code are available on the CIPFA website, together with a response form for the consultation. The consultation closes on 18 July. For more information visit: http://www.cipfa.org/policy-and-guidance/consultations
Assurance: Conscious Governance **14 May 2014**	"The conclusions of studies on corporate failures have been consistent but, unfortunately, so has the failure to learn from these. It's time to rethink assurance in the governance process." An article on assurance as part of good governance.
Grant Thornton wins CIPFA Cliff Nicholson Award **15 May 2014**	Grant Thornton Manchester received the award for its work focusing on the closedown and audit of local authority final accounts. Working with Oldham, they successfully brought forward the date of the audit opinion by a month each year, culminating in an audit opinion date for the 2012/13 accounts of 31 May 2013 – the earliest opinion for any local government body in England. The judges also awarded highly commended status to two further entries: the internal audit team at Jephson Housing Association Group and also the West Midlands Assurance Service. The awards were presented at the CIPFA Audit Conference by the CIPFA President.
FRC publishes Audit Quality Inspections Annual Report 2013/14 **28 May 2014**	The Financial Reporting Council (FRC) has published its 10th annual report on its inspections of audit quality in the UK and individual reports on each of the four largest firms. The quality of auditing in the UK is generally good, 60 per cent of audits were good or required only limited improvements, maintaining the significant improvements observed last year. However quality is not consistent across all audit firms and types of company. 15 per cent of all audits inspected required significant improvements.

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Audit Commission – National Fraud Initiative: Annual Report June 2014 **12 June 2014**	The Audit Commission has published the latest National Fraud Initiative (NFI) report: National Fraud Initiative: National Report – June 2014. The NFI has helped to identify £1.17 billion worth of fraud, overpayment or error across UK public bodies since it began 18 years ago. NFI data matching is carried out continuously, and the Audit Commission reports results every two years. Since the last report in May 2012 the scheme has identified a further £229 million of fraud, overpayment or error in England, Scotland, Wales and Northern Ireland. The total value of cases of fraud, overpayment or error identified by the NFI is lower, than last year, albeit the number of cases rose by 19.4 per cent over the same period. The Commission believes this potentially indicates that participants are increasingly effective at the early detection of fraud, overpayment and error. This will have been helped by the Commission's introduction of a new service, NFI Flexible Data Matching, which has made it possible for participants to undertake data matching at any time.
Oversight of three PFI waste projects **17 June 2014**	The National Audit Office has published a report on oversight of three local authority PFI waste contracts by the Department for Environment, Food and Rural Affairs. The three contracts were entered into by Surrey County Council, by Norfolk County Council and, jointly, by Herefordshire Council and Worcestershire County Council.
Local Audit Regulations **19 June 2014**	In August 2010, the Secretary of State for Communities and Local Government announced plans for new arrangements to audit local public bodies in England. Since then the government has consulted widely and worked with a range of partners to develop and refine our proposals. In January 2014, the Local Audit and Accountability Act received Royal Assent. This secondary legislation is needed to give effect to the new local audit arrangements. This consultation seeks the views of all bodies affected by these arrangements and any other interested parties about the content of a large part of the proposed secondary legislation. The consultation, which began on 20 June runs for a period of 4 weeks, with responses invited by 18 July 2014.

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Updates from other Committees

Listed below are a number of committee reports that may be of interest to the Committee, as they cross into the Committee's remit or they relate to matters recently discussed at Audit & Governance Committee, or that the Committee have shown an interest in:

Cabinet	At its meeting on 27 May 2014, the Cabinet considered the following reports: • Year End Financial Budget Outturn 2013/14 • Establishment of a Property Company At its meeting on 24 June 2014, the Cabinet considered the following reports: • Annual Governance Statement 2013/14 • Leadership Risk Register • Budget Monitoring Report for May 2014 At her meeting on 14 May 2014, the Cabinet Member for Community Services considered the following report: • Surrey Fire and Rescue Service Statement of Assurance 2013-14 At his meeting on 20 May 2014, the Leader of the Council considered the following report: • Funding and Delivering Infrastructure in Partnership: Memorandum of Understanding between Elmbridge Borough Council and Surrey County Council
Council Overview & Scrutiny Committee	At its meeting on 30 April 2014, the Council Overview & Scrutiny Committee considered the following reports: • Internal Audit: Review of Appraisals 2013/14 • Flash Outturn Report for 2013/14 and Proposed Carry Forward Requests to 2014/15 At its meeting on 4 June 2014, the Council Overview & Scrutiny Committee considered the following report: • Year End Financial Budget Outturn 2013/14
Adult Social Care Select Committee	At its meeting on 1 May 2014, Adult Social Care Select Committee considered the following reports: • Budget Update • Surrey Choices- Update At its meeting on 26 June 2014, Adult Social Care Select Committee considered the following reports: • Budget Update
Surrey Pension Fund Board	At its meeting on 15 May 2014, Surrey Pension Fund Board considered the following reports: • Manager Issues and Investment Performance • Private Equity Investment Performance Review • Pension Fund Business Plan 2013/14: Outturn Report and Final 2014/15 Plan • Actuarial Valuation 2013: Outcome • Pension Fund Risk Register • Revised Statement of Investment Principles • Key Performance Indicators • Pension Fund Administration Service Level Agreement • Corporate Governance Share Voting • LGPS Reform: Opportunities for Collaboration, Cost Savings and Efficiencies • National Changes to the LGPS • Investment Strategy Review • Standard Life GFS Fund

Upcoming

The next meeting of the Audit & Governance Committee is on 31 July 2014. The following items are on the agenda:

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- 2013/14 Surrey County Council Accounts and External Audit's Audit Findings Report
- Surrey Pension Fund Local Government Pension Scheme Accounts 2013/14 and External Audit Annual Governance Report
- Annual Report of Surrey County Council
- Treasury Management Annual Report
- Leadership Risk Register
- Completed Internal Audit Reports
- Social Care Debt

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SURREY COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE
31 July 2014

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 May 2014 - 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 12 audit reports issued since the last report to this Committee in May 2014. 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	AIS Assessment Process	Effective	0
2	Community Homes and Short Break Respite Care.	Effective	0
3	Special Schools - Funding for Residential Provision	Some Improvement Needed	0
4	Accounts Payable	Effective	0
5	Operation Horizon	Some Improvement Needed	1
6	Social Care Debt	Some Improvement Needed	1

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7	Accounts Receivable	Effective	0
8	Review of Capital Expenditure Monitoring	Some Improvement Needed	0
9	Project Management follow-up	None [position statement]	0
10	UNiCORN	Some Improvement Needed	2
11	Superfast Broadband	Some Improvement Needed	0
12	Surrey Arts	Significant Improvement Needed	3

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 last Completed Audit Reports item was presented to the Council Overview and Scrutiny Committee Performance and Finance Sub-Group on 2 June 2014. Four of the audits listed (items 1-4 in the table above) were included in that report.

IMPLICATIONS:

8 Financial
Equalities
Risk management and value for money

9 There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report, would be progressed through the agreed Internal Audit Reporting and Escalation Policy

WHAT HAPPENS NEXT:

10 See Recommendations above.

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor, Policy and Performance

CONTACT DETAILS: telephone: 020 8541 9190 e-mail sue.lewry-jones@surreycc.gov.uk,

Sources/background papers: Final audit reports and agreed management action plans

Completed Audit Reports (May-July 2014)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
AIS Assessment Process	Adults Information System (AIS) is the software used to manage adult social care in Surrey. It records service users' needs assessments, subsequent packages and provides core management information.	Independent audit research found higher proportions of negative responses than indicated in the responses collected by the RIE. The Auditor attributes this to the small sample size of the independent research, the questions asked, the fact that this was a response to Internal Audit and the methodology employed. Despite this the research is still an indication that there are practitioners who still hold very negative views of AIS contrary to the research conducted by ASC. The Auditor found assessments an area that is subject to continual change. Shifting values in areas where support may be required, changing means of provision, greater consideration of carers or social capital and technological advancements have all contributed to the complexity and continual change of social care assessments. The pace of change is likely to continue as developments regarding the convergence of health/social care and further technology require adaptations to the process.	Effective	ASC should seek the support of colleagues in the Policy and Performance team to provide advice regarding the nature of gathering data via survey, interview or group work to maximise the likelihood of data collected reflecting the genuine situation. **(L)** The Auditor advocates an approach of continual improvement, listening and developing the process accordingly (as employed in the RIE) rather than believing that there is a single, perfect solution. **(L)** Social Care Assessments should be continually monitored and periodic data regarding staff/service user satisfaction is gathered to inform continual improvement of the process. **(L)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Review of Community Homes and Short Break Respite Care	Surrey County Council owns and operates seven residential community homes and two respite homes. The review focussed on providing a cost and quality comparison of Surrey's community homes and - where possible - against national data. This review combined two audits: Community Homes and Homes for Children with Disabilities.	Spending per placement varies widely by local authority, the national average spend of an in-house placement per child per week is £4,135 compared to Surrey's spend per placement of £3,040. While Surrey in-house placement cost is therefore lower than the national average, Surrey placements are approximately 15% higher than comparable authorities The percentage of looked after children placed outside the council boundary and more than 20 miles from where they use to live is 21.4% compared to the national average of 30%, and 16.7% average for the comparable authorities. This indicates Surrey County Council is where possible placing children locally The council's 7 in-house residential homes can accommodate up to 40 children. Target occupancy is set at 90% of the total available beds; trend analysis indicates falling occupancy since August 2013. Ofsted inspections collect evidence based on observations by inspectors and what they learn from the people using the service. It is unclear if the service conducts their own customer experience evaluations.	Effective	The service ensures the usage of in-house placements is regularly monitored for compliance with the placement strategy and excess capacity remains within tolerated limits. **(L)** The service conducts, at regular intervals, customer experience evaluations of Surrey's community homes. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Special Schools – Funding for residential provision	Most children with Special Educational Needs (SEN) attend mainstream schools but some children, with the most severe and complex needs require the specialised teaching and educational aids available in special schools and classes. In 2012 Internal Audit reviewed the usage of residential provision at a sample of 23 Surrey maintained special schools, including the number of placements and funding formula at each institution. This audit was a follow-up review to assess how effectively agreed recommendations had been implemented.	Central government arrangements for schools have changed since the time of the last audit, with funding now based on actual usage. To ensure accurate funding levels, SCC collects occupancy data from schools on a monthly basis, with budgets being updated at the end of each term. The SEN Strategy has not been updated since 2010, and a disconnect exists between Schools and Learning Service's stated strategic objectives and the delivery of residential provision. However, a consultant has been appointed to undertake a wide-ranging remodelling of SCC's residential (maintained) school provision. Testing revealed that all schools have sufficient capacity to offer residential places for which they are funded, and that their reported occupancy is supported by documented attendance records.	Some Improvement Needed	Schools and Learning Service should consider explicitly referencing the review proposals against Internal Audit findings to ensure risks of not being able to commission a coherent and cost-effective residential service are fully addressed. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Accounts Payable	Surrey County Council makes regular payments to suppliers for the goods and services procured. The end-to-end process within the Procurement function includes the Accounts Payable stage, when payments are made to these suppliers. These payments are processed through the Council's financial ledger system (SAP).	The routing of invoices is meant to be direct from supplier to the Shared Services Centre. Sometimes suppliers send invoices to Service Departments and sometimes this generates duplicate invoices and the risk of duplicate payments. A new system interface produced a small number of payments which paid the supplier twice for specific activities. These were promptly identified and the amounts recovered.	Effective	Further consideration should be given to discussing with both Services and suppliers the benefits of sending invoices directly to Shared Services. In some cases, reports may need to be issued to those Services which that are not complying with Procurement Standing Orders in respect of this requirement.**(M)** Where new systems are developed, checks should be made to confirm that data is passed appropriately between systems. This should include the total value and volume of transactions, but also some detail checks on a sample of the transactions. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Operation Horizon	In 2011 Project Horizon was launched in partnership with Surrey Highways and May Gurney, to investigate radical options to address the historic backlog and improve overall road condition without the need for a £200m funding investment. In January 2013 the Environment & Transport Select Committee was advised of the intention to seek approval to adopt a new five year investment plan. Operation Horizon's primary aim is to reduce critical (red) rated roads by improving their condition at a rate of 100km p.a. rather than the existing rate of 60km p.a. Cost savings are to be achieved by longer term planning, new materials, improved road design and waste management.	The target of 100km of roads being replaced has been achieved during the first year of Operation Horizon, with 131km completed in total. The budget outturn for Year 1 of Operation Horizon is expected to be £31m (a 55% increase) due to more expensive to repair roads selected. Budget constraints could result in work that is planned in later years not being completed. The 12% discount on Kier MG invoices is not recovered on a monthly basis as required by the contract. It was unclear how the 10 year warranty for Superflex (used in 18 schemes) is agreed and recorded. SCC should always be entitled to the volume discount agreed on the schedule of rates but Kier MG disagree in respect of specialist orders being placed by the Integrated Team. This should be clarified. Parked cars causing obstruction to planned road works are relocated, with information to assist the car owners to recover their vehicle posted on RoadZone. Communication between the Roadwork's Desk and the Contact Centre would benefit from an agreed protocol.	Some Improvement needed.	Budgets and the five year forecasts must continue to be tightly controlled to ensure the programme is completed as planned. **(M)** A process should be put in place for monthly payment of discounts due with the outstanding balance recovered from Kier MG immediately. **(H)** Information on warranty conditions being met should be captured to ensure warranties can be invoked when necessary. Warranties should be stored securely, be easily retrievable and enforced during their 10 year life. **(M)** All discounts defined in the discount schedule should be reviewed to clarify where the risk falls in each case and the liabilities of all parties. **(M)** Introduce an agreed protocol between the Roadwork's Desk and the Contact Centre for relocated vehicle information in RoadZone to enable efficient responses to the public. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Social Care Debt	The council is required to charge individuals who receive residential or nursing home care; and it has the power to charge for non-residential services. Social care debt is managed by multiple teams from Adult Social Care (ASC), Shared Services, Finance, and Legal & Democratic Services. The recovery of social care debt differs from other types of debt due to the council's statutory duty to meet individuals' care and support needs. As such, services cannot be withdrawn on the basis of non-payment.	During 2013/14 the level of social care debt decreased by £1.44m. This includes £0.73m of debt written-off, which reduces council income but creates a more accurate picture of collectible debt. New processes introduced in 2013/14 should ensure debts do not remain inactive for long periods. Improvements in recovery of aged debt and dunning block practices are evident. Direct debit continues to be promoted as the preferred payment method. However, the proportion of invoices paid by direct debit (64%) appears to have reached a plateau. Working relationships between teams need strengthening to ensure debts are effectively managed in a consistent and cohesive manner. Imminent changes to charging included in the Care Bill present an emerging risk to the management of social care debt.	Some Improvement Needed	All teams must make key information available in a timely manner. **(H)** Alternative ways to promote direct debits should be investigated, including: creating an incentive to pay by direct debit; engaging a community partner to assist and advise individuals; and discussing direct debit performance with other local authorities. **(M)** ASC management should consider incorporating a discussion about the impact of changing payment methods into care reviews. **(M)** Managers from each of the teams involved in the management of social care debt should consider implementing a Service Level Agreement between themselves. **(M)** Shared Services should review how they are addressing upcoming changes to charging in relation to the Care Bill. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Accounts Receivable	Surrey County Council provides a number of care and non-care services to its residents, other individuals and organisations. 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 is charged to the recipient of the service/s by raising invoices on a regular basis.	Audit testing of the Accounts Receivable system did not highlight any concerns for management. Monitoring and reporting of the levels of debt appears to be functioning satisfactorily and a review of a sample of accounts showed them to have been raised in both an accurate and timely manner. Excessive costs are incurred generating invoices for services of low value that could have been paid for at point of provision.	Effective	Management should consider repeating the process of informing service users of the financial benefits of collecting very low value payments at the point of provision rather than generating invoices, each of which has an associated cost to raise.**(L)** Management should consider using data from SAP to identify where the majority of low value invoices are generated and consider providing specific guidance/support to those areas.**(L)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Review of Capital Expenditure Monitoring	Surrey County Council's capital programme is integral to delivering services to residents. The Council approved a capital budget of £187.3m for 2013/14, which formed part of the Council's five year Medium Term Financial Plan (MTFP) for capital expenditure of £699m.	There is adequate scrutiny of capital expenditure by officer groups at senior management level (Investment Panel (IP) & the Capital Working Group (CWG) and at Member level (Cabinet). Business cases for capital projects are reviewed by the IP to confirm robustness. IP requests additional information to validate the robustness which may result in projects being delayed. The Terms of Reference for the CWG has remained in draft form since 2012. The minutes of the CWG provides inadequate details and includes numerous undefined abbreviations. High-level monthly budget monitoring reports are presented to the Cabinet for review and approval. The forecast under spend at year-end was £38.6m, of which £35.8m was to be requested to be carried forward to 2014/15. In addition, £40.3m was forecast to be spent on long-term investments on property purchases which is not part of the planned mainstream capital programme resulting in the net over spend of £1.7m as reported in February 2014.	Some Improvement Needed	Services along with their service accountants should provide all the relevant information for each capital project in sufficient detail to enable the Panel to review and confirm robustness of the business case without unnecessary delay **(M)** The ToR for the CWG should be adopted as soon as possible **(M)** Detailed minutes should be maintained in the interest of transparency. Sensitive items in the minutes should be marked 'Restricted' and kept securely but made available as and when required **(L)** The budget holders of capital projects in services should allocate realistic timescales as far as is practical and with the full understanding of the implications of delays **(M)** The full year forecasts should be more transparent & show the monthly fluctuations for each project. This should address IP's concerns raised on budgets allocated to projects in 2014/15 **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Project Management follow-up	On 24 June 2013 the Audit and Governance Committee received the Annual Governance Statement (AGS) for 2012/13. Within its assessment of the Internal Control Environment, the AGS concluded that Project Management was an area requiring improvement, specifically to emphasise the importance of stakeholder engagement; robust business cases with a strong financial rationale; and proper tracking of envisaged benefits to ensure their realisation. A follow-up review was undertaken to assess the position in 2013/14.	There was a limited amount of corporate information available detailing the extent of projects being run within the council in terms of their objectives, costs, progress and relationship to corporate objectives. The term 'project' is used loosely within the council to cover many different types of work, which complicates identifying how many projects exist. For a sample of projects examined in detail, there was no single method of project management employed by the respective Project Managers and although a 'one size fits all' project management approach may not always be appropriate, the variety of methods employed does not allow for consistency or comparison. The Auditor found no direct evidence that an increased focus on strong project management had been implemented council-wide since the findings reported in the 2012/13 AGS.	None [Position Statement]	The Strategic Director for Business Services has agreed that the developing Network Leadership Model should drive good practice and provide support to project managers across the authority to draw upon.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
UNiCORN	Project UNiCORN is a Surrey County Council (SCC) lead procurement venture for the provision of voice, data and technology services from British Telecoms. The potential value of the contract for the supplier when all partners are on boarded is estimated to be in the region of £120 million.	By using competitive tendering, seeking a supplier for the medium to long term (5-12 years) and having a scales of economy mechanism UNiCORN is designed to deliver the saving required by Medium Term Finance Plan (MTFP) for connectivity infrastructure. The estimated overall saving in the business case for year 1 was £500,000. UNiCORN has enabled an actual revenue budget reduction of £1.3M in that first year. The audit review indicates that this is a high risk area both in terms of value as well as the degree to which the supplier must be managed. All evidence indicates that this management is occurring to a satisfactory level. Recommendations are in regards to business continuity and structured business process methodology.	Some Improvement Needed	In light of the timescales indicated in the contract for acknowledging and formalising change requests and the failing of the supplier to achieve those targets, the auditor recommends that a time frame, such as six months or less is agreed to allow for this process to develop. After which if the change process has not aligned with the Contract KPIs senior management formally challenge the supplier to improve. **(H)** Issues with the supplier should be captured in an issues log, possibly supported with a key communications log. This will aid in issue escalation and monitoring. **(H)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Superfast Broadband	The Surrey Superfast Broadband programme is on course to deliver in line with the contract agreed between BT and SCC. SCC's original aspirations of delivering nearly 100% Superfast Broadband coverage across the County will probably not be achieved during the life of the current programme due to complete at the end of 2014 because of some potential challenges on BT's ambitious commercial programme in the 80% of the Surrey not covered by the Superfast Surrey programme.	As yet, there has been no Surrey specific assessment of the economic impact of the Authority's investment in Superfast Broadband, or a Value for Money assessment comparing SCC's investment in its Intervention Area to that offered by other local authorities to their residents. Those residents in the Intervention Area where a fibre solution was not initially modelled may be the last to receive any service improvement. SCC may lose the opportunity to develop innovation in community participation and alternative technology solutions. Commercially sensitive data has been stored on the Cloud shared space which is not subject to the full rigor of the access controls over SCC IT storage.	Some Improvement Needed	The Investment Panel should help ensure that there is some form of post project appraisal of the investment in terms of how much economic impact the project had and whether SCC's offer provided particularly good value for money by broad benchmarking of what was achieved elsewhere for various budgets**. (M)** The SFS Delivery Manager should re-engage resources around developing innovative village broadband inclusion schemes that can be rolled out alongside anything that BT may be able to offer. **(M)** The Delivery Manager should ensure that all sensitive data is only held on the SCC IT network. Discussions should be held with the IMT Security Manger as to any non-standard use of IMT within the team to ensure that SCC staff continue to observe any core IT security standards during innovation. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Surrey Arts	In August 2013 Surrey Arts consolidated its operations at a new facility in Guildford. The move has allowed it to bring together in one location its extensive holding of musical instruments and costumes, which represent an important revenue stream. In order to identify both areas of good practice, opportunities for improvement, and maximise the potential benefits of being located in a new facility, the Head of Cultural Services asked Internal Audit to review asset management.	Recent acquisitions of instruments have been funded through a grant from central government to support national initiatives promoting music lessons in schools. Changes to these initiatives, however, has created a misalignment between stock holding and demand from hiring schools. The Service does not have an articulated approach to generating revenue from the hire of instruments. Records of stock are at present incomplete, though the introduction of a new music tuition management system offers the opportunity to create a comprehensive database. Schools and individuals who hire instruments are required to sign an agreement which stipulates that they are responsible for loss or damage while it is in their possession. The auditor could not locate five signed agreements from a sample of 31 documents (16%). The Service does not have an asset disposal policy.	Significant Improvement Needed	Surrey Arts should consider creating an asset management strategy which effectively joins up all activities related to the acquisition, monitoring, maintenance and disposal of its musical instrument stock. **(H)** Surrey Arts should consider creating an articulated income strategy which details future plans for using its assets to generate revenue. **(H)** Surrey Arts should strongly consider prioritising the creation of a comprehensive database of its instrument stock. **(H)** The Service should review its records management arrangements to ensure that all signed hire agreements are safely kept until the instrument is returned. **(M)** Surrey Arts should consider articulating an asset disposal policy which details how value from unwanted instruments can be reclaimed. **(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.
Significant 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

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SURREY
COUNTY COUNCIL

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Audit & Governance Committee
31 July 2014

Social Care Debt

Purpose of the report:

The Committee has requested a progress report with particular emphasis on the proportion of payments made by direct debit.

Recommendations:

It is recommended that:

1. The Committee consider the debt position for Adult Social Care services.

Introduction:

2. The Committee has previously taken an interest in the level of social care debt (which is regularly monitored by the ASC Select Committee) and has now requested a progress report with particular emphasis on the proportion of payments made by direct debit and an explanation of the Deputyship Team's work. This report can be read in conjunction with the internal audit report also on this agenda.

Use of direct debits

3. Current methods of paying for social care can be summarised as follows:

Current Payment methods	
Direct debit	65%
Online	6%
Posted to County Hall	9%
Processed via bank	20%

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It is the Council's policy to encourage maximum possible use of direct debit as a means of payment, and there is currently a target of achieving 65% by this means for ASC clients. Progress has been good in recent years, but it is proving hard to increase the current rate: the mid year proportion of payments collected by direct debit has been 52% (2010) – 59% (2011) – 64% (2012) – 64% (2013) and is now at 65%.

4. Shared services send a direct debit promotion at least twice a year to all customers who do not currently pay by direct debit and this usually attracts an additional 70 customers each time. Shared service helpdesk have been speaking to customers who pay over the phone and explaining the benefits of DD. This approach started in January 2014 and is an ongoing promotion exercise. 7

5. Only 22% would consider changing to DD the other 78% have various reasons for not wanting to use DD, the reasons can be summarised as follows:

Shared Service Helpdesk survey of customers requesting mediated online payments Jan - April 14		
Customer sent DD instruction	48	22%
Wrong amounts billed	2	
Wish to control own spend	126	
Problems with previous DD	6	
End of service	20	
Funds not available on due date	15	78%
	217	

That suggests that the dominant issue among the 35% not using direct debit is clients' desire for full control of their payment timings, which is not easy to tackle.

6. During the new face to face assessment meetings with the FAB teams customers are encouraged to pay by direct debit, this started in November 2013 and as a result there was an increase of new mandates in November and February.

7. Charges are collected from some 4,400 customers each month. The average monthly volume of new direct debit instructions for care services is 100 with an average of 75 cancellations, usually because the service has ceased. That is sufficient to maintain the proportion paying by direct debit as client numbers increase, but not to drive a significant increase.

Level of Debt

8. During the 2013/14 financial year there was a 9% (£1.44m) reduction in the overall balance of social care debt. This decrease was distributed across both secured and unsecured debt, as shown in the table below.

	April 2013	March 2014	Trend
Secured debt	£7.30m	£6.33m	-13.3%
Unsecured debt	£7.59m	£7.07m	-6.9%
Total debt including credit balances	£14.89m	£13.40m	-10%
Total debt excluding credit balances	**£15.50m**	**£14.06m**	**-9%**

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Some £0.3m of this £1.4m positive trend can be attributed to an increased level of write-off in 2013/14:

- 2011/12 - £0.37m
- 2012/13 - £0.45m
- 2013/14 - £0.73m

9. Annex A provides more detail on the relevant issues, and illustrates the reporting in place to the Adult Social Care Select Committee. 2014/15 has started positively, as set out in Annex B, with total debt including credit balances of £13.26m at the end of May.

The Deputyship Team

10. There has been an increase in the amount of debt managed by the Deputyship Team in 2013/14 in line with an increase in case work. The Deputyship Team applies to the Court of Protection (or in some cases the Department of Work and Pensions) for the Council to manage the finances of people who are deemed to lack the capacity to manage their own financial affairs (where there is no other suitable and willing person able to do so). In some circumstances, depending on the person's assets, the Council's application to the Court requests the appointment of a solicitor from the Office of Public Guardian's approved panel of solicitors.

11. The Court application process takes around 4 to 6 months depending on whether the matter is straightforward, after which the Deputy can begin to verify the assets of the person and obtain control of any bank accounts etc.

12. In March 2013, the amount of debt managed by the team was £0.63m in respect of 57 cases where an application to the Court was deemed necessary. The amount of debt managed by the team increased to £1.41m in March 2014 in respect of 112 accounts, though by April 2014 the debt on these accounts had reduced by £300k to £1.1m. £200k of the £1.1m is secured with legal charges against property. At the point of referral to the Deputyship Team a significant debt has often accrued contributing to the large sum managed by the team.

13. The Deputyship Team arrange to pay ongoing charges by Direct Debit where finances are stable. Where there is an outstanding debt on a case it is either because there is no legal authority in place to deal with the person's finances, the finances and liabilities have not yet been verified or in a small number of cases, the assets have been depleted by a third party.

14. In addition to the above cases, the team manage the finances of a further 318 people under corporate appointeeship, i.e. appointed by the Department of Work and Pensions to manage state benefits only.

15. There is no obvious reason why the volume of referrals to the Deputyship Team has increased, though raising awareness of the services provided by the team has undoubtedly had some impact. There is a continuing trend for transfers to the team, for example 35 cases are in the process of being transferred from Advocacy in Action, a charity organisation in Dorking that will cease operating later this year. 7

Conclusions

16. Although it is proving difficult to substantially increase direct debit payment, debt collection trends were positive in 2013-14. The Adult Social Care Select Committee report from March 2014 gives broader details, including of the changes made in late 2013-14, which it is hoped will further improve the position. The early signs are positive in 2014-15.

Financial and value for money implications

17. None unless particular change proposals are made.

Equalities and Diversity Implications

18. The charging regime stems from Government rules, for which Equality Impacts are assessed at a national level.

Risk Management Implications

19. This report makes no substantive recommendations, so any assessment of risk will stem from any proposals made by the Committee.

Next steps:

20. Adult Social Care Select Committee will continue to monitor the level of social care debt.

Report contact: Paul Carey-Kent, Strategic Finance Manager

Contact details: 020 8541 8536

Sources/background papers: March report to ASC Select Committee (Annex A)

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SURREY
COUNTY COUNCIL

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Adult Social Care Select Committee
6 March 2014

Income / Debt Update Report

Purpose of the report: Scrutiny of income and outstanding debts.

Introduction:

1. This is the second of the six-monthly reports to the Committee on income and debt for ASC. Members will recall that the August report set out a good deal of background on the context for the assessment, billing and collection of charges for Adult Social Care services, longer term trends, and the main outcomes from the recent Rapid Improvement Event as well as incorporating the comments of the 'owners' of the main component elements of the system on the current position, ie Toni Carney (ASC Financial Assessment and Benefits team – benefit maximization and assessment of means / income due), Jackie Knutton (Shared Service Centre – billing and income collection) and Jacky Edwards (Legal & Democratic Services – legal recovery action) and Paul Carey-Kent (Finance – process owner).

This report updates the position and commentaries without revisiting the background in full. It facilitates comparison with the positions for April (as it was the start of the year) and July (because these were the figures previously reported to the Committee). In addition:

Appendix 1 sets out progress against the Management Action Plan which was agreed following an Internal Audit report into the subsidiary matter of ensuring that appropriate action is taken where, due to payment in advance for service not received, the Council owes money to service users or their representatives / estates. One recommendation from that was that both the net and gross debt position should be reported to this Committee, and that has been incorporated into the tables presented.

Appendix 2 sets out the most up-to-date benchmarking data available to show how debt collection compares with that of other authorities. No areas emerge as having worse-than-average performance, and most are better than that.

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Current Debt Summary:

1. The below table summarises the current debt position as at 31 July 2013.

* N/A for April

Debt > 1 Month		Note:		Apr-13	Jul-13	Jan-14
£ million						
		1	**Secured**	**7.3**	**6.87**	**6.68**
		2*	**Unsecured (no specific reason identified)**	3.06	2.81	2.23
	a	2a	Under query	1.24	0.71	0.46
	b	2b	Query resolved, requiring adjustment	0.01	0.11	0.03
	c	2c	Probate*		0.33	0.29
	d	2d	Installments	0.36	0.44	0.33
	e	2e	Deferred payment applications	0.35	0.22	0.31
			Charging orders		0.23	
		2f_1	External CoP / Deputyship*			0.34
	g	2g*	**Total unsecured debt subject to a recovery 'block'**	**1.96**	**2.04**	**1.75**
		3	Legal	1.87	1.98	1.91
		4*	ASC Deputyship	0.7	0.90	1.45
			Unsecured debt outstanding	**7.59**	**7.73**	**7.34**
			Total	**14.89**	**14.60**	**14.02**
Charges posted		5	Charges posted in month - not yet due	2.72	2.66	2.90
Total debt		6	Total debt including charges posted in month	17.61	17.26	16.92
			Gross debt accounting credit balances	18.22	17.86	17.42
		6a	Total live credit balances	-0.53	-0.53	-0.43
			Total deceased credit balances	-0.08	-0.07	-0.07
% collected		7	% received of amount billed (12 mth avg)	96%	96%	100%
DD collections		8	% pymts collected by DD	64%	63%	63%
Legal		9	Number of cases referred - in month	1	2	2
Referrals			Total Number - to date	185	193	207
		10	Value of debt at date referred - in month	0.16	0.15	0.04
			Total Value - to date	5.1	5.42	5.6

Current	11	Number of 'open' cases	56	59	65
Legal Cases	12	Current value of 'open' cases	1.96	1.98	1.96

Legal Recovery	13a	Number of cases resulting in recovery	86	89	95
	13b	Value of debt collected	2.48	2.54	2.83
	13c	Value of debt secured by charging order	0.16	0.16	0.18
	13d	Value of debt due by instalments	0.04	0.05	0.02
	13e	Value of debt no longer in dispute	0.44	0.39	0.44
	13f	Overall value of legal recovery action	3.12	3.15	3.47
	13g	Legal costs / expenses (external)	-0.16	-0.19	-0.19
	13h	Net recovery - Legal cases	2.96	2.96	3.28

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Write-Offs	14	Number of cases		25	41
	15	Value of debt		0.03	0.1

*	**Unsecured debt not subject to Legal action**			
2*	Unsecured (no specific reason identified)	3.06	2.81	2.23
2g*	Total unsecured debt subject to a recovery 'block'	1.96	2.04	1.75
4*	ASC Deputyship	0.7	0.90	1.45
	Total Unsecured debt not subject to Legal action	**5.72**	**5.75**	**5.43**

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Explanatory Notes:

1	Secured Debt: current value of debt secured against property and payable upon a future event
	Secured debt: section 55 Deferred Payment Agreement / Legal Charge - payable 56 days after death
	Secured debt: section 22 Imposed Legal Charge for failure to pay charges - payable on disposal of property
2*	Unsecured debt: value of outstanding debt that is not secured against property
2a	Unsecured debt: a query / complaint has been raised by the debtor
2b	Unsecured debt: a query / complaint has been resolved and account requires adjustment
2c	Unsecured debt: deceased case awaiting grant of probate to resolve
2d	Unsecured debt: payment of arrears by instalments has been agreed
2e	Unsecured debt: debtor has applied for a deferred payment agreement
2f	Unsecured debt: a charging order has been applied to property following litigation
2g*	Unsecured debt: Total: where a reason for non-payment is recorded and dunning suspended
3	Current value of cases referred to Legal Services for formal recovery action
4*	Current value of cases referred to the Deputyship Team to investigate and where possible put appropriate arrangements in place to manage the finances of persons who lack mental capacity
5	Total value of care charges raised in the last month. These charges become due after 30 days
6	Total value of debt owed to Surrey County Council.
7	Debt paid as a proportion of charges raised (NB proportion will be lower than 100% as charges include secured debt)
8	Proportion of charges collected by direct debit
9	Number of cases referred to Legal Services for recovery - IM: in month; YTD: year to date; TTD: total to date
10	Value of cases referred to Legal Services for recovery - IM: in month; YTD: year to date; TTD: total to date
11	Number of current and 'open' legal cases being pursued
12	Value of current and 'open' legal cases being pursued
13a	Number of Legal cases where debt has been recovered - IM: in month; YTD: year to date; TTD: total to date
13b	Value of debt recovered from Legal cases - IM: in month; YTD: year to date; TTD: total to date
13c	Value of debt secured by charging order / legal charge (Legal cases) - TTD: total to date
13d	Value of debt agreed to be paid by instalments from (Legal cases) - TTD: total to date
13e	Value of debt no longer 'in dispute' and payment awaiting specific event - e.g probate / sale of property - TTD: total to date
13f	Gross value of legal recovery action taken - TTD: total to date
13g	Legal costs / expenses incurred in Legal recovery action (NB net figure - ie it takes account of costs recovered) - TTD: total to date
13h	Net value of Legal recovery action
14	Number of cases approved for write-off in month
15	Aggregate value of write-offs approved in month
15a	Value of write-offs: debtor bankrupt / insolvent / no means to pay
15b	Value of write-offs: debtor deceased and insufficient funds in the estate to meet the debt
15c	Value of write-offs: debtor absconded and cannot be traced
15d	Value of write-offs: uneconomical to pursue the debt further
15e	Value of write-offs: evidence is inconclusive and legal recommends write-off
15f	Value of write-offs: compromise settlement reached; balance to write-off

2. Update on the outcomes from the Rapid Improvement Event

The rapid improvement event held in June 2013 looked at the end-to-end process from the initial financial discussion to the collection of the debt. One significant outcome of the RIE was the transfer of responsibility for the ‘paying for care conversation’ from care practitioners to the Financial Assessment and Benefit [FAB] Advisers. The new process was piloted in September and rolled out county wide from 25 November 2013.

As at 6 February 2014, the FAB Teams had received more than 1,400 referrals. This figure is almost 45% higher than the RIE figures suggested. In part this unexpected volume may be a consequence of the new Surrey Referral and Assessment process [SRA] that was also rolled out in November and has improved the throughput of assessments. We are closely monitoring referral volumes to establish whether the numbers will remain high in the longer term and determine whether to streamline the process or consider the level of resources in FAB. 7

It is too soon to fully determine the success of the new process. However, the indications are extremely positive and the following paragraphs show the progress to date against the desired outcomes from the review of the front end of the process.

3. RIE desired outcomes

i. A clear timely customer focused process that maximises income raised and the proportion collected

The target from the RIE was for the FAB Team to contact the person or their financial agent within 3 working days of receipt of the referral. In the first eleven weeks since go live, we have made contact with over 50% of people in 3 days, (80% of people have had some sort of contact – messages left on answer phones to call back or letters sent where we were unable to reach them.) The 3 day target was always going to be a challenge but the volume of referrals has made the 3 day target particularly difficult to achieve.

Where we have been successful in visiting people we are telling most people in advance of service provision how much they will have to contribute towards their support and of those most are receiving an invoice within the first month of service provision. A sample check of accounts raised under the new process indicates that all but 2 have paid, 1 account is already in the dunning process and 1 account is in dispute. From April, we plan to report on the volume of financial assessments that are completed in advance of the service being provided.

ii. Increase in Benefit take-up

116 people have been identified as having a benefit entitlement not in payment since the new process. All have been offered or given support to make a claim. We are reviewing claim outcomes and reassessing charges where applicable. The average time to process a claim, depending on the benefit, is currently between 6 – 10 weeks. We will be able to give a more detailed analysis of the impact of benefit take-up at the next meeting of the Select Committee.

iii. A process that is right first time, responsive and flexible to the changing requirements and needs of service users.

FAB Teams are having quality conversations around charging and benefit take up. Everyone is given the opportunity to meet with an adviser face to face or have a telephone assessment. Flexible options such as, meeting out of county relatives when they next visit, using locality offices for joint meetings with care practitioners and early evening telephone assessments have been taken up.

7 However, we have received around 100 referrals from hospital teams and have not been able to have 'the paying care conversation' or undertake a financial assessment for this client group. A presence in the acute hospitals would allow us to give quality information and advice up-front around charging and the ability to give the person an indication on what they may expect to pay pending a home visit upon discharge. We are exploring how we can resource this service going forward.

iv. Appropriate indicators are in place to measure performance and enable a proactive approach to removing bottlenecks and issues

The FAB Teams have a number of performance measures following the RIE.

From April 2014 we propose reporting on two key measures:

1. To timeliness of assessments – i.e. the % of assessments completed in advance of service provision

2. The impact of benefit take-up

v. Introduce process ownership with clearly defined roles and responsibilities throughout the process to reduce hand-offs

Robust written processes are in place and regular meetings arranged between FAB and Credit Control.

4. Accounts Receivable

The management aim has been to reduce unsecured care debt by £1m this financial year. The starting point was £6.89m (unsecured blocked (reasons identified) + unsecured not blocked + legal as at 1 April = 2 + 2g = 3 on the table above). At the end of January the figure was £5.89m, and it is expected that the target will be achieved.

We are reviewing tasks that support the AR process including online payments, reporting, printing and dispatch of invoices and statements. We anticipate resource savings in staff time and would like to use the additional hours to boost our current debt recovery team.

We are expecting a further reduction in debt when the assessment RIE improvements have bedded in. The speedy assessment process will reduce the value of retrospective charges and should result in more bills being paid on time.

Conclusions:

5. Unsecured debt outstanding has fallen over the year to date in the context of increased income collection, and it is expected that further improvements will result from the actions rolled out from November following the Rapid Improvement Event.

Recommendations:

6. It is recommended that members note the current position, and continue to receive six monthly reports in 2014/15.

Report contact:

Paul Carey-Kent, Strategic Finance Manager, Adult Social Care, Public Health & Fire, Finance (Business Services)

Contact details 0208 541 8536

APPENDIX 1: AUDIT MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.13	Reporting on Social Care Debt to the ASC Select Committee must include a regular update on credit balances and reported balances should be gross.	Medium	Monthly reporting to Process Management Meetings and to future Adult Social Care Committees	Effective immediately - done	Paul Carey-Kent/Jackie Knutton	Yes
5.14	It is essential that the Personal Care and Support and ASC Finance teams work together to produce consistent guidance for managing credit balances which includes a clear escalation process for cases where the next of kin or beneficiaries cannot be traced.	Medium	Clarification of requirements with Legal Services, then guidance to be issued Procedure for dealing with credit balances in the Locality Teams is in draft and will be signed off by end of March 2014. Procedure within Credit Management has been implemented.	Aim to complete by April 2014.	Paul Carey-Kent/Jackie Knutton	Yes.

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.15	If after reasonable efforts have been made it has not been possible to trace the next of kin or executors individual balances less than or equal to £500 should be transferred to the home's welfare fund or budget for the benefit of all people who use that service with detailed notes to evidence the transfer. In the case of pension collect and client accounts the balances should be	Medium	Incorporate in guidance as at (5.14) above. Approval for transfer to welfare accounts being sought.	Aim to complete by April 2014	Paul Carey-Kent/Jackie Knutton	Yes

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
	written back with full explanatory notes.					
5.16	Where the deceased died without a will or any living relatives individual balances over £500 should be referred to TSoL. (Refer to TSoL guidance on Referring Estates to The Treasury Solicitor.)	Medium	To be covered in new SAP balances guidance procedures. Procedure within Credit Management has been implemented.	31/01/2014	Jackie Knutton	Yes
5.17	A systematic approach should be adopted to manage deceased client credit balances. All material balances including those in the suspense account must be investigated proportionately and corrective action taken.	High	Incorporate in guidance as at (5.14) above.	Aim to complete by April 2014	Paul Carey-Kent/Jackie Knutton / Toni Carney	Yes
5.18	Full explanatory notes and copies of correspondence should be recorded on AIS or WISDOM as appropriate.	High	Incorporate in guidance as at (5.14) above.	Aim to complete by April 2014	Paul Carey-Kent/Jackie Knutton / Toni Carney	Yes
5.24	Job descriptions should be updated or re-circulated as appropriate to reflect responsibilities with regard to managing credit balances.	Medium	Address as far as possible within current RIE and sourcing review processes.	Aim to complete by April 2014	David Sargeant	Yes
5.27	Responsibility for collecting and			Aim to	David Sargeant	Yes

	reviewing the next of kin information should be clearly assigned to a service area and reviewed as part of the client's annual care review. No client should exist in AIS who does not have next of kin data. Where there is no next of kin a note should be made to record this.	Medium	The guidance will define which specific team will collect the next of kin information. Recording Guidance and Best Practice procedure for front-line staff in PC&S includes the instruction for practitioners to record next of kin in AIS and to keep this up to date on open cases. This will be issued to all front-line staff by the end of February 2014.	complete by April 2014		

APPENDIX 2 Debt Benchmarking Data

In September members asked to be updated on what benchmarking data is available on social care debt.
CIPFA, the Chartered Institute of Public Finance and Accounting, run a number of benchmarking clubs. These clubs are voluntary for Local Authorities to participate in.
One such club is the Financial Assessment Benchmarking Club, within which some indicators on 'Collection Performance' are recorded. 28 authorities participate in this club.

COLLECTION PERFORMANCE

	Residential			Non-residential		
	£'000	% Ann. charge	*Avg*	£'000	% Ann. charge	*Avg*
Debt brought forward 1/4/12	16,033	46%	*37%*	1,024	26%	*19%*
Charges assessed*	34,970	100%	*100%*	3,989	100%	*100%*
Collected*	33,535	96%	*96%*	3,832	96%	*95%*
Written off*	421	1.2%	*1.3%*	27	0.7%	*1.5%*
Out-standing 31/3/13	17,046	49%	*39%*	1,155	29%	*25%*
Income secured included	na	na	*15%*	na	na	*1%*
Income secured not included	na	na	*6%*	na	na	*na*

* Assessed, collected, or written off during 2012/13

This table gives the reported summary for Surrey County Council, with proportions compared to the average of the 28 responding Authorities.
In the table where 'na' is indicated, the data was not provided by the LA.

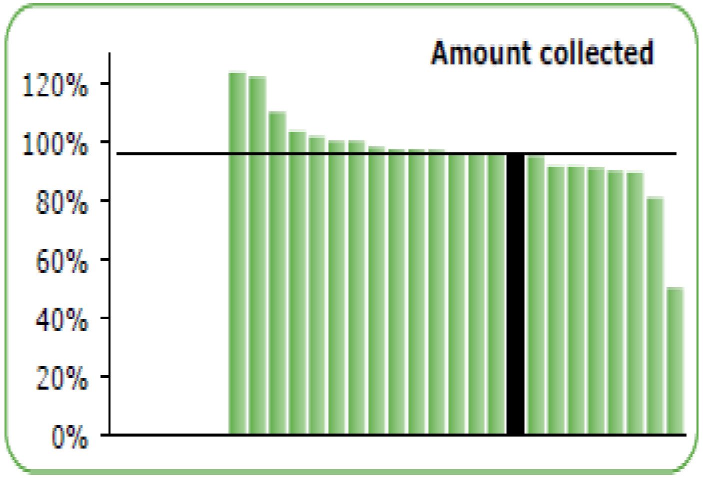
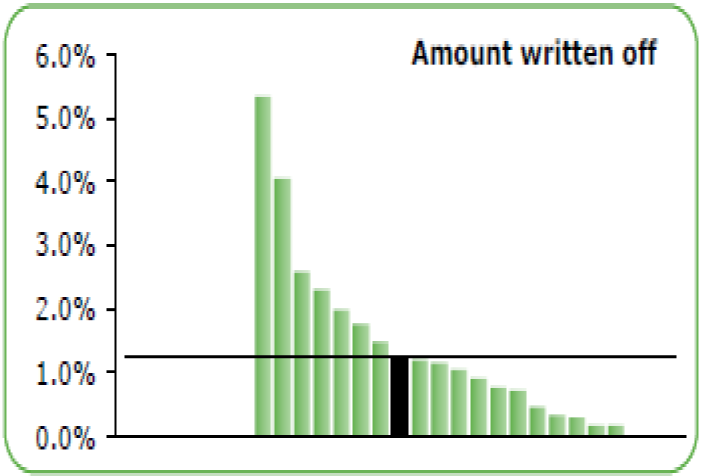
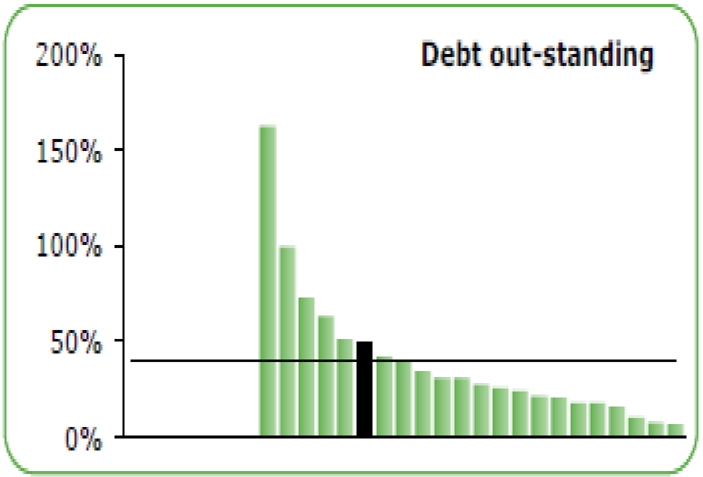
Collection Performance: Residential

The graphs below indicate the performance of Surrey County Council (black bar) compared to responding authorities.

Annex A

Collection Performance: Non-Residential

The graphs below indicate the performance of Surrey County Council (black bar) compared to responding authorities.

	This is the amount collected by the authority. Amounts around 100% would indicate a ‘steady state’ e.g. the value of the amounts collected are equivalent to the amounts raised. It’s likely that Authorities with higher than 100% collected outstanding debt from past years in this collection period
	This is the amount written off as a proportion of debts raised. The data suggests SCC are right on the average debt write off levels at c1% in the last year
	This is the total debt outstanding as a proportion of debt raised. Whilst slightly above the average for responders, the collection performance table indicates a slight increase in debt outstanding when compared to the previous year.. This is consistent with a year on year increase in the secured debt, raised, but not yet collectable against property.

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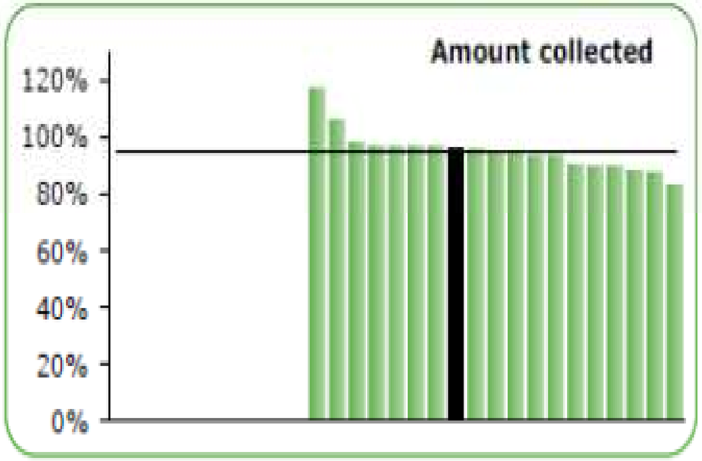
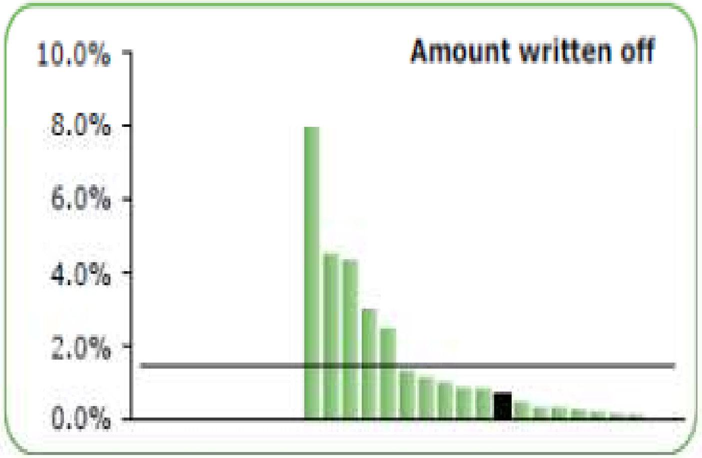
Annex A

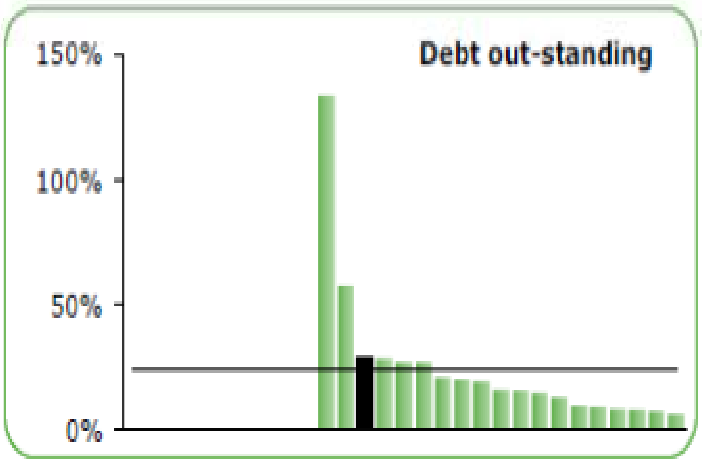


This is the amount collected by the authority.
Again, amounts around 100% would indicate a 'steady state'

Whilst more or less on the average for responding Local Authorities, the reported amount of residential debt rose in the year by £131k.



This is the amount written off as a proportion of debts raised. The data suggests SCC are below the average debt write off levels at 0.7%



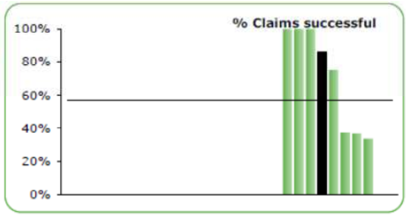
This is the total debt outstanding as a proportion of debt raised. Surrey CC has one of the highest levels of outstanding non-residential debt as a proportion of debts raised.

<u>Recovery Action</u>

Recovery action measures the effectiveness of formal actions taken to recover unpaid debt.

RECOVERY ACTION

Claims to court in last 12 months	Total	Success	%	Avg
Claims to court	14	12	86%	57%



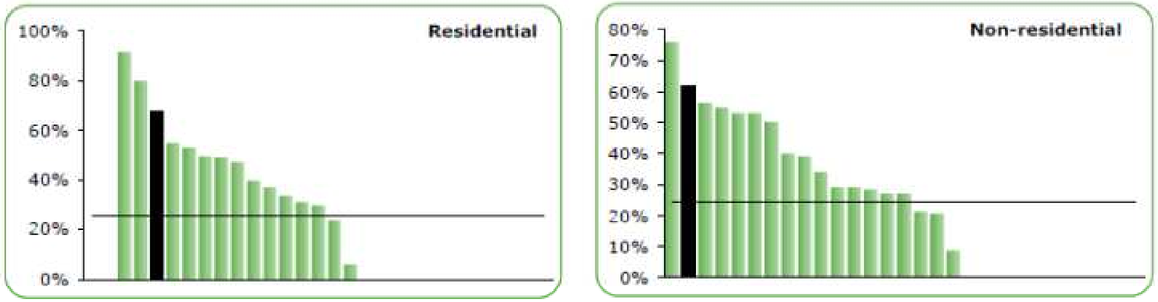
Compared to responders, Surrey CC compares well to the average recovery action success rate with 86% of actions being successful (12 out of 14 reported).

Payment by Direct Debits

Direct Debit is a cost effective way of billing for social care debts, putting Surrey in control of the amounts and frequency of billing.

DIRECT DEBIT

Number of service users paying by Direct Debit



Paying by Direct Debit	%	Avg
Residential	67.8%	*25.7%*
Non-residential	61.9%	*24.4%*

Compared to the responding averages of 25.7% and 24.4%, Surrey has a greater proportion of service users paying by Direct Debit of 67.8% and non-residential debt volumes of 61.9%.

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* Charging orders in July

Debt > 1 Month £ million			Jul-13	Mar-14	May-14
		Secured	**6.87**	**6.33**	**6.34**
		Unsecured (no specific reason identified)	2.81	2.52	2.29
	a	Under query	0.71	0.45	0.54
	b	Query resolved, requiring adjustment	0.11	0.03	0.14
	c	Probate	0.33	0.19	0.22
	d	Installments	0.44	0.32	0.31
	e	Deferred payment applications	0.22	0.34	0.26
		External CoP / Deputyship*	0.23	0.43	0.50
	g	**Total unsecured debt subject to a recovery 'block'**	**2.04**	**1.75**	**1.97**
		Legal	1.98	1.39	1.54
		ASC Deputyship	0.90	1.41	1.12
		Unsecured debt outstanding	**7.73**	**7.07**	**6.92**
		Total	**14.60**	**13.40**	**13.26**
Charges posted		Charges posted in month - not yet due	2.66	3.31	3.72
Total debt		Total debt including charges posted in month	17.26	16.71	16.98
		Gross debt accounting credit balances	17.88	17.37	17.50
		Total live credit balances	-0.54	-0.59	-0.48
		Total deceased credit balances	-0.08	-0.07	-0.04
% collected		% received of amount billed (12 mth avg)	96%	101%	98%
DD collections		% pymts collected by DD	63%	65%	65%
Legal Referrals		Number of cases referred	2	0	1
		Value of debt at date referred	0.15	0.00	0.01

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Current Legal Cases		Number of 'open' cases	59	58	54
		Current value of 'open' cases	1.98	1.91	1.58
Legal Recovery	a	Number of cases			
	b	Value of debt collected			
	c	Value of debt secured by charging order			
	d	Value of debt due by instalments			
	e	Value of debt no longer in dispute			
	f	Overall value of legal recovery action			
	g	Legal costs / expenses			
	h	Net recovery - Legal cases			
Write-Offs		Number of cases	25	19	17
		Value of debt	0.03	0.11	0.09
		Unsecured debt not subject to Legal action			
		Unsecured (no specific reason identified)	2.81	2.52	2.29
		Total unsecured debt subject to a recovery 'block'	2.04	1.75	1.97
		ASC Deputyship	0.90	1.41	1.12
		Total Unsecured debt not subject to Legal action	**5.75**	**5.68**	**5.38**

SURREY
COUNTY COUNCIL

Audit & Governance Committee
31 July 2014

Statement of Accounts 2013/14

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Purpose of the report:
To inform the Committee of the result of the external audit of the council's 2013/14 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation from the Director of Finance.

Recommendations:

It is recommended that the Committee:

1. Approve the 2013/14 Statement of Accounts , as attached in Annex A, for publication on the council's website and in a limited number of hard copies;
2. Consider the contents of the 2013/14 Audit Findings Report in Annex B;
3. Agree the officer response to recommendations of the external auditor;
4. Note the Chief Finance Officer's letter of representation, which is attached in Annex C;
5. Determine if any issues in the Audit Findings Report should be referred to the cabinet.

Introduction:

6. The Director of Finance has approved the statement of accounts for 2013/14 as presenting a true and fair view of the county council's financial position as at the 31 March 2014 and its income and expenditure for the year. The accounts are attached at Annex A to this report for Member debate and approval.

7. The auditor has provided a commentary and recommendations on the statement of accounts in their Audit Findings Report (attached as Annex B).

8. 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.

The Statement of Accounts 2013/14

9. 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.

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10. The presentation of these audited accounts to this Committee by the end of July, well in advance of the statutory deadline, represents a significant achievement for the Finance Service. It is the result of a number of years of continuous improvements in relation to the production of the Statement of Accounts and a strong working relationship with Grant Thornton, our external auditors. It has also resulted in audited summary accounts being included in the Annual Report for 2013/14 for the first time.

11. The Director of Finance is responsible for the preparation of Surrey County Council's statement of accounts, the pension fund statement of accounts and the firefighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

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

13. In addition to the Code, the Service Reporting Code of Practice (SERCOP) prescribes the format and composition for reporting service income and expenditure in the Comprehensive Income and Expenditure Statement. This is designed to allow comparison of service expenditure and income between authorities.

14. Any significant departure from The Code or SERCOP will normally result in a qualified audit opinion.

15. Annex A presents the 2013/14 Statement of Accounts. Draft accounts were produced and presented for audit by the end of May 2014. Since then three amendments have been made, as detailed below. 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.

    - Collection Fund Adjustment - 2013/14 saw the introduction of a revised funding mechanism in relation to the distribution of business rates collected by our borough and district councils. Complications and a lack of clarity over a number of issues resulted in delays to figures being provided to the council. Surrey County Council has to show in the comprehensive income and expenditure account its share of any surplus or deficit and its share of any debtors and creditors in its balance sheet in relation to both Council Tax and business rate collection. The delay in the receipt of this information meant that the accounting adjustment required to represent these amounts could not be actioned until after the accounts had been submitted for audit.

- An additional contingent liability was identified by the Council during the audit in relation to Firefighters' Pensions. An amendment was therefore made to the contingent liability note.
- A correction was made to the carrying amount of financial liabilities in Note 15, due to a typographical error.

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16. In addition, a number of small amendments for typographical errors and rounding differences were made and additional narrative has been added for clarification purposes.
17. All material adjustments identified, have been made.

2013/14 Audit Findings

18. The Audit Findings Report summarises the findings of the 2013/14 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.
19. The external auditor's 2013/14 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 made.
20. At the beginning of the audit the auditors produce an audit plan, which was reported to this Committee in March 2014. 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.
21. The audit fee is in line with the planned fees and there was no unplanned work required.
22. 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, which are summarised in their report and which have to occur simultaneously to the approval and final sign off of these accounts.

23. The auditors make two recommendations, summarised in Appendix A to their report along with management responses. These relate to:

- Revaluation schedule – a minor amendment was made to the wording of the Code of Practice in relation to revaluations which requires all assets within the same asset class (eg land and buildings) to be re-valued simultaneously. However, it does allow a class of assets to be re-valued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. The Council currently has a rolling 5 year revaluation programme which it feels meets this requirement without incurring disproportionate expense in relation to external valuation fees. The Council has provided evidence to the auditors to demonstrate that the carrying values of those assets not re-valued in year does not materially differ from the estimated fair value at the balance sheet date.
- Property, plant and equipment reconciliation – the Council currently reconciles the opening net book value of assets to the asset register held on SAP. There are currently discrepancies between the opening gross values and opening accumulated depreciation values which will be reconciled during the current financial year.

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Conclusions:

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

Financial and value for money implications

25. 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 2013/2014 budget has been considered in the outturn report to the Cabinet.

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

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

Report contact: Nikki O'Connor, Finance Manager (Assets & Accounting)

Contact Details: Nicola.oconnor@surreycc.gov.uk 020 8541 9263

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Sources/background papers:
Financial Outturn 2013/14 – Report to Cabinet 27 May 2014.

The Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 CIPFA

Service Expenditure Reporting Code of Practice 2013/14 - CIPFA

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Draft Opinion on the Authority financial statements

We have audited the financial statements of Surrey County Council for the year ended 31 March 2014 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 2013/14.

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.

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Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Responsibilities, the Director of Finance 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 Director of Finance; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the content of the annual report 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 October 2013, 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 2014.

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 October 2013, 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 2014.

Certificate

Delay in certification of completion of the audit

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We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Surrey Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2014. As the authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

31 July 2014

1. Introduction

Welcome to Surrey County Council's Statement of Accounts for 2013/14. 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).

For 2013/14 Surrey County Council have delivered the finance service vision of speeding up the closing process by producing audited financial statements by the end of July 2014, well in advance of the statutory deadline. As a direct consequence, the annual report for 2013/14
8 will for the first time contain audited summary financial information.

In addition to demonstrating best practice in relation to the speed of our accounts closure, the finance service also aspires to develop a statement of accounts which is more accessible to users. 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 2014.

2. Key Financial Statements (known as Primary Statements)

Local authorities are required to produce a comprehensive 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 14) shows the movement during the 2013/14 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 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 2013/14 is £203.3million (a decrease of £9.9m in usable reserves, and a decrease of £193.4m in unusable reserves). This decrease is caused by an increase in the pensions liability of £132.6m (explained further in section 5) and the writing out of £106m of school assets in relation to schools which have transferred to academy status.

Comprehensive Income & Expenditure Statement (CIES) (page 16) 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 deficit on the provision of services for 2013/14 was £185.4m which is shown in the movement in reserves statement (in 2012/13 there was a surplus of £2.2m). This represents the accounting deficit on the provision of services in accordance with International Financial Reporting Standards (IFRS), not a deficit in relation to what has been spent over the funding raised. The main reason for the deficit is the writing off of £105m of assets in relation to schools which have transferred to academy status. This is shown as an expense within the Education & Children's Services line of the CIES.

Balance Sheet (page 17) 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 -£242m, which is matched by reserves (as set out in the movement in reserves statement). This negative balance sheet position as at the 31 March is due to the pension liability which does not need to be met within the next year, but over the lifetime of the scheme members. This is explained further in Section 5.

Cash Flow Statement (page 18) shows the changes in cash and cash equivalents during the financial year. The total decrease in cash and cash equivalents for the council during 2013/14 was £106m which is shown in the cash flow statement and note 17. This decrease is consistent with the Council's borrowing strategy (see section 7) and is due mainly to a repayment of a £69m loan to the PWLB in September 2013 and increased capital expenditure. 8

The statement shows how a 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 a council are funded by way of taxation, grant income or from recipients of services provided by a 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.
- Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to a council.

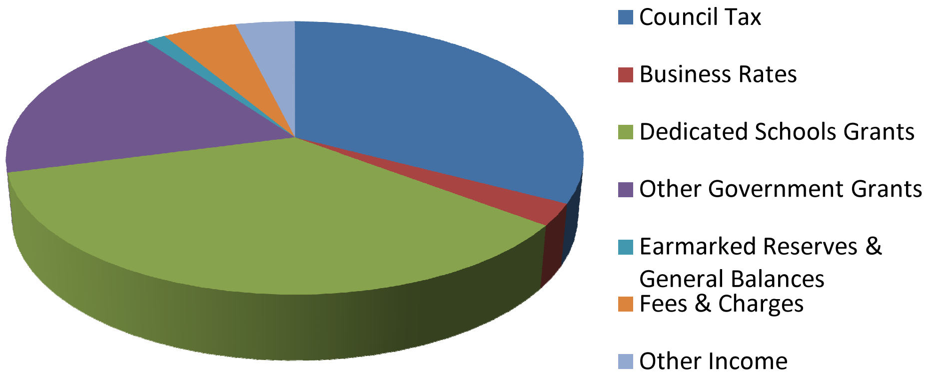
3. Budgeted Income & Expenditure

The council set its budget for the 2013/14 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 £68.3m. At the end of March 2014, services achieved £62.3m efficiencies. This shortfall includes slippage in Adult Social Care, partly offset by Business Services bringing forward 2014/15 efficiencies (-£1.3m).

For the fourth year running the Council ended the financial year with a small underspend, demonstrating tight financial management. The outturn position for 2013/14 provides a clearer indication of the council's strong financial stewardship during the year than is apparent from the accounting deficit provided in the Comprehensive Income & Expenditure Statement (CIES), which takes a wider view of financial performance.

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.

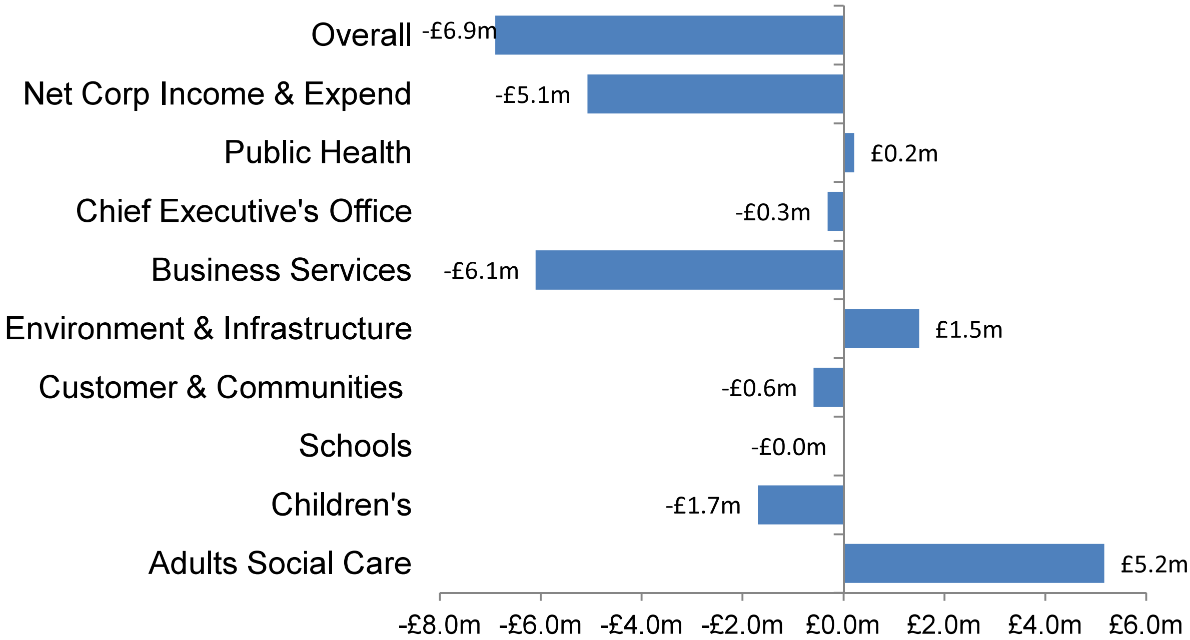
The 2013/14 revenue budget approved in February 2013 was to be funded as follows:



8

The revenue budget for the 2013/14 financial year, with schools, included £23.0m support from earmarked (£11m) and general (£12m) reserves and £7.9m revenue carried forward from 2012/13 to fund committed 2013/14 expenditure. The outturn position for services' net revenue budget is -£5.6m underspent and -£6.9m for the Council overall, including -£1.3m on local taxation (business rates).

The graph below shows services' gross expenditure variances at outturn



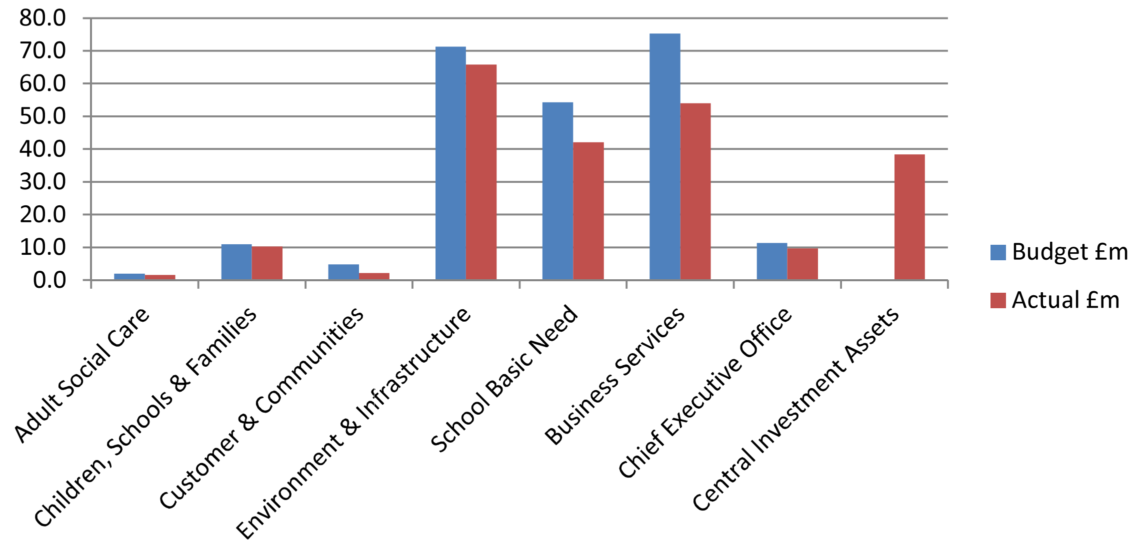
The Cabinet has approved £5.4m revenue carry forwards from 2013/14 to 2014/15 to ensure funding is available for schemes, projects and commitments that need to be funded in the new financial year. This leads to a residual underspend of -£1.4m, to be transferred back to General Balances, which stand at £21.3m as at 31 March 2014.

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

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

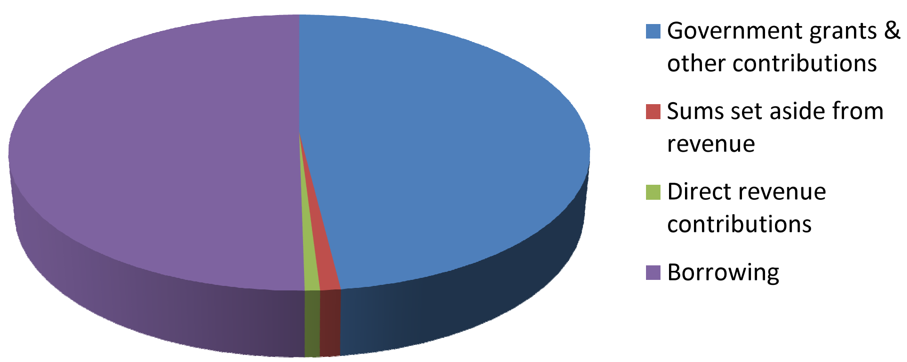
4. Capital Expenditure

In agreeing significant capital investment as part of the Medium Term Financial Plan (MTFP) for 2013-18 in February 2013, the council demonstrated its firm long term commitment to stimulating economic recovery in Surrey. A key element of Surrey County Council's corporate vision is to create public value by improving outcomes for Surrey's residents. This vision is at the heart of the capital programme and MTFP 2013-18 set a £699m five year capital programme. Following Cabinet approved re-profiling of 2012/13 carry forward budgets and virements; the revised 2013/14 capital budget was £230.1m. Capital expenditure for 2013/14 was £224.1m and includes investment of £38.4m in long term capital investment assets as part of its strategy to reduce reliance upon government funding and the council tax payer. 8



As part of its multi-year approach to financial management, enabling budget equalisation and avoiding arbitrary cut offs to budgets, Cabinet has approved requests to carry forward £32.6m into the new financial year.

The 2013/14 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 defined as 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, education services, and public health. Further details of these are disclosed in note 5. In addition, material expenditure is incurred in relation to the Private Finance Initiative Schemes the council is involved in, further details can be found in note 36.

Material items of income are government grants and council tax which are further disclosed in notes 11 and 32.

8 Material items of capital expenditure incurred during 2013/14 are also disclosed in Note 5 and included expenditure on the following ***material assets:***

- £21.3m - Quadrant Court, office building in Woking
- £14.3m – Ranger House, office building in Guildford
- £10.3m – Gatwick Diamond, land formerly owned by Thales in Crawley
- £9.9m – Parkside House, office building in Epsom

In addition, £9.8m was spent with BT for Superfast broadband infrastructure throughout the County.

During 2013/14, 27 schools transferred to academy status (8 in 2012/13). An academy is self-governing, directly funded by central government and independent of direct control by local government. Within the 2013/14 accounts, £105m of Property, Plant & Equipment (PPE) and £5.3m of schools balances have been written out of the balance sheet to reflect these transfers. As part of the derecognition process for academy transfers, the Education and Children's Services line in the comprehensive income and expenditure statement has incurred a corresponding impairment charge of £105m in 2013/14.

The ***pension liability*** recognised on the council's balance sheet at the 31 March 2014, has a significant impact on the net worth of the council. The council contributes to three pensions schemes on behalf of current employees:

- 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).

In addition, from 2013/14, employees transferred as part of the public health, see section 6, may be members of the NHS pension scheme.
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) net liability to be £714.0m at the balance sheet date, an increase of £85.8m on the previous year. The DCLG fire-fighter pension liability included within the council's accounts is estimated to be £489.3m an increase of £46.7m on the previous year. This increase in the valuation of the liabilities is due mainly to falling real bond yields which is only partially offset by stronger asset returns. 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 £1,203m 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
A summary of the significant accounting policies adopted in the preparation of these accounts is included in Note 1 and a full set of relevant accounting policies is detailed in Annex 1.

There have been some changes to IAS19 Employee Benefits for the accounting arrangements for defined benefit pension schemes. The key changes are that the interest cost and expected return on assets components of profit are now combined into a net figure and actuarial gains and losses are now categorised into remeasurements arising from changes in demographic assumptions, changes in financial assumptions and other experience.

There have been no other significant changes to the accounting policies adopted in 2012/13. However, there have been the following two changes in the responsibilities of the Council.

Public Health
On 1 April 2013 public health staff and services were transferred from primary care trusts (PCTs) to local authorities. To discharge their new public health responsibilities, local authorities were provided with a ring-fenced public health grant from the Department of Health. This transfer of responsibilities has led to the following changes in these statement of accounts:

- A new service expenditure line has been added to the CIES for public health income and expenditure in accordance with the 2013/14 Service Reporting Code of Practice (SeRCOP). For 2013/14 public health gross expenditure was £23.9m and income £23.6m.
- Section 57 of Schedule 5 to the Health and Social Care Act 2012 defines the director of public health as a statutory chief officer by amendment to section 2(6) of the Local Government and Housing Act 1989. The director is thereby brought within the scope of the senior officers' remuneration note required by the Accounts and Audit (England) Regulations 2011.
- Under the new arrangements, staff performing public health functions who were compulsorily transferred from the PCTs to local authorities and who had access to the NHS Pension Scheme on 31 March 2013 retained access to that Scheme on transfer at 1 April 2013. The NHS pension scheme is an unfunded, defined benefit scheme that covers NHS employers, it is a multi-employer defined benefit scheme. In the NHS, the scheme is accounted for as if it were a defined contribution scheme and as such it would be extremely unlikely that local authorities would be able to identify the underlying scheme assets and liabilities for staff transferred who are in the NHS pensions plan. Therefore, the Local Authority Accounting Panel recommends that Local Authorities also account for the NHS pension scheme on a defined contribution basis.

Business Rate Retention Scheme
The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013.

The Council is required to recognise its share of the accrued business rate (non-domestic rating) income, collected by the Boroughs and District on our behalf, in the Comprehensive

Income and Expenditure Statement in accordance with proper accounting practice, this includes our share of any surplus or deficit. However, regulations require only the planned amount (declared on the NNDR 1 returns) to be reflected in the General Fund movement. Therefore these surpluses and deficits are reversed out using the Movement in Reserves Statement and carried forward in the Collection Fund Adjustment Account until they are actually received or paid in cash in the following years.

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 £238m. The short term borrowing balance represents borrowing repayable in the next 12 months and also includes the balance which the council holds on behalf of the Office of the Police and Crime Commissioner for Surrey. It stands at £50.5m at the 31 March 2014,
8 which is a decrease of £31.6m since 31 March 2013, due mainly to the planned repayment of £68m of borrowing during the year. In addition, during March 2014 £24m of short term borrowing was undertaken in order to manage a short-term cash flow shortfall. This borrowing was all taken out with other Local Authorities and was fully repaid in early April.

When undertaking long-term 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 4.42%.

During 2013/14 no additional long term 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 (2014-19) 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 a provision in the Balance Sheet. At 31 March 2014 the Council has the following material provision:

- Insurance of £5.6m. This provision was created to meet the cost of reported outstanding claims which are not covered by external insurance. The level of this provision is subject to review by the council's actuaries.

Further details on provisions can be found in Note 20.

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.

In developing the financial plan for the five years to 2019 (known as the Medium Term Financial Plan (MTFP)), the council took a multi-year approach to its budget setting and, in February, the Council identified £24.3m of earmarked reserves (& £1.6m of unapplied government grants) to support the 2014/15 budget. In addition, in March, Cabinet approved a further £14m of support after the requirement to re-profile the ASC savings.

8

	Balance at 31/03/13	Transfers In	Transfers Out	Balance at 31/03/14	Support for 2014/15 Budget	2014/15 Carry-forwards	Balance at 01/04/14
	£m	£m	£m	£m	£m	£m	£m
Revolving Infrastructure		20.2		20.2			20.2
IRR	13.3	0.6	-0.9	13.0			13.0
Eco Park	8.0	6.6		14.6			14.6
Budget Equalisation	25.0	27.4	-18.9	33.5	-27.2	-5.4	0.9
Street Lighting	5.8	0.4		6.2			6.2
Severe Weather	5.0		-5.0				
Economic Downturn	4.4	2.1	-0.5	6.0	-4.3		1.7
Child Protection	3.6	0.4	-0.9	3.1			3.1
Interest Rate	3.2	1.5		4.7	-3.7		1.0
Insurance	7.4	1.4		8.8			8.8
Vehicle Replacement	5.1	0.4	-0.1	5.4			5.4
Waste	0.3			0.3	-0.3		0.0
Investment	4.9		-4.9	0.0			0.0
Equipment Replacement	3.1	2.4	-2.2	3.3	-1.8		1.5
General Capital	7.6			7.6			7.6
Financial Investment	11.1		-9.5	1.6	-1.0		0.6
Earmarked Reserves	**107.8**	**63.4**	**-42.9**	**128.3**	**-38.3**	**-5.4**	**84.6**

The level of earmarked reserves have been increased over the past five years to provide funds for what the Council knew would be a difficult financial climate, especially with the reduction in government funding. The use of the £39.8m reserves to support the 2014/15 budget smoothes these pressures across years and brings the total level of reserves down towards the historic level.

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 22 provides further details on unusable reserves.

10. Icelandic Deposits

When the Icelandic economy collapsed in October 2008, the council had £20m of outstanding investments with two Icelandic institutions, Landsbanki and Glitnir (£10m with each). The Icelandic Supreme Court has ruled that UK local council claims qualify as priority status. During 2013/14, the council sold its outstanding claim in relation to Landsbanki through a competitive auction. The outstanding amount in relation to Glitnir is £1.6m as at the 31 March 2014. This outstanding balance is currently held in escrow in
8 Icelandic krona and is expected to be repatriated in sterling once the currency restrictions in Iceland have been lifted. Note 15 provides further details on these deposits.

11. Trading Companies

During 2013/14 two wholly owned Local Authority Trading Companies have been incorporated:

- S.E. Business Services Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the provision of business services and was incorporated on 20 June 2013.
- Surrey Choices Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until after 31 March 2014.

12. Group Accounts

The council has considered all its relationships and interests in other entities and with the exception of the following 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.

- Henrietta Parker Centre - 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 therefore the council has not prepared group accounts.
- S.E. Business Services Ltd - for 2013/14 the economic activity of this company is not deemed material and therefore the council has not prepared group accounts.
- Surrey Choices Ltd - did not begin trading until after 31 March 2014, therefore, the council has not prepared group accounts.

13. 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 assets 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. The total value of all the fund balances as at the 31 March 2014 is £5.1m. Further information on these trusts can be obtained via the contact details provided below.

14. Looking forward to 2014/15 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. In 2012/13 the Council achieved the highest rating for its financial resilience and is recognised in Grant Thornton's national report on all of its local authority clients (which represents 40% of local authorities) for its high quality and robust long term financial planning.

Surrey County Council has successfully delivered significant savings over recent years and did so again in 2013/14. The achievement of continued year on year savings is becoming increasingly challenging to deliver due to the risks associated with the increased uncertainty in a number of areas:

- the achievement of efficiencies & service reductions year on year;
- the transfer of uncertainty regarding the level of funding to local authority as a result of the local government funding changes introduced from April 2013;
- the volatility implicit in the level of service demands;
- the current economic situation and long term austerity faced by the country.

The council has in place the following to mitigate against these risks and uncertainties*:*

- robust and timely monitoring processes.
- Select committee scrutiny
- levels of general balances & reserves
- risk contingency budget

In addition, the system for monitoring the progress on the implementation of efficiency savings has been sustained during 2013/14: regular review of efficiencies by the Chief Executive and senior officers before onward reporting and scrutiny by the Leader and Cabinet as well as Council Overview Scrutiny Committee. This will continue during 2014/15 alongside an additional mechanism whereby the Chief Executive and Chief Finance Officer will regularly review the progress of plans to deliver efficiencies across the whole MTFP period (not just 2014/15) highlighting any significant issues to the Leader and Cabinet as appropriate. This will ensure early action can be taken if it emerges that any plans are non-deliverable. A formal Cabinet report is due to be submitted after quarter 1 2014/15.

Additional resilience has been assured over the long term through sustaining the earmarked reserve for long term investment & infrastructure initiatives and creation of a reserve to mitigate against potential business rate appeal successes

15. Further Information

Additional information on the council's overall revenue and capital budget outturn position and achieved efficiencies for 2013/14 can be found in the '2013/14 Outturn report' considered by the Cabinet on 27 May 2014. 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) or Jonathan Evans, Principal Accountant (020 8541 8636, jonathan.evans@surreycc.gov.uk)

Sheila Little BA CPFA
Director of Finance

The Council's Responsibilities
The council is required to:

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

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

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In preparing this Statement of Accounts, the Director of Finance 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 Director of Finance 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 14 to 85 presents a true and fair view of the financial position of the council and of its expenditure and income for the year ended 31 March 2014; that the firefighter pension fund accounting statements on pages 92-94 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2014; that the summary statement of accounts on pages 95-139 presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2014 and its income and expenditure for the year then ended.

Sheila Little BA CPFA
Director of Finance
31 July 2014

Nicholas Harrison
Chairman of Audit & Governance Committee

31 July 2014

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 2013	**-31,826**	**-181,031**	**-17,347**	**-58,241**	**-288,445**	**327,611**	**39,166**
(Surplus) or deficit on provision of services (accounting basis)	185,354				**185,354**		**185,354**
Other comprehensive income & expenditure						17,931	**17,931**
Total comprehensive income & expenditure	**185,354**				**185,354**	**17,931**	**203,285**
Adjustments between accounting basis & funding basis under regulations (note 7)	-194,041		-2,933	21,487	**-175,487**	175,487	
Net increase/decrease before transfers to earmarked reserves	**-8,687**		**-2,933**	**21,487**	**9,867**	**195,288**	**203,285**
Transfers to/from earmarked reserves (note 8)	19,182	-19,182					
Increase/decrease in year	**10,495**	**-19,182**	**-2,933**	**21,487**	**9,867**	**193,418**	**203,285**
Balance at 31 March 2014	**-21,331**	**-200,213**	**-20,280**	**-36,754**	**-278,578**	**521,029**	**242,451**

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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**

Comprehensive Income & Expenditure Statement

Statement

Year ended 31 March 2013				Year ended 31 March 2014		
Gross Expenditure	Income	Net Expenditure		Gross Expenditure	Income	**Net Expenditure**
£000	£000	£000		£000	£000	**£000**
420,698	-66,113	**354,585**	Adult Social Care	444,116	-82,577	**361,539**
969,681	-688,360	**281,321**	Education & Children's Services	1,106,608	-676,028	**430,580**
117,990	-14,840	**103,150**	Highways & Transport Services	120,658	-20,595	**100,063**
34,730	-4,899	**29,831**	Cultural and Related Services	34,699	-4,836	**29,863**
59,078	-1,880	**57,198**	Environmental & Regulatory Services	60,511	-2,146	**58,365**
4,731	-207	**4,524**	Planning Services	13,723	-420	**13,303**
16,786	-72	**16,714**	Housing General Fund	13,015	-260	**12,755**
42,321	-1,290	**41,031**	Fire Services	45,069	-2,120	**42,949**
6,189	-2	**6,187**	Corporate and Democratic Core	23,252	-17,014	**6,238**
4,891	-2,420	**2,471**	Central Services to the Public	7,353	-3,819	**3,534**
1,174		**1,174**	Court Services	1,538		**1,538**
			Public Heath	23,894	-23,620	**274**
2,034	-5,445	**-3,411**	Non Distributed Costs	6,055	-18,305	**-12,253**
1,680,303	**-785,528**	**894,775**	**Cost of Services - continuing operations**	**1,900,491**	**-851,740**	**1,048,754**
25,106	-25,237	**-131**	Other Operating Income & Expenditure (note 9)	28,960	-25,755	**3,205**
109,632	-61,400	**48,232**	Financing & Investment Income & Expenditure (note 10)	123,706	-59,484	**64,222**
0	-579,906	**-579,906**	Local Taxation (note 11)		-601,480	**-601,480**
0	-365,210	**-365,210**	General Grants & Contributions (note 11)		-329,346	**-329,346**
1,815,041	**-1,817,281**	**-2,240**	**Surplus(-) or Deficit on Provision of Services**	**2,053,157**	**-1,867,806**	**185,354**
		-22,510	(Surplus) or Deficit on revaluation of non-current assets			**-78,428**
		134,142	Remeasurement of the net defined benefit liability			**96,359**
		111,632	**Other Comprehensive Income & Expenditure**			**17,931**
		109,392	**Total Comprehensive Income & Expenditure**			**203,285**

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Balance Sheet

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As at 31.03.2013 £000		Note:	**As at 31.03.2014 £000**
1,279,980	Property, Plant & Equipment	12	1,318,619
665	Heritage Assets		665
	Investment Property	13	29,186
5,893	Intangible Assets		4,307
216	Long Term Investments	15	332
8,833	Long Term Debtors	15	10,635
1,295,587	**LONG TERM ASSETS**		**1,363,744**
	Short Term:		
104,112	Investments	15	73,971
108	Intangible Assets		44
15,279	Assets Held for Sale	18	6,050
1,264	Inventories		1,123
141,521	Short Term Debtors	16	123,696
114,119	Cash & Cash Equivalents	17	7,429
376,403	**CURRENT ASSETS**		**212,313**
	Short Term:		
-82,089	Borrowing	15	-51,316
-234,271	Creditors	19	-212,385
-3,300	Provisions	20	-4,685
-205	Revenue Grants Receipts in Advance		-132
-587	Capital Grants Receipts in Advance		-1,037
-3,221	Other Current Liabilities	35,36	-6,088
-323,673	**CURRENT LIABILITIES**		**-275,643**
-7,202	Provisions	20	-9,391
-238,109	Long Term Borrowing	15	-237,918
-1,142,172	Other Long Term Liabilities	35,36,38	-1,295,556
-1,387,483	**LONG TERM LIABILITIES**		**-1,542,865**
-39,166	**NET ASSETS/LIABILITIES(-)**		**-242,451**
-288,445	Usable Reserves	8,21	-278,578
327,611	Unusable Reserves	22	521,029
39,166			**242,451**

Cash Flow Statement

2012/13 £000		**2013/14 £000**
-2,240	Net Surplus (-) / Deficit on the Provision of Services	**186,259**
-131,439	Adjustments to Net Surplus / Deficit on the Provision of Services for non-Cash Movements	**-267,764**
-15,872	Adjustments for Items Included in the Net Surplus / Deficit on the Provision of Services that are Investing and Financing Activities	**-42,427**
-149,551	**Net Cash Flows from Operating Activities**	**-123,932**
134,291	Purchase of property, plant & equipment, and investment property	**224,101**
-6,284	Proceeds from the sale of property, plant & equipment	**-2,934**
4,118	Movement in short-term and long-term investments	**-30,025**
8,330	Other receipts & expenditure from investing activities	**1,802**
140,455	**Net cash flows from Investing Activities**	**192,944**
3,632	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**5,906**
1,136	Repayment of short-term and long-term borrowing	**73,851**
	Receipts of short-term and long-term borrowing	**-42,079**
4,768	**Net cash flows from Financing Activities**	**37,678**
-4,328	**Net Increase (-) / Decrease in Cash & Cash Equivalents**	**106,690**
-109,791	Cash & Cash Equivalents at the beginning of the reporting period	**-114,119**
-114,119	Cash & Cash Equivalents at the end of the reporting period (Note 17)	**-7,429**

The cash flows from operating activities in 2013/14 include interest received of £5.038m (2012/13, £2.412m) and interest paid of £21.624m (2012/13, £16.698m).

Note 1. Summary of Significant Accounting Policies

This note only contains the most significant polices used in the production of the statement of accounts. Full accounting policies can be found in annex 1 to the statement of accounts on page 143.

i. General Principles
The statement of accounts summarises the council's transactions for the 2013/14 financial year and its position at the year end 31 March 2014. 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 2013/14 and the Service Reporting Code of Practice 2013/14 supported by International Financial Reporting Standards (IFRS).

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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 Accounting Concepts and Principles
The accounting concepts followed in the application of accounting policies are:

- Accruals - sums due to or from the Council during the year are included, whether or not the cash has actually been received or paid in the year.

- Going concern - this assumes that the Council will continue in existence for the foreseeable future.

The accounting concepts are supported by qualitative characteristics prescribed by the International Accounting Standards Board's Conceptual Framework for Financial Reporting:

- Two fundamental characteristics (relevance and faithful representation); and

- Four enhancement characteristics, which complement the fundamental characteristics (comparable, verifiable, timely and understandable).

Faithful representation has three characteristics:

- Completeness - the financial statements should include all information necessary for a user to understand them, including all necessary descriptions and explanations.

- Neutrality - the financial statements should be without bias in the selection or presentation of financial information.

- Free from error - there should be no errors or omissions in descriptions, or in the selection or application of the process used to produce the reported information.

iii. Recognition 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.
- Council tax and business rate income included in the comprehensive income and expenditure statement is the total of the:
    - Precept on the collection funds of each billing authority; and
    - The council's share of the actual surplus / deficit on the collection funds of each billing authority at the end of the current year, adjusted for the council's share of the surplus / deficit on the funds at the preceding year end that has not been distributed or recovered in the current year.

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iv. 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 maintained on the asset register nor held on the balance sheet. 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.

8 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 charged as an impairment to the appropriate service line in the Comprehensive Income and Expenditure Statement. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). The asset is then derecognised at zero value. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, are credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves' Statement. The written-off value of disposals is not a charge against council tax as the cost of 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
8 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.

Net rental income is credited to the Financing and Investment Income line and results 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.

v. 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

vi. 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.

vii. 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 2013/14 (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.

viii. 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.

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, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring

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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 National Health Service (NHS) Pension Scheme is administered by the NHS

The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the council. The local government scheme is funded whereas the 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 and NHS pension scheme are administered nationally and arrangements mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. Therefore, the schemes are accounted for as if they are 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 and the Public Health line for NHS pensions.

Discretionary Benefits

The council does not usually make discretionary awards of retirement benefits in the event of early retirements.

ix. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that result in the return of the grant or contribution to the grantor unless the specified use for the grant or contribution is met.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried 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.

x. 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. 8

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.

Note 2: Accounting standards Issued not adopted

The International Accounting Standards Board (IASB) revised a number of standards in relation to group accounts and interests in other entities in 2011. Had these had been adopted for the financial year 2013/14 no material changes would be required to the Statement of Accounts.

IFRS 10 Consolidated Financial Statements – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. The Council does have subsidiaries but has not produced consolidated accounts for this financial year on the basis of materiality.

• IFRS 11 Joint Arrangements – This standard addresses the accounting for a ‘joint arrangement’, which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. In addition proportionate consolidation can no longer be used for jointly controlled entities. The Council has no material joint venture arrangements.

• IFRS 12 Disclosures of Involvement with Other Entities – This is a consolidated disclosure standard requiring a range of disclosures about an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated ‘structured entities’. The Council has a number of arrangements with other entities under IFRS12.

• IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures – These standards have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12.

• IAS 32 Financial Instruments Presentation – The Code references to amended application guidance when offsetting a financial asset and a financial liability.

These changes have been considered by CIPFA and will be adopted by the Code from 1 April 2014. The council will therefore adopt the revised standards from 1 April 2014. In 2014/15 it is likely that the council will have to produce group accounts as the use of the local authority trading companies Surrey Choices and SE Business Services increases. These changes to the accounting standards will be adopted by the council in line with the code of practice. The likely requirement to produce group accounts in 2014/15 stems from a change in the activities of the council rather than as a direct result of the accounting changes for group accounts.

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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.

- During 2013/14 there was widespread flooding across the county. The costs associated with the immediate action taken in the aftermath of the flooding is included within the council's comprehensive income and expenditure account on page 16. Local authorities can apply for a grant from the Department for Communities and Local Government (DCLG) to compensate for a proportion of the costs (above a certain threshold) incurred from their immediate actions connected to a disaster or emergency. The grant is defined by the Bellwin scheme. The council has until the end of June 2014 to prepare its final claim for consideration by the DCLG. Due to the uncertainty of the level of funding that will be received from the DCLG in relation to the Council's bid, no income has been included in the 2013/14 accounts.

- When the Icelandic economy collapsed in October 2008, SCC had £20m of outstanding investments with two Icelandic institutions, Landsbanki and Glitnir (£10m with each). During 2013/14, the council sold its outstanding claim in relation to Landsbanki through a competitive auction. £1.6m of the investment with Glitnir remains outstanding at the 31 March 2014. Further details of the assumptions made in relation to the impairment of the outstanding investments are provided in Note 15.

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

    - In 1998 the council entered into a long-term contract with Anchor Trust for the purchase of residential and day care for the elderly in 17 homes previously operated by the council.
    - In 2002 the council entered into a further long-term contract for the provision of 7 residential and day care homes with Care UK.
    - In 1999 the council entered into a 25-year contract for waste disposal with Surrey Waste Management.
    - In 2010 the council entered into a long term contract with Skanska John Laing for street lighting services, the contracts includes the replacement or refurbishment of all street lights in Surrey and continued maintenance of the 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 36 for additional details).

  The waste disposal PFI includes investment in a number of waste disposal assets. These have all been recognised on the council's balance sheet with the exception of the Eco Park asset. Assets under construction (AUC) have not been recognised at this stage as some key milestones are yet to be met. These are likely to be achieved during 2014/15 and an AUC will be recognised at this time.

- The council has considered all its relationships and interests in other entities and with the exception of the following 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.

    - Henrietta Parker Centre - 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 therefore the council has not prepared group accounts.

    - S.E. Business Services Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the provision of business services and was incorporated on 20 June 2013. For 2013/14 the economic activity of this company is not deemed material and therefore the council has not prepared group accounts.

    - Surrey Choices Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until after 31 March 2014, therefore, the council has not prepared group accounts.

The combined economic activity of Henrietta Parker Centre, S.E. Business Services Ltd and Surrey Choices Ltd is also deemed immaterial in terms of the requirement to produce group accounts. The assessment incorporated qualitative factors, such as whether not consolidating masks significant trends in the authority's financial position or means the financial information fails to meet user's expectations. It also covered quantitative factors such as whether the activities of the subsidiaries are significant to the operational activities of the authority as a whole, whether the gross value of investments in subsidiaries, or the

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borrowing by the subsidiaries themselves, is significant in terms of the council's balance sheet. In all these cases the test was either not applicable to the council or immaterial.

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 note 39.

The items in the council's Balance Sheet at 31 March 2014 for which significant assumptions have been made are set out in the table that follows:

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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 £1.6m for every year that useful lives had to be reduced.
Provisions	The council has made a provision of £1.286m 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 2014/15.
Pensions Liability	The council's actuary advises on the sensitivity analysis to be applied to the calculation for estimating the net pension liability. The calculation is dependent upon a number of complex judgements relating to: the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a decrease of 0.5% in the real discount rate would result in an increase in the pension liability of £195m for the LGPS and £47m for the firefighters' pension fund. A 1 year increase in member life expectancy would result in an increase in the pension liability of £61m for the LGPS and £14.7m for the firefighters' pension fund.
Debtors	At 31 March 2014, the council had a balance of £117.5m on short term debtors (including government grants, receipts in advanceand the council's share of Council Tax and Business Rates debtors). A credit risk review suggested that an impairment level of £14.7m for doubtful debts was sufficient.	Debtors are monitored regularly and should general debtors rise in 2014/15 the council may consider raising its provision for bad and doubtful debt. This provision is reviewed quarterly.

Investments	The council had £20m invested in Icelandic institutions which collapsed in early October 2008. The Icelandic Supreme Court has ruled that UK local council claims qualify as priority status. The outstanding amount in relation to these investments is £1.6m as at 31 March 2014. The carrying amounts reflected in the accounts are valued in line with the most recent guidance (See note 15)	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 2013/14: 8

- £47.3m to Kier for highways maintenance
- £9.8m to Babcock 4S for school improvement and school support services
- £9.8m to BT for Superfast broadband
- £9.4m to Tarmac for highways maintenance
- £6.6m to VirginCare for public health services
- £6.2m to Costain for the Walton Bridge capital scheme
- £5.5m to Surrey & Borders NHS Trust for public health services
- £5.4m to The Priory Group for special educational needs services
- £5.4m to Cambian Group for special educational needs services
- £3.2m to Laser Energy for street lighting energy consumption

Also included in the Education and Children's Services line of the comprehensive income and expenditure statement is a impairment charge of £105m related to the derecognition of academy schools. When a school changes status to an academy, the ownership of the land and buildings transfers from the council to the school. The assets are written out of the balance sheet and an accounting adjustment is made against the service line in the CIES. During 2013/14, 27 schools transferred to academy status (8 in 2012/13).

During the year the council has also purchased the following property and/or land with a purchase price of £5m or higher. These items are funded out of the capital budget and are held on the balance sheet as either investment property or property, plant and equipment depending on the use of the asset.

- £21.3m - Quadrant Court, office building in Woking
- £14.3m – Ranger House, office building in Guildford
- £10.3m – Gatwick Diamond, land formerly owned by Thales in Crawley
- £9.9m – Parkside House, office building in Epsom

Note 6: Events after the balance sheet date
The statement of accounts will be authorised for issue by the chief finance officer in July 2014. 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.

In May 2014, lawyers acting on behalf of the council, in relation to the Icelandic investments, notified the council that there has been a legal challenge suggesting that a distribution received from the former Icelandic bank, Glitnir, could potentially have been paid based an incorrect exchange rate. Due to adverse currency movements, this change would result in the council having to pay back £190,000 to the Glitnir winding-up board, thereby increasing the outstanding balance held in escrow. This amount has not been adjusted in the accounts for 2013/14 as the outcome of legal negotiations is yet to be concluded.

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
8 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 22 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 201314 financial 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.

2013/14	Usable Reserves: General Fund Balance £000	Usable Reserves: Capital grant & contributions unapplied reserve £000	Usable Reserves: Capital Receipts Reserve £000	Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement				
Charges for depreciation & impairment of non-current assets	-77,113			77,113
Revaluation losses on property, plant & equipment	-42,166			42,166
Amortisation of intangible assets	-2,331			2,331
De-recognition of Academies	-104,526			104,526
Revenue expenditure funded from capital under statute	-42,427			42,427
Net gain/loss on sale disposal of non-current assets	528		-2,933	2,405
Deferred Income in respect of PFI schemes	166			-166
Reversal of donated asset adjustment	44			-44
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	78,920	-78,920		
Application of grants to capital financing transferred to the Capital Adjustment Account		100,407		-100,407
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	-109,088			109,088
Employer's pensions contributions and direct payments to pensioners payable in the year	72,874			-72,874
Amount by which the local taxation income credited to the Comprehensive Income & Expenditure Statement is different from the local taxation income calculated for the year in accordance with statutory requirements	905			-905
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	1,466			-1,466
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment (MRP)	24,877			-24,877
Capital expenditure charged against the general fund balance	3,830			-3,830
TOTAL ADJUSTMENTS	**-194,041**	**21,487**	**-2,933**	**175,487**

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Comparator information relating to the 2012/13 adjustments between accounting basis and funding basis under regulations is provided in the table below:

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2012/13	Usable Reserves: General Fund Balance £000	Usable Reserves: Capital grant & contributions unapplied reserve £000	Usable Reserves: Capital Receipts Reserve £000	Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement				
Charges for depreciation & impairment of non-current assets	-73,842			73,842
Revaluation losses on property, plant & equipment	-16,053			16,053
Amortisation of intangible assets	-2,230			2,230
De-recognition of Academies	-27,584			27,584
Revenue expenditure funded from capital under statute	-15,872			15,872
Net gain/loss on sale disposal of non-current assets	656		-6,284	5,628
Deferred Income in respect of PFI schemes	158			-158
Reversal of donated asset adjustment	21			-21
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	98,523	-98,523		
Application of grants to capital financing transferred to the Capital Adjustment Account		107,008		-107,008
Use of Capital Receipts Reserve to finance new capital expenditure			634	-634
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	67,585			-67,585
Employer's pensions contributions and direct payments to pensioners payable in the year	-84,973			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			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			-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			-25,061
Capital expenditure charged against the general fund balance	7,141			-7,141
TOTAL ADJUSTMENTS	**-19,911**	**8,485**	**-5,650**	**17,076**

Note 8: Transfers to / from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves, to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General fund expenditure in 2013/14.

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 31/03/12	Transfers In	Transfers Out	**Balance at 31/03/13**	Transfers In	Transfers Out	**Balance at 31/03/14**
	£000	£000	£000	**£000**	£000	£000	**£000**
Schools Balances	**42,630**	4,831		**47,461**		-1,857	**45,604**
Transfer of Schools Balances to Academies	**7,154**		-1,824	**5,330**		-5,330	**-**
Investment Renewals	**11,077**	5,075	-2,844	**13,308**	591	-939	**12,960**
Equipment Replacement	**1,112**	4,860	-2,915	**3,057**	2,564	-2,238	**3,383**
Vehicle Replacement	**4,350**	729	-24	**5,055**	474	-81	**5,448**
Waste Site Contingency	**299**			**299**			**299**
Budget Equalisation	**31,977**	25,031	-31,977	**25,031**	27,402	-18,870	**33,563**
Financial Investment	**9,505**	1,572		**11,077**		-9,513	**1,564**
Private Finance Initiative	**4,621**	1,163		**5,784**	385		**6,169**
Insurance	**7,225**	547	-285	**7,487**	1,343		**8,830**
Severe Weather	**5,000**			**5,000**		-5,000	**-**
Eco Park Sinking Fund	**3,000**	5,000		**8,000**	6,616		**14,616**
Investment	**4,987**			**4,987**		-4,987	**-**
Child Protection	**1,300**	2,266		**3,566**	514	-940	**3,140**
Revenue Grants Unapplied	**19,200**	21,273	-20,102	**20,371**	25,976	-20,371	**25,976**
General Capital	**8,432**	55	-879	**7,608**	63		**7,671**
Interest Rate	**-**	3,210		**3,210**	1,521		**4,731**
Economic Downturn	**-**	4,400		**4,400**	2,100	-456	**6,044**
Revolving Investment & Infrastructure Fund				**-**	20,215		**20,215**
	161,869	80,012	-60,850	**181,031**	89,764	-70,582	**200,213**

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

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 £27.2m approved to support the 2014/15 budget and £5.4m service budget carry forwards.

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). While the remaining outstanding balance in relation to Icelandic investments is expected to be repaid in full, it is exposed to foreign exchange risk and therefore an amount has been retained in this reserve to mitigate against this.

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

Insurance reserve: This reserve holds the balance resulting from a temporary surplus or deficit on the council's self insurance fund and is assessed by an actuary for the possible liabilities the council may face. It specifically holds £3.5m 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. The balance on this reserve was fully utilised during 2013/14.

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. In 2013/14 the balance on this reserve was transferred 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.

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

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

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

Revolving investment & infrastructure fund: The Revolving Infrastructure & Investment Fund was established in the 2013-18 Medium Term Financial Plan in order to provide the revenue costs of funding infrastructure and investment initiatives that will deliver savings and enhance income in the longer term. The net income generated by the portfolio in 2013/14 has been transferred to the reserve.

Note 9: Other operating income and expenditure

	Gross Expenditure 2013/14 £000	Income 2013/14 £000	**Net Expenditure 2013/14 £000**
Land Drainage Precept	1,071		**1,071**
Miscellaneous Income	704	-1,032	**-328**
Contributions from Trading Services	23,473	-23,619	**-146**
Change in Provisions	3,712	-532	**3,180**
Donated Assets		-44	**-44**
Gain on disposal of non current assets		-528	**-528**
	28,960	-25,755	**3,205**

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.

Restated 2012/13 £000		**2013/14 £000**
16,698	Interest payable and similar charges	**21,624**
33,946	Net interest on the net defined benefit liability (Note 38)	**47,636**
-2,412	Interest receivable and similar income	**-3,427**
	Investment properties net income	**-1,611**
48,232		**64,222**

Note 11: Council tax and general grants & contributions

2012/13 £000			**2013/14 £000**
	Local taxation:		
579,906	- Council tax income	**557,917**	
-	- Business rate income	**43,563**	**601,480**
	Grants and Contributions:		
148,615	- Formula Grant	207,874	
127,778	- Non-ringfenced government grants	42,552	
88,817	- Capital Grants and contributions	78,920	**329,346**
945,116			**930,826**

*During 2013/14 there was a change to the funding arrangements for Business Rates. The council now keeps a share of locally collected business rates which is shown in the business rate income line. The formula grant figure for 2013/14 includes Revenue Support Grant and also top-up funding received through the Business Rate Retention Scheme.

Note 12: Property, plant & equipment - movements during 2013/14

	Land and Buildings £'000	Vehicle, Plant and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property Plant & Equipment £'000
Cost (revalued)							
Balance at 01/04/13	**1,277,460**	**71,557`**	**645,886**	**4,575**	**36,353**	**53,661**	**2,089,492**
Additions*	64,088	4,043	80,577		10,302		**159,010**
Donations		44					**44**
Revaluations recognised in the Revaluation Reserve	89,895	31					**89,926**
De-recognition - other		-6,592					**-6,592**
De-recognition - academies	-148,441	-383					**-148,824**
Reclassifications	-1,139						**-1,139**
Assets reclassified (to)/from Assets Held for Sale	-1,063				7,887		**6,824**
Other Movements in assets and valuation	65		24,312			-24,377	
At 31/03/14	**1,280,865**	**68,700**	**750,775**	**4,575**	**54,542**	**29,284**	**2,188,741**
Accumulated Depreciation and Impairment							
At 01/04/13	-366,044	-45,250	-394,127		-4,091		**-809,512**
Depreciation charge	-35,884	-6,181	-35,048				**-77,113**
Impairment losses recognised in the Revaluation Reserve	-11,498						**-11,498**
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-21,702		-1,112				**-22,814**
De-recognition - other		6,517					**6,517**
De-recognition - academies	44,042	256					**44,298**
Reclassifications							
Assets reclassified (to)/from Assets Held for Sale							
At 31/03/14	**-391,086**	**-44,658**	**-430,287**		**-4,091**		**-870,122**
Net Book Value							
at 31/03/13	**911,416**	**26,307**	**251,759**	**4,575**	**32,262**	**53,661**	**1,279,980**
at 31/03/14	**889,779**	**24,042**	**320,488**	**4,575**	**50,451**	**29,284**	**1,318,619**

* These amounts include assets acquired under PFI schemes (see note 36 for additional details) and excludes de-minimius capital expenditure and revenue expenditure funded from capital under statute.

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	Land and Buildings £'000	Vehicle, Plant and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property Plant & Equipment £'000
Cost (revalued)							
Balance at 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 or replaced under PFI schemes (see note 36 for additional details) and excludes de-minimius capital expenditure and revenue expenditure funded from capital under statute.

Capital Commitments

At 31 March 2014, the council has entered into a contract for the acquisition/enhancement of Property, Plant & Equipment in 2014/15 and future years, budgeted to cost £10.1m. The major commitments are:

- Schools Basic Need, Esher High Secondary £3.4m
- Schools Basic Need, Weydon Academy £3.4m
- Schools Basic Need, Horley North East Primary £3.3m

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.

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		Land and Buildings £'000
Carried at historical cost		27,260
Change in fair value as at:		
31 March 2010		313,598
31 March 2011		118,886
31 March 2012		68,369
31 March 2013		54,183
31 March 2014		307,483
	Total	**889,779**

Impairment Losses

During 2013/14 the council has recognised an impairment loss of £53.6m in total. £33.2m 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 £21.7m is charged to the Comprehensive Income and Expenditure Statement and £11.5m was offset from the balance in the revaluation reserve in relation to these assets. £19.3m 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: Investment Properties

The Council has several properties purchased for future service needs which are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2014, under the code of practice they are classed as investment properties.

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

2012/13 £000		**2013/14 £000**
-21	Rental income from investment property	**-1,870**
	Direct operating expenses arising from investment property	**259**
-21	**Net gain/(loss)**	**-1,611**

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

2012/13 £000		**2013/14 £000**
-	Balance at start of the year	**-**
-	Purchases	**28,047**
-	Reclassification from Property, plant and equipment	**1,139**
-	Subsequent expenditure	
-	**Balance at end of the year**	**29,186**

Note 14: Foundation, voluntary aided and voluntary controlled schools and academies

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

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 2013/14, 27 schools had transferred to academy status (21 Community Schools, 1 Voluntary Controlled School, 1 Voluntary Aided School, 3 Foundation School and 1 new build School). Academy schools are owned and managed completely independently of the local authority and therefore the non-current assets have been excluded from this balance sheet.

The estimated value of the non-current assets of the schools are not included on the council's balance sheet is shown in the table below. The estimated value is based on the average valuation of the schools currently on the balance sheet in a local district.

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	Number	Estimated value as at 31.03.2014 £m
Foundation Schools (land & buildings)	22	20.6
Voluntary Aided Schools (buildings only)	96	106.0
Academy Schools (land & buildings)	56	223.9
	174	**350.5**

Note 15: Financial instruments

Categories of financial instruments

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

	Long-Term		Short-Term	
	31/03/2013 £000	**31/03/2014 £000**	31/03/2013 £000	**31/03/2014 £000**
Investments				
Loans & receivables	79	**69**	218,231	**81,400**
Available for sale financial assets	137	**263**		
Total Investments	216	**332**	218,231	**81,400**
Debtors				
Financial assets carried at contract amounts*	8,833	**10,635**	106,051	**101,197**
Borrowings				
Financial liabilities at amortised cost	238,109	**237,918**	82,089	**51,316**
Other Long-term Liabilities				
PFI, finance lease liabilities and third party balances	58,855	**79,933**	3,321	**6,088**
Creditors				
Financial liabilities carried at contract amounts			178,213	**157,201**

* adjusted for provision for bad debt

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Income, expense, gains & losses

	2012/13 Financial Liabilities Measured at amortised cost £000	2012/13 Financial Assets Loans & receivables £000	2012/13 TOTAL £000	**2013/14 Financial Liabilities Measured at amortised cost £000**	**2013/14 Financial Assets Loans & receivables £000**	**2013/14 TOTAL £000**
Interest expense	16,698		16,698	**21,264**		**21,264**
Total expense in Surplus or Deficit on the Provision of Services	16,698		16,698	21,264		**21,264**
Interest Income		-2,040	-2,040		-3,333	**-3,333**
Interest Income accrued on impaired financial assets		-372	-372		-94	**-94**
Total income in Surplus or Deficit on the Provision of Services		-2,412	-2,412		-3,427	**-3,427**

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:

	31/03/13 Carrying Amount £000	31/03/13 Fair Value £000	**31/03/14 Carrying Amount £000**	**31/03/14 Fair Value £000**
Financial Liabilities	320,198	393,817	**289,118**	**348,799**

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.

	31/03/13 Carrying Amount £000	31/03/13 Fair Value £000	**31/03/14 Carrying Amount £000**	**31/03/14 Fair Value £000**
Loans & receivables	218,231	218,231	**81,400**	**81,400**
Long-Term debtors	9,049	9,049	**10,967**	**10,967**

All the investments held by the council at the 31 March 2014 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. Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

In February 2014 forward lending of £7m was agreed with £5.5m due to start in April 2014 and £1.5m in May 2014. The carrying value of the deals in the accounts is zero and as the market value of the rate agreed at the dealing date in February had not materially changed at 31 March the change in the carrying value has not been recognised in the accounts. 8

Available for sale assets are shares the council holds in a number of different 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.

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

8 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. Institutions outside the UK must domiciled in a country with 3 AAA sovereign ratings in order for any deposits to be viable.

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**
31/03/13		31/03/14	31/03/14	31/03/14	**31/03/14**
	Deposits with banks and financial institutions	(a)	(b)	(c)	**(a x c)**
	Local Authorities	61,500	0.00%	0.00%	
	AAA rated counterparties	0	0.00%	0.00%	
6	AA rated counterparties	0	0.03%	0.03%	
80	A rated counterparties	40,950	0.08%	0.08%	**33**
	Other counterparties*	1,615			
6,966	Trade debtors**	110,785			**9,588**
7,052	Total	214,850			**9,621**

* 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 16).

The council does not generally allow credit for its trade debtors, such that £27.1m of the £132.8m balance (see note 16) is past its due date for payment. The past due amount can be analysed by age as follows:

31/03/13 £000		**31/03/14 £000**
13,500	Less than six months	**22,613**
307	Six months to one year	**807**
847	More than one year	**425**
14,654	Total	**23,845**

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 Pension Fund & 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:

31/03/13 £000		**31/03/14 £000**
74,834	Less than one year	**-42,130**
-10,401	Between one and two years	**9,149**
12,493	Between two and five years	**30,556**
43,116	Between five and 15 years	**119,268**
262,333	More than 15 years	**258,412**
382,375		**375,255**

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

31/03/13 £000		**31/03/14 £000**
324,304	Less than one year	**182,597**
324,304		**182,597**

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

The council has a number of strategies for managing interest rate risk. The treasury management strategy defines the council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. The treasury indicators provide maximum limits for fixed and variable interest rate exposure; market and forecast interest rates are monitored within the year to adjust exposures appropriately.

Currently all borrowing is at a fixed interest rate, with the exception of the monies held for the Office of the Police & Crime Commissioner for Surrey 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.

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 £263,000 in five 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 any of the companies were to go into liquidation there is a risk that the shares would become worthless.

Foreign exchange risk

The Council currently has money held in escrow in Icelandic krona as part of the payout from Glitnir. 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.

Icelandic bank investments

Early in October 2008, the Icelandic banks Landsbanki and Glitnir, with which the council had invested £20m (£1.5m related to the Office of the Police & Crime Commissioner for Surrey), 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.

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 had paid out £5.5m to the council by 30 January 2014, at which time the decision was taken to sell the claim to a private bidder. This decision was taken due to the increased currency risk inherent in the increasing length of time full recovery was expected to take.

The following table summarises the balances remaining in the Council's accounts. The carrying amount consists of the principal and interest at maturity (claim) minus repayments to date, and any interest accrued on the balance held in escrow.

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

Note 16: Short Term Debtors

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

31/03/2013 £000		31/03/2014 £000
36,494	Central government bodies	**23,632**
46,090	Other local authorities	**44,536**
2,445	NHS bodies	**21,086**
316	Public corporations and trading funds	**318**
68,637	Bodies external to general government (i.e. All other bodies)	**49,739**
153,982	**Total**	**139,311**
	Less:	
	Provision for Bad Debts	
-6,803	- Social Services and Health Services	**-8,879**
-163	- Other Services	**-709**
-5,495	- Council Tax Arrears	**-6,027**
141,521		**123,696**

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Note 17: Cash and cash equivalents

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

31/03/13 £000		31/03/14 £000
-22,800	General account	**-23,521**
8,200	Overnight Investments	
80,094	Call accounts	**30,950**
48,625	Money market	
114,119	**Total Cash and Cash Equivalents**	**7,429**

Cash and cash equivalents have dropped £106m since March 2013. This is mainly due to a repayment of a £69m loan to the PWLB in September 2013, in addition to increased capital expenditure, and an increase in short-term investments with other local authorities.

Note 18: Assets held for sale

Assets held for sale (Current) 31/03/2013 £000		Assets held for sale (Current) 31/03/2014 £000
4,555	**Balance Outstanding at 1 April**	**15,279**
	Assets newly classified as held for sale:	
4,267	- Property, Plant and Equipment	**-6,824**
9,315	Revaluation gains	
-2,858	Assets sold*	**-2,405**
15,279	**Balance Outstanding at 31 March**	**6,050**

*Of the total assets sold (£2.405m) in 2013/14 £1m relates to land and property included in the opening balance and £1.405m relates to land and property newly classified as held for sale during 2013/14.

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Note 19: Creditors

31/03/13 £000		**31/03/14 £000**
-27,031	Central government bodies	**-23,833**
-64,141	Other local authorities	**-62,377**
-4,177	NHS bodies	**-11,722**
-323	Public corporations and trading funds	**-399**
-138,599	Bodies external to general government (i.e. All other bodies)	**-114,054**
-234,271	**Total**	**-212,385**

Note 20: Provisions

	Business rates appeals provision £000	Insurance Liabilities £000	Landfill Usage Liability £000	Equal Pay £000	Redundancy £000	Carbon Reduction Commitment £000	Closed Landfill Sites £000	Other short-term provisions £000	**Total Provisions £000**
Balance at 1 April 2013		6,659	7	1,581	974	1,281			**10,502**
Additional provisions made in 2013/14	2,167	22			1,144	775	700	1,680	**6,488**
Amounts used in 2013/14		-1,038			-299	-1,037			**-2,374**
Unused amounts reversed in 2013/14			-7		-533				**-540**
Balance at 31 March 2014	2,167	5,643	-	1,581	1,286	1,019	700	1,680	**14,076**
Current Provisions					1,286	1,019	700	1,680	**4,685**
Non-Current Provisions	2,167	5,643		1,581					**9,391**
	2,167	5,643		1,581	1,286	1,019	700	1,680	**14,076**

Comparator information relating to 2012/13 provisions are provided in the following table:

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	Insurance Liabilities	Landfill Usage Liability	Equal Pay	Redundancy	Carbon Reduction Commitment	**Total Provisions**
	£000	£000	£000	£000	£000	£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**

Business Rates

Since the introduction of Business Rates Retention Scheme effective from 1st April 2013, local authorities are liable for successful appeals against business rates charged to businesses in 2012/13 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2014. The council's provision for the business rates appeals is based on a 10% share of the provision calculated by each of the 11 borough and district councils in Surrey. The provision as at 31st March 2014 is £2.167m

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 level of this provision at 31 March 2013 included £1.038m payable in respect of the MMI levy. This has been paid during 2013/14 and this amount drawn-down from the provision. 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

The Waste & Emissions Trading Act 2003 placed a duty on waste disposal authorities (WDAs) in the UK to reduce the amount of biodegradable municipal waste disposed to landfill. It provided the legal framework for the Landfill Allowance Trading Scheme (LATS), which applied to WDAs in England from 2005/06 to 2012/13, but is currently suspended. The balance on the provision at 1 April 2013 has been reversed against the current asset at the same date.

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.

Redundancy Costs

As at 31 March there is a provision of £1.286m to cover the cost of redundancies agreed during 2013/14 but for which the expenditure will not be incurred until 2014/15. During the year £0.532m in respect of the provision relating to 2012/13 was reversed as it was an over provision, this was mainly due to the redeployment of employees who were previously expected to be made redundant and also due to differences in the final amounts paid compared to the estimates set aside.

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.

Closed Landfill Sites

During 2013/14 a 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. The review concluded that the likelihood of remedial work being required in relation to one closed landfill site was high and the estimated cost of these works has therefore been included as a provision. These liabilities would occur if the local District and Borough Councils, who are the enforcing authorities, investigate the sites and oblige the Council to take action under the provisions of Part IIA of the Environment Protection Act 1990.

Short Term Provisions

For 2013/14, short term provisions have been made for property dilapidations and VAT. As part of the lease agreements for properties formerly occupied by the county council, the council has to make a payment to the lessor for the dilapidation of the property during the term of the lease. A provision of £1.5m has been created for these payments. In addition, cheques received from external payroll organisations included an element for VAT however, due to a coding issue; the VAT was not paid over to HMRC. A provision has been created for the amount of VAT to be paid over plus an additional amount to cover a potential fine of up to 30%.

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Note 21: 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 01/03/13	Transfers In	Transfers Out	**Balance at 31/03/14**
Revenue				
General Fund Balance	31,826	8,687	-19,182	**21,331**
Earmarked Reserves	181,031	89,764	-70,582	**200,213**
Total revenue reserves	212,857	98,451	-89,764	**221,543**
Capital				
Capital Grant Unapplied	58,241	78,920	-100,407	**36,754**
Capital Receipts Reserve	17,347	2,933	-	**20,280**
Total capital reserves	75,588	81,853	-100,407	**57,034**
Total usable reserves	288,445	180,304	-190,171	**278,578**

Note 22: Unusable Reserves

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

31/03/13 £000		**31/03/14 £000**
-251,579	Revaluation Reserve	-324,182
-498,931	Capital Adjustment Account	-363,113
37	Financial Instruments Adjustment Account	37
1,070,711	Pensions Reserve	1,203,285
-6,240	Collection Fund Adjustment Account	-7,145
13,613	Accumulated Absences Account	12,147
327,611		**521,029**

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.

31/03/13 £000		**31/03/14 £000**	**31/03/14 £000**
-235,057	**Balance at 1 April**		-251,579
-26,562	Upward revaluation of assets	-89,926	
4,052	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	11,498	
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		-78,428
5,988	Difference between fair value depreciation and historical cost depreciation	5,825	
	Amount written off to the Capital Adjustment Account		5,825
-251,579	**Balance at 31 March**		**-324,182**

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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.

31/03/13 £000		**31/03/14 £000**	**31/03/14 £000**
-494,130	**Balance at 1 April**		**-498,931**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
73,842	Charges for depreciation and impairment of non-current assets	77,113	
16,054	Revaluation losses on Property, Plant and Equipment	146,692	
2,230	Amortisation of intangible assets	2,331	
15,872	Revenue expenditure funded from capital under statute	42,427	
-158	Deferred Income	-166	
-21	Donated Assets credited to the Comprehensive Income and Expenditure Statement	-44	
33,212	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	2,405	
141,031			270,758
-5,988	Adjusting amounts written out of the Revaluation Reserve		-5,825
135,043	Net written out amount of the cost of non-current assets consumed in the year		264,934
	Capital financing applied in the year:		
-634	Use of the Capital Receipts Reserve to finance new capital expenditure		
-107,008	Application of grants to capital financing from the Capital Grants Unapplied Account		-100,407
-25,061	Statutory provision for the financing of capital investment charged against the General Fund		-24,877
-7,141	Capital expenditure charged against the General Fund		-3,830
-498,931	Balance at 31 March		**-363,113**

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 2014 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 2013/14.

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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.

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Restated 31/03/13 £000		**31/03/14 £000**
919,182	Balance at 1 April	**1,070,712**
124,829	Actuarial gains or losses on pensions assets and liabilities	**96,359**
94,286	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	**109,088**
-67,585	Employer's pensions contributions and direct payments to pensioners payable in the year	**-72,874**
1,070,712	**Balance at 31 March**	**1,203,285**

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.

31/03/13 £000		**31/03/14 £000**
-6,360	Balance at 1 April	**-6,240**
120	Amount by which local taxation income credited to the Comprehensive Income and Expenditure Statement is different from local taxation income calculated for the year in accordance with statutory requirements	**-905**
-6,240	**Balance at 31 March**	**-7,145**

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.

31/03/13 £000		31/03/14 £000	**31/03/14** **£000**
15,231	Balance at 1 April		**13,613**
-15,231	Settlement or cancellation of accrual made at the end of the preceding year	-13,613	
13,613	Amounts accrued at the end of the current year	12,147	
-1,618	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		**-1,466**
13,613	**Balance at 31 March**		**12,147**

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Note 23: 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.

2013/14	Adult Social Care	Children, Schools & Families	Customer& Communities	Environment & Infrastructure	Central Services & Financing	**TOTAL**
	£m	£m	£m	£m	£m	**£m**
Amounts reported to Management Directorate Budgets:	**337.3**	**180.8**	**60.0**	**130.5**	**-696.7**	**11.9**
Income						
- Local taxation					-600.6	**-600.6**
- Government grants & contributions	-2.4	-649.3	-10.1	-4.5	-275.0	**-941.3**
- Fees, charges & other service income	-79.1	-30.8	-13.6	-15.6	-23.7	**-162.8**
- Interest & investment income					-2.3	**-2.3**
Expenditure						
- Employee expenses	68.2	527.7	57.0	23.3	54.0	**730.2**
- other service expenditure	355.8	331.5	26.1	128.8	127.3	**969.5**
- Interest payments					11.2	**11.2**
- Precepts & levies					1.1	**1.1**
Actual Income & Expenditure	**342.5**	**179.1**	**59.4**	**132.0**	**-708.0**	**5.0**
Full Year Variance	5.2	-1.7	-0.6	1.5	-11.3	**-6.9**
Contribution to Reserves (carry-forward)	0.1	0.7	0.8	1.0	2.9	**5.5**
Net Revenue Expenditure (cont to General Fund)	5.3	-1.0	0.2	2.5	-8.4	**-1.4**
Budgeted Contribution from General Fund						**11.9**
Contribution of underspend back to General Fund						**-1.4**
Actual Movement in General Fund						**10.5**
Accounting Adjustments to CIES (not reported for budget purposes)						
- Depreciation, amortisations & impairment						**268.6**
- Adjustments in relation to pension contributions						**36.2**
- Recognition of capital grants & contributions						**-78.9**
- Other accounting adjustments						**-2.6**
- Gain or loss on disposal of non-current assets						**-0.5**
Items reported for budget purposes but not charged to the CIES						
- Statutory provision for financing of capital						**-24.9**
- Capital expenditure financed from revenue						**-3.8**
Contributions to/from reserves						**-19.2**
Surplus on Provision of Services						**185.4**
Surplus on Revaluation of Non-Current Assets						**-78.4**
Actuarial Losses on Pension Assets / Liabilities						**96.3**
Total Comprehensive Income & Expenditure						**203.3**

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Comparator for 2012/13	Adult Social Care	Children, Schools & Families	Customer& Communities	Environment & Infrastructure	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
8						-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**

Note 24: Trading operations

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

The table below shows the income and expenditure for 2013/14

2012/13 £000		**2013/14 £000**
-23,815	Turnover	**-23,619**
21,915	Expenditure	**21,906**
-1,900	Surplus(-)	**-1,713**
1,494	Support services recharged to Expenditure of Continuing Operations	**1,567**
_-406	Net surplus credited to other Operating Expenditure	**-146**

Note 25: 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 entered into five such schemes with Surrey Primary Care Trust (PCT): The PCT has since been disbanded and replaced with six Clinical Commission Groups (CCG) in Surrey. During 2013/14 the local CCG assumed the role of the PCT in the pooled budget arrangements.

- Surrey integrated community equipment service for the supply of equipment to enable people with physical disabilities to live at home;

- Child and adolescent mental health service offering support and advice to young people experiencing mental health, emotional and behavioural problems;

- HOPE is a partnership that provides intensive support for young people with serious mental health needs;

- Surrey safeguarding children's board – is a key statutory mechanism for agreeing how agencies in Surrey will cooperate to safeguard and promote the welfare of children in Surrey.

The 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 CCGs. The funding, expenditure and any share of deficits or surpluses attributable to the county council are shown below.

Surrey integrated community equipment service

2012/13 £000		**2013/14 £000**
	Funding provided to the pooled budget	
-2,100	- Surrey County Council	-2,100
-2,100	- North West Surrey CCG*	-2,100
-4,200		-4,200
4,262	Expenditure met from the pooled budget	4,200
62	Surplus(-) or deficit	0
31	Surrey County Council share	0

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*The pooled budget arrangement is with six CCGs in Surrey but it is being led by North West Surrey CCG.

Child and adolescent mental health service

2012/13 £000		**2013/14 £000**
	Funding provided to the pooled budget	
-1,194	- Surrey County Council	-1,195
-1,036	- Guildford & Waverley CCG	-1,036
-2,230		-2,231
2,206	Expenditure met from the pooled budget	2,158
-24	Surplus(-) or deficit	-73
-13	Surrey County Council share	-39

HOPE services

2012/13 £000		**2013/14 £000**
	Funding provided to the pooled budget	
-620	- Surrey County Council	-763
-838	- Guildford & Waverley CCG	-843
-1,458		-1,606
1,490	Expenditure met from the pooled budget	1,603
32	Surplus or (deficit)	-3
14	Surrey County Council share	-1

Surrey safeguarding children board

2012/13 £000		**2013/14 £000**
	Funding provided to the pooled budget	
-215	- Surrey County Council	-353
-52	- Police	-52
-14	- Probation	-14

-18	- Surrey boroughs & districts	-20
-245	- Guildford & Waverley CCG	-245
-28	- Other partners	-27
-572		-711
308	Expenditure met from the pooled budget	446
-264	Surplus or (deficit)	-265
-99	Surrey County Council share	-131

Note 26: Member Allowances

2012/13 £000		**2013/14 £000**
1,565	Member Allowances*	1,583
86	Member Expenses	90
1,651		1,673

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

Note 27: Officer Remuneration – Senior Officers

Senior officers are specified as: all employees whose annualised salary is £150,000 or more; the head of paid services and any (non secretarial/clerical) person for whom the head of paid services is directly responsible, the directors of children and adult social services, the chief education officer, chief officer of a fire brigade, the 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:

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Post	Year	Salary £	Expense Allowances £	Total remuneration excluding pension contributions £	Pension contributions £	Total remuneration including pension contributions £
Chief Executive - D McNulty	2013/14	210,850	4,053	214,903	31,206	246,109
	2012/13	210,350	4,053	214,403	31,132	245,535
Strategic Director of Children, Schools & Families - N Wilson	2013/14	144,700		144,700	21,416	166,116
	2012/13	135,350		135,350	20,032	155,382
Strategic Director of Adult Social Care - S Mitchell (1)	2013/14	197,853		197,853	16,062	213,915
	2012/13	144,580		144,580	21,342	165,922
Interim Strategic Director of Adult Social Care (2)	2013/14	50,000		50,000	7,400	57,400
Strategic Director of Business Services	2013/14	126,367		126,367	19,446	145,813
	2012/13	125,882		125,882	19,372	145,254
Strategic Director of Environment & Infrastructure - T Pugh	2013/14	140,850		140,850	12,160	153,010
	2012/13	139,715		139,715	20,772	160,487
Strategic Director of Customers & Communities (3)	2013/14	130,779		130,779	19,134	149,913
	2012/13	129,158		129,158	19,061	148,219
Assistant Chief Executive	2013/14	115,493		115,493	17,395	132,888
	2012/13	105,840		105,840	15,740	121,580
Chief Finance Officer and Deputy Director for Business Services (4)	2013/14	105,850		105,850	15,666	121,516
	2012/13	105,350		105,350	15,592	120,942
Head of Legal Services	2013/14	100,850		100,850	14,926	115,776
	2012/13	100,350		100,350	14,852	115,202
Head of Fire & Rescue	2013/14	113,032		113,032	13,163	126,195
	2012/13	111,838		111,838	13,228	125,066
Director of Public Health (5)	2013/14	85,620		85,620	11,987	97,607
Total	2013/14	1,522,245	4,053	1,526,298	199,960	1,726,258
	2012/13	1,308,413	4,053	1,312,466	191,121	1,503,587

1. Sarah Mitchell left her post as Strategic Director of Adult Social Care (ASC) on 31 December 2013. The basic salary for 2013/14 was £78,255. She received an additional £119,328 as part of her exit package.

2. The Interim Strategic Director of Adult Social Care (ASC) started on the 1 November 2013. The annualised salary is £120,000 (excluding pension contributions).

3. The Strategic Director of Customers & Communities spends a proportion of her 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.

4. Position title changed to 'Director of Finance' in June 2014.

5. The Director of Public Health started on 1 May 2014. The annualised salary is £100,000 (excluding pension contributions).

Note 28: Officers' Remuneration - Bands falling within the scale of £50,000 or more classified in of multiples of £5,000):

2012/13				**2013/14**		
Non school numbers	Schools numbers	Total numbers	Remuneration (£)	**Non-schools numbers**	**Schools numbers**	**Total numbers**
138	130	268	50,000 - 54,999	**139**	**133**	**272**
107	100	207	55,000 - 59,999	**120**	**92**	**212**
54	72	126	60,000 - 64,999	**47**	**72**	**119**
45	52	97	65,000 - 69,999	**48**	**53**	**101**
13	22	35	70,000 - 74,999	**16**	**22**	**38**
32	12	44	75,000 - 79,999	**35**	**12**	**47**
4	13	17	80,000 - 84,999	**5**	**7**	**12**
9	5	14	85,000 - 89,999	**10**	**5**	**15**
7	6	13	90,000 - 94,999	**10**	**4**	**14**
4	4	8	95,000 - 99,999	**4**	**6**	**10**
3	4	7	100,000 - 104,999	**3**	**3**	**6**
3	1	4	105,000 - 109,999	**2**	**1**	**3**
2		2	110,000 - 114,999	**3**	**1**	**4**
1	2	3	115,000 - 119,999	**2**		**2**
1	1	2	120,000 - 124-999	**1**	**1**	**2**
2		2	125,000 - 129,999	**1**		**1**
			130,000 - 134,999	**1**		**1**
2		2	135,000 - 139,999	**1**		**1**
1		1	140,000 - 144,999	**1**		**1**
			195,000 - 199,999	**1**		**1**
1		1	210,000 - 214,999	**1**		**1**
429	424	853		**451**	**412**	**863**

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

(a)	(b)		(c)		(d)		(e)	
Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band (b) + (c)		Total cost of exit packages in each band*	
	2012/13	**2013/14**	2012/13	**2013/14**	2012/13	**2013/14**	2012/13	**2013/14**
Cost (£)							**£000**	**£000**
0-20,000	25	**13**	47	**16**	72	**29**	377	**240**
20,001-40,000	13	**4**	15	**4**	28	**8**	804	**213**
40,001-60,000	1	**1**	6	**1**	7	**2**	336	**84**
60,001-80,000	3	**4**	1	**2**	4	**6**	266	**415**
80,001-100,000		**1**	2		2	**1**	176	**90**
100,001-150,000	1	**1**		**1**	1	**2**	103	**255**
Total cost included in bandings	43	**24**	71	**24**	114	**48**	2,062	**1,297**
ADD: Amounts provided for in CIES not included in bandings**	6	**36**	1	**25**	7	**61**	338	**1,144**
Total cost included in CIES	49	**60**	72	**49**	121	**109**	2,400	**2,441**

*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 2013/14 but for which no payment had yet been made.

Note 30: External Audit Costs
The council has incurred the following costs in relation to the statutory auditors;

2012/13 £000		**2013/14 £000**
174	Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year	**155**
8	Fees payable to the external auditors for the certification of grant claims and returns for the year	**5**
4	Fees payable in respect of other services provided by the external auditors during the year	**-**
186		**160**

Note 31: 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 a 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.

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Details of the deployment of DSG receivable for 2013/14 are shown on the table below:

Ref:	2012/13 £000s		Central	ISB*	**2013/14 £000s**
A	695,265	Final DSG 2013/14 before academy recoupment			**717,291**
B	-107,121	Academy figure recouped			**-144,104**
B1	-	Deduction for direct funding of SEN places by EFA 2013/14			**-3,320**
C	588,143	Total DSG after academy recoupment			**569,867**
D	12,771	Brought forward from 2011/12			**13,776**
E	0	Carry forward agreed in advance			**-6,395**
	600,914		Central	ISB*	**577,248**
F	603,718	Agreed initial budgeted distribution	109,081	465,521	**574,602**
G	-2,805	In year adjustments	2,627	19	**2,646**
H	600,913	Final distribution	111,708	465,540	**577,248**
I	-74,098	Actual central expenditure	-104,850		**-104,850**
J	-515,716	Actual Individual Schools Budget (ISB)		-465,540	**-465,540**
K	2,677	Local authority contribution	-		**-**
L	13,776	Amount carried forward to 2014/15	6,858	0	**6,858**

*Individual Schools Budget

Reference:

A DSG figure as announced by the Department in July 2013, amended November 2013
B Figure recouped by DfE for conversion of maintained schools into academies
B1 Deduction by Education Funding Agency for special educational needs place funding paid direct to providers
C Total figure after DFE academy recoupment and place funding deduction
D Figure brought forward from 2012/13 as agreed with the DfE
E Any amounts which the council decided after consultation with the Schools Forum, to carry forward to 2014/15 rather than distribute in 2013/14. This was DSG underspent in 2012/13 which was not committed in the initial 2013/14 budget and which has been allocated to support the 2014/15 budget
F Initial budgeted distribution of DSG as agreed with the schools forum. Additional DSG of £2.646m was added to the budget after this, largely due to late additional allocations of DSG, mainly for post-16 Special Educational Needs
G Changes to the initial distribution comprise changes to DSG as described above, adjustments to budgets for maintained early years providers and adjustments for permanently excluded pupils
H Budgeted distribution of DSG as at the end of the financial year
I Actual amount of central expenditure items in 2013/14
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 local authority which has the effect of substituting for DSG (none in 2013/14
L Amount carried forward

Note 32: Grants and contributions

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

2012/13 £000		2013/14 £000
	General Grants & Contributions	
148,615	Formula Grant*	**207,874**
16,949	Private Finance Initiative Grant	**15,473**
-	Education Services Grant	**15,734**
33,407	Early Intervention Grant	**-**
66,498	Learning Disability & Mental Health Reform	**-**
4,658	Dedicated Schools Grant (Non-ringfenced)	**3,518**
6,266	Other Revenue Grants	**7,827**
36,923	Partnership for Schools (Standards Fund)	**32,689**
6,975	Capital S106 developer contributions	**5,693**
7,046	Capital contributions from schools	**3,108**
22,054	Highways Maintenance & Integrated Grant	**25,674**
12,814	Walton Bridge Grant	**3,538**
	Local Sustainable Transport Fund	**5,165**
3,005	Other Capital grants & Contributions	**3,053**
365,210		**329,346**

*The formula grant figure for 2013/14 includes Revenue Support Grant and top-up funding received through the Business Rate Retention Scheme.

Grants credited to services are analysed in the following table:

	Credited to Services	
582,773	Dedicated Schools Grant	**566,356**
-	Public Health Grant	**23,237**
27,099	Young People Learning Agency	**19,259**
10,640	Pupil Premium	**15,540**
-	DFT Severe Weather Recovery Grant	**3,381**
-	Transformation Challenge Awards	**1,672**
18,837	Other revenue grants	**28,506**
	Government "Capital" Grant applied to Revenue Expenditure Funded by Capital under Statute:	
7,094	- Partnership for Schools	**-**
1,129	- Community Capacity grant	**1,691**
826	- Developer Contribution Woking Library	**-**
616	- Capital Contributions from Schools	**3,474**
-	- Superfast Broadband	**1,310**
41	- Other grants	**749**
649,055	**Total**	**665,175**

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Note 33: Related parties
In accordance with IAS 24 the County Council is required to disclose material transactions with related parties – defined as bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.

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

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

The total of members' allowances paid in 2013/14 is shown in Note 26.

In addition, a survey of the related party interests of members in office during the 2013/14 financial year and their immediate family members was carried out in preparing this statement of accounts. There were responses from 81 of 81 members. The council had transactions with 150 bodies that members declared an interest in, with a total value of £62.6m. Of this, payments of £55.1m were to SITA UK, in which 1 member declared an interest, £4.4m to the Kings College for Arts & Technology in which 1 members declared an interest, £1.2m was to Surrey Wildlife Trust in which 1 member declared an interest.

Senior Officers are deemed to include all officers earning £61,042 or more of the management structure. The council had transactions with nine other bodies in which an interest was declared totalling £23.4m. This includes payments of £19.6m to VT Four S in which 1 officer declared an interest; £1.4m to Cable & Wireless in which 1 officer declared an interest, £1.0m to Deloitte in which 1 officer declared an interest, £0.5m to Vodafone in which 1 officer declared an interest.

Entities Controlled or Significantly Influenced by the Council –
During 2013/14 two wholly owned Local Authority Trading Companies were incorporated:

- S.E. Business Services Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the provision of business services and was incorporated on 20 June 2013.

- Surrey Choices Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until after 31 March 2014

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

Group accounts for 2013/14 have not been prepared for materiality reasons. The council will review its position for the 2014/15 accounts following as it is expected that the finances of the trading companies will become material over the next year.

Other Public Bodies *(*subject to common control by central government.
The Council is subject to a number of pooled budget arrangements for the provision of health services and these are detailed in Note 25.

Surrey Pension Fund
The fee payable by the Surrey Pension Fund to the county council for services provided in 2013/14 was £1,502,912 (£1,537,236 in 2012/13). This is split into the fee for providing pension administration services £1,315,130 (£1,339,583 in 2012/13) and £187,781 (£197,653 in 2012/13) for treasury management, accounting and managerial services.

During 2013/14 the council paid employer pension contributions of £60,039,428 (£55,659,746 in 2012/2013).

Net amounts owed by the council to the fund as at 31 March 2014 were £9,819,633 (£5,866,326 at 31 March 2013). 8

Note 34: Capital expenditure and capital financing
The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

The CFR is analysed in the following table:

2012/13 £000		2013/14 £000
540,950	**Opening Capital Financing Requirement**	**559,695**
	Capital investment:	
133,512	Property, Plant and Equipment	178,287
	Investment Properties	28,047
975	Intangible Assets	746
15,872	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	42,427
8,388	Long Term Debtor	1,759
	Sources of Finance	
-634	Capital receipts	-
-107,008	Government grants and other contributions	-100,407
-3,736	Sums set aside from revenue	-2,205
-3,405	Direct revenue contributions	-1,625
-25,061	Minimum Revenue Provision	-24,877
-158	PFI Deferred Income	-166
559,695	**Closing Capital Financing Requirement**	**681,681**

	Explanation of movements in year	
27,896	Increase in underlying need to borrowing (unsupported by government financial assistance)	114,397
-25,061	Minimum Revenue Provision	-24,877
16,068	Assets acquired under finance leases/PFI	32,632
-158	PFI Deferred Income	-166
	Prior year REFCUS adjustment	
18,745	**Increase / (decrease) in Capital Financing Requirement**	**121,986**

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Note 35: 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 xx) 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 March 2013 £000		**31 March 2014 £000**
	Finance lease liabilities:	
59	Not later than one year	59
236	Later than one year but not later than five years	236
383	Later than five year	324
288	Finance costs payable in future years	263
966	Minimum lease repayments	**882**

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

31 March 2013 £000		**31 March 2014 £000**
	Operating lease liabilities - land and buildings:	
2,736	Not later than one year	2,307
12,006	Later than one year but not later than five years	6,834
15,136	Later than five year	11,395
29,878		**20,536**

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

31 March 2013 £000	Amounts charged to the Comprehensive Income and Expenditure Statement during the year Operating leases - land and buildings	**31 March 2014 £000**
3,151	Minimum lease payments for the year	3,389
90	Contingent rents in year	75
0	Sublease payments receivable in year	0
3,241		**3,464**

8

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.

Council as Lessor
Operating Leases
The council leases out property under operating leases for the following purposes:

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

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

31 March 2013 £000		**31 March 2014**
	Lease liabilities - land and buildings:	
1,091	Not later than one year	3,408
2,411	Later than one year but not later than five years	12,003
8,817	Later than five year	13,525
12,319		**28,936**

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 36: Private finance initiatives and similar contracts
In 1999 the council entered into a 25-year contract for waste disposal with Surrey Waste Management. The annual payments under the contract are in part dependent upon the tonnage of waste sent for disposal so that the contractor manages demand risk at higher tonnage levels whereas this risk falls on the council if tonnages fall. A large proportion of the investment remains to be delivered. As a result the council faces a contingent liability as described in note 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
8 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:

	2012/13		**2013/14**	
	Land & Buildings £000	Infrastructure £000	**Land & Buildings £000**	**Infrastructure £000**
Gross cost at 1 April	79,120	31,139	**79,120**	**47,207**
Additions		16,068	**16,564**	**16,068**
Gross Cost at 31 March	79,120	47,207	**95,684**	**63,275**
Accumulated Depreciation and Impairment at 1 April	-13,868	-2,122	**-15,212**	**-4,046**
Depreciation charge for the year	-1,344	-812	**-2,545**	**-837**
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-	-1,112	**-**	**-1,112**
Accumulated Depreciation and Impairment at 31 March	-15,212	-4,046	**-17,757**	**-5,995**
Net book Value at 1 April	65,252	29,017	**63,908**	**43,161**
Net book value at 31 March	63,908	43,161	**77,927**	**57,280**

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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 2014 (based on 2013/14 prices, excluding any estimation of inflation and availability/performance deductions) are as follows:

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	Payable in 2014/15 £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	35,912	158,759	243,152	21,173			**458,996**
- Anchor Trust	16,087	64,345					**80,432**
- Care UK	8,473	33,893	42,366	25,419			**110,151**
- Street Lighting	3,055	7,642	9,630	10,045	10,873	2,021	**43,266**
	63,527	264,639	295,148	56,637	10,873	2,021	**692,845**
Reimbursement of Capital Expenditure							
- Waste	3,441	38,737	54,294	10,173			**106,645**
- Anchor Trust	1,611	8,655					**10,266**
- Care UK	80	370	605	459			**1,514**
- Street Lighting*	897	7,384	12,224	17,099	24,532	5,644	**67,780**
	6,029	55,146	67,123	27,731	24,532	5,644	**186,205**
Interest							
- Waste	872	20,692	15,740				**37,304**
- Anchor Trust	552	1,170					**1,722**
- Care UK	92	318	254	57			**721**
- Street Lighting	6,047	26,218	29,701	24,411	16,150	1,767	**104,294**
	7,563	48,398	45,695	24,468	16,150	1,767	**144,041**
TOTAL	**77,119**	**368,183**	**407,966**	**108,836**	**51,555**	**9,432**	**1,023,091**

* 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:

2012/13 Finance Lease Liability £000	2012/13 Deferred Income Liability £000		**2013/14 Finance Lease Liability £000**	**2013/14 Deferred Income Liability £000**
-43,471	-12,664	Balance outstanding at the start of the year	**-55,907**	**-12,506**
3,632		Payments during the year	**5,906**	
-16,068		Capital expenditure incurred in the year	**-32,632**	
	158	Amortisation of deferred income		**166**
-55,907	-12,506	Balance outstanding at year end	**-82,633**	**-12,340**

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

31/03/12 £000		31/03/14 £000
68	not later than one year	**87**
342	later than one year but not later than 5 years	**319**
842	later than 5 years	**777**
1,252		**1,183**

Note 37: 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. 8

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

In 2013/14, the council paid £52.8m to teachers' pensions in respect of retirement benefits, representing 14.1% of pensionable pay. The figures for 2012/13 were £53.6m and 14.1%. The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and the council is not liable to the scheme for any other entities' obligations under the scheme.

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

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

In 2013/14 the council paid £220,000 to NHS pensions representing 14% of pensionable pay (2012/13, £0).

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Note 38: Defined benefit pension schemes

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

Surrey County Council contributes to two defined benefit schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Surrey County Council, is a funded defined benefit 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

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

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

Transactions relating to post-employment benefits
The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions.
The 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:

Changes to IAS19 have been adopted by the code of practice for the first time in 2013/14. Comparators for 2012/13 have been produced to show what the figures in 2012/13 would have been under the new accounting policy. The 2012/13 return on plan assets figure has been reduced by £9.3m and actuarial gains/losses has increased by £9.3m. This change has no impact on the total amount changed to the income and expenditure statement and it is not deemed to be a material change requiring a third balance sheet.

	Local Government Pension Scheme Restated 2012/13 £000	Local Government Pension Scheme **2013/14 £000**	Firefighters' pension scheme Restated 2012/13 £000	Firefighters' pension scheme **2013/14 £000**
Comprehensive Income & Expenditure Statement				
Cost of Services:				
- current service cost	45,631	**67,840**	9,700	**11,300**
- past service cost	-1,437	**-456**		
- (gain)/loss on settlements	-4,008	**-17,232**		
Financing & Investment Income & Expenditure				
-other operating expenditure (trading services)	1,141			
- net interest on the net defined benefit liability	25,159	**27,736**	18,100	**19,900**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	66,486	**77,888**	27,800	**31,200**
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
- return on plan assets (excluding the amount included in the net interest expense)	-112,882	**-59,189**		
- actuarial gains and losses arising on changes in demographic assumptions		**42,018**		**11,000**
- actuarial gains and losses arising on changes in financial assumptions	193,724	**-12,009**	45,200	**18,200**
- other experience	-1,113	**96,439**	-100	**-100**
Total remeasurement of the net defined benefit liability	79,729	**67,259**	45,100	**29,100**
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	146,215	**145,147**	72,900	**60,300**
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	-57,173	**-77,888**	-27,800	**-31,200**
Actual amount charged against the General Fund Balance for pensions in the year:				
- employers' contributions to the scheme/ retirement benefits paid direct to pensioners	55,524	**59,317**	12,061	**13,557**

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

	Local Government Pension Scheme		Firefighters Pension Scheme	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Present value of the defined benefit obligation	-1,833,753	-2,042,976	-442,581	-489,324
Fair value of plan assets	1,205,623	1,329,016		
Net liability arising from defined benefit obligation	-628,130	-713,960	-442,581	-489,324

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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	
	2012/13 £000	**2013/14 £000**	2012/13 £000	**2013/14 £000**
Opening Balance at 1 April	-1,564,013	**-1,833,753**	-381,742	**-442,581**
Current service cost	-46,772	**-67,840**	-9,700	**-11,300**
Interest cost	-74,834	**-82,182**	-18,100	**-19,900**
Contributions by scheme participants	-16,581	**-18,980**	-2,300	**-2,600**
Remeasurements:				
- Actuarial gains and losses arising on changes in demographic assumptions		**42,018**		**-11,000**
- Actuarial gains and losses arising on changes in financial assumptions	-193,724	**-12,009**	-45,200	**-18,200**
- Other experience	1,113	**96,439**	100	**100**
Actuarial gains and losses				
Pensions and lump sum expenditure			13,800	**13,000**
Benefits paid	54,195	**63,039**		
Past service costs	1,437	**456**		
Losses/(gains) on curtailments	6,695	**24,763**		
Settlements				
Employer contributions adjustment*	-1,269	**-2,031**	561	**3,157**
Closing balance at 31 March	-1,833,753	**-2,042,976**	-442,581	**-489,324**

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

	Local Government Pension Scheme		Firefighters' pension scheme	
	2012/13	**2013/14**	2012/13	**2013/14**
	£000	**£000**	£000	**£000**
Opening fair value of scheme assets at 1 April	1,026,574	**1,205,623**		
Interest income	58,988	**54,446**		
Remasurement:				
Return on assets excluding amounts included in net interest	103,569	**59,189**		
Employer Contributions	55,524	**59,317**		
Employer contributions adjustment*	1,269	**2,031**		
Contributions by scheme participants	16,581	**18,980**		
Benefits paid	-54,195	**-63,039**		
Settlements	-2,687	**-7,531**		
Closing fair value of scheme assets at 31 March	1,205,623	**1,329,016**		

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

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IAS 19 changes

In June 2011 the International Accounting Standards Board (IASB) issued a new version of IAS19 applying to financial years starting on or after 1 January 2013 and therefore has been adopted by the council for the first time in 2013/14.

The key change is that the interest cost and expected return on assets components of profit are now combined into a net figure. Actuarial gains and losses are now categorised into remeasurements arising from changes in demographic assumptions, changes in financial assumptions and other experience. In effect this means that the expected return has been replaced by a figure that would be applicable if the expected return on assets assumption was equal to the discount rate. An employer can therefore no longer show higher profits where a scheme invests in assets expected to generate higher returns (or lower profits where it invests in assets expected to generate lower returns).

The actuary recalculated the 2012/13 figures following the new accounting standard. Under the new accounting standard the actuary determined that the expected return on assets would decrease by £9.3m and a corresponding increase in actuarial gains/losses of £9.3m would need to be recognised. The impact of the changes has no impact on the amounts charged to the general fund.

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £1,203m has a substantial impact on the net worth of the council as recorded in the Balance Sheet. The statutory arrangements for funding the deficit, however, mean that the financial position of the council remains stable:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid;

- The council is making lump sum payments to the pension fund in addition to the contributions related to current employees. This has the aim of eliminating the council's share of the pension fund deficit by 2033.

Basis for estimating assets and liabilities
Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and the Firefighters' Pension Scheme have been assessed by the council's actuaries, Hymans Robertson using the latest full valuation of the scheme as at 31 March 2013.

8 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	
	2012/13	**2013/14**	2012/13	**2013/14**
Mortality assumptions:				
- longevity at 65 for current pensioners (60 for firefighters):				
- Men	21.9 years	22.5 years	28.1 years	29.3 years
- Women	24.0 years	24.6 years	31.0 years	31.5 years
- longevity at 65 for future pensioners (60 for firefighters):				
- Men	23.9 years	24.5 years	29.7 years	30.9 years
- Women	25.9 years	26.9 years	32.5 years	33.0 years
Rate of inflation	3.2%	3.6%	3.3%	3.7%
Rate of increase in salaries*	5.1%	4.1%	3.5%	3.9%
Rate of increase in pensions	2.8%	2.8%	2.5%	2.9%
Rate for discounting scheme liabilities	4.5%	4.3%	4.8%	4.3%
Take-up of option to convert annual pension into retirement lump sum	25%	25%	-	-

* 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.

Sensitivity analysis

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

	Local Government Pension Scheme		Firefighters Pension Scheme	
	Approximate % increase to employer liability	Approximate monetary amount	Approximate % increase to employer liability	Approximate monetary amount
		£000		£000
0.5% decrease in real discount rate	10%	194,853	10%	47,000
1 year increase in member life expectancy	3%	61,066	3%	14,700
0.5% increase in the salary increase rate	3%	57,681	2%	8,200
0.5% increase in the pension increase rate	7%	134,887	8%	40,200

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

31-Mar-13 Quoted prices in active markets £000	31-Mar-13 Percentage		**31-Mar-14 Quoted prices in active markets £000**	**31-Mar-14 Percentage**
		Quoted prices in active markets		
		Equity securities		
96,042	8%	Consumer	**112,111**	**8%**
85,989	7%	Manufacturing	**90,897**	**7%**
52,757	4%	Energy & utilities	**64,484**	**5%**
76,640	6%	Financial institutions	**86,730**	**7%**
41,059	3%	Health & care	**48,560**	**4%**
63,575	5%	Information technology	**72,285**	**5%**
416,062			**475,067**	
		Debt securities		
54,036	4%	Corporate bonds (investment grade)	**50,769**	**4%**
1,023	0%	Corporate bonds (non-investment grade)	**2,267**	**0%**
30,226	3%	UK government	**30,533**	**2%**
6,671	1%	Other	**8,612**	**1%**
91,956			**92,181**	
		Real estate		
42,853	4%	UK property	**45,384**	**3%**
14,740	1%	Overseas property	**28,297**	**2%**
57,593			**73,681**	
		Investment funds & unit trusts		
332,024	28%	Equities	**370,503**	**28%**
120,645	10%	Bonds	**119,142**	**9%**
113,383	9%	Other	**130,678**	**10%**
566,052			**620,323**	
		Derivatives		
-147	0%	Interest rate	**94**	**0%**
-2,537	0%	Foreign exchange	**6,240**	**0%**
-2,684			**6,334**	
33,785	3%	Cash & cash equivalents	**10,911**	**1%**
1,162,764	96%	Sub-total	**1,278,497**	**96%**
		Quoted prices in non-active markets		
42,858	4%	Private equity	**50,518**	**4%**
1,205,622	**100%**	**Total**	**1,329,015**	**100%**

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

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

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

Impact on the council's cash flows
The council has a stabilisation strategy in place to keep employer contributions at a consistent rate as possible. The council has agreed a strategy with the fund's actuary to achieve 100% funding over the next 20 years. The council's employer contribution rate is set at a level to help achieve this objective. The contribution level is periodically reviewed as part of the triennial valuation to ensure it is appropriate The most recent review was as at the 31 March 2013 and the next review will be as at 31 March 2016.

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

The council expects to make employer contributions of £61m to the LGPS in 2014/15.

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

	LGPS		**Firefighters**	
	Liability split	**Weighted average duration (years)**	**Liability split**	**Weighted average duration (years)**
Active members	43.2%	24.0	48.4%	25.7
Deferred members	19.6%	23.1	2.5%	25.3
Pensioner members	37.2%	11.3	49.1%	12.3
Total	**100.0%**	**18.5**	**100.0%**	**19.1**

Note 39: 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 2014 the council had the following contingent liabilities:

- The council embarked upon a PFI for waste disposal in 1999. By the end of 2013/14 £124.1m 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.

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- Since 2006 the council has been receiving a '"firefighters' pensions top up grant". In May 2014 it became apparent that the council has been receiving funding from the Department of Local Government and Communities (DCLG) for an element of firefighter pensions relating to injury awards that should have been borne by the council under the terms of the scheme. The council has not received this element, amounting £1.3m, in 2013/14. The council is currently in discussion with DCLG on resolving this issue but a liability may arise to repay some or all of the additional funding received in previous years.

- In 2001, the County Council arranged for consultants to undertake a desk review of the potential liabilities at a number of closed landfill sites where some responsibility for the impact of the waste remained with the Council. During 2013/14 a review of this assessment was carried out to ascertain how investigation strategies have developed since the initial report was issued and update potential remedial works and possible costs should a site be found to be contaminated. These liabilities would occur if the local District and Borough Councils, who are the enforcing authorities, investigate the sites and oblige the Council to take action under the provisions of Part IIA of the Environment Protection Act 1990. The review concluded that the likelihood of remedial work being required in relation to one closed landfill site was high and the estimated cost of these works has been included as a provision (see Note 20). The potential costs identified in relation to the other sites range from between £2.8m to £3.3m. These costs are considered to be less likely to be incurred and to date very few investigations have taken place. The Council would seek to share any eventual liabilities with those in ownership of the sites when they were landfilled.

- 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.

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, including the arrangements for the management of risk.

The council is committed to fulfilling its responsibilities in accordance with the highest standards of good governance to support the 2018 vision "to be delivering great value for Surrey residents" and the council has adopted a Code of Corporate Governance (the code), through which good governance is evidenced.

This Annual Governance Statement (AGS) outlines the council's governance arrangements and achievements during 2013/14 and highlights areas to continue to strengthen governance and internal control in 2014/15. It also meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2011, which requires the council to prepare an Annual Governance Statement.

The annual 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. The panel meets four times a year and reports to the Corporate Leadership Team and the Audit and Governance Committee. The review has provided a satisfactory level of assurance on the governance arrangements for the year.

The governance environment during 2013/14
<u>Purpose and Outcome</u>
The Corporate Strategy, 'Confident in our future', provides 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, Investment Strategy and directorate strategies. The Chief Executive reports progress on delivering the Corporate Strategy to full County Council on a six-monthly basis.

The council has established a strategic framework for innovation and is developing new ideas and approaches through new models of delivery that aim to ensure that services are sustained and improved. The framework has been cited as an example of good practice within the Grant Thornton report Local Government Governance Review 2014, Working in Tandem. The council's 'Lean programme' also uses a range of concepts, principles and tools that identify and support effective service delivery from the residents' and service users' perspective. A Chief Digital Officer has been appointed to ensure the council has the most suitable and efficient digital solutions to meet its needs and the needs of residents.

The council has established two Local Authority Trading Companies during the year and has put in place a Shareholder Board (comprising members and the Chief Executive) that acts with the delegated authority of Cabinet to oversee activity and ensure satisfactory performance. Similarly, the council has progressed its Investment Strategy by investing in new assets during the year and has established a member led Investment Advisory Board to provide strategic oversight of this strategy. Both these Boards are supported by relevant internal and external professional advisors. In addition, a high level Programme Board, including the Strategic Director for Business Services, Section 151 Officer and Monitoring Officer, monitors the overall progress of the 'New Models of Delivery Programme.' In addition, the council continues to optimise the use of its existing physical assets.

Scorecards are used to monitor progress against the corporate strategy objectives, measured through a variety of key indicators related to staff, costs, residents, and performance. Finance, performance and risk information is reviewed by senior management and scrutinised by Select Committees and Cabinet. The Leadership risk register is regularly reviewed by the Continual Improvement Board and Audit and Governance Committee.

The council's Fairness and Respect strategy sets out priorities for improving outcomes for Surrey residents that are linked to the Corporate Strategy.

<u>Leadership & Behaviour</u>
The roles, responsibilities and delegated functions for officers and members are set out in the Constitution of the Council. The Scheme of Delegation for members and officers is regularly reviewed and updated in consultation with services and the Cabinet, before being
8 approved by full County Council.

The Cabinet comprises the Leader, Deputy Leader and eight Cabinet Members, with each Member holding the brief for a particular portfolio of services. During 2013/14 the Cabinet has been further supported by four Associate Cabinet Members who do not have voting rights, but support the Cabinet portfolio holder in the most complex areas. Decisions can be taken by individual members of the Cabinet or collectively by the full Cabinet (excluding Associates).

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.

During 2013/14 the Chief Finance Officer met her financial responsibilities and ensured fully effective financial management arrangements were in place by attending key meetings where significant financial issues were discussed, including the Continual Improvement Board, all Cabinet meetings and Audit and Governance Committee. She also had regular meetings with the Chief Executive, the Leader, Monitoring Officer, Chief Internal Auditor and External Auditor, and had direct access to the Leader and the Chief Executive at all times. She continued to be able to instigate whole Cabinet / Corporate Leadership Team budget related workshops as required, which occurred monthly throughout the budget planning cycle. In addition, briefings for all members were held most months and finance induction workshops specifically targeted at members joining the council were held following the May 2013 elections. Although during the year the Chief Finance Officer reported to the Strategic Director for Business Services, this did not restrict her powers and responsibilities in respect of the financial affairs of the council.

In recognition of the increasingly significant contributions that the Section 151 Officer and Monitoring Officer are required to make to the strategic direction of the council, their job titles changed in May 2014 to Director of Finance and Director of Legal and Democratic Services and they report directly to the Chief Executive.

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. The Monitoring Officer and the Member Conduct Panel deal with allegations of breaches of the Member Code of Conduct. The register of pecuniary interests for all members can be viewed online. The Chief Executive continues to show his commitment to engage with and support staff by providing regular updates and key messages through emails and the intranet via a monthly blog. He also regularly visits offices across the county with the Leader to meet, listen, learn and engage with staff.

Transparency and Stewardship
The council produces an Annual Report that demonstrates the delivery of priorities over the year through highlighting key data on performance, notable achievements and includes the AGS and 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 and members with robust information for measuring performance. The 2013/14 Statement of Accounts will be audited and approved for publication by the end of July 2014. In the past this formal approval has been in early September.

The Investment Panel continues to ensure all proposed service capital investments have robust business cases before formal approval by Cabinet or Cabinet Member as appropriate. 8
It is chaired by the Chief Finance Officer and Deputy Director for Business Services and since 2013/14 comprises five senior managers including the Chief Property Officer, Chief Internal Auditor and Head of IMT, as well as other heads of service to ensure a broad perspective for challenge. The council has a significant schools building programme and recognises the importance of strong scrutiny of business cases ahead of commitment to each additional site as the programme rolls out.

The council is continuously improving its use of systems and technology to enhance and strengthen monitoring and reporting. New easy to use budget monitoring tools and performance systems were introduced in 2013/14 and are providing officers and members with up to date and consistent financial information.

The council's external auditors' report on financial resilience positively concluded that 'whilst the council faces some significant risks and challenges during 2013/14 and beyond, its current arrangements for achieving financial resilience are adequate, or better.'

The council's risk management policy statement and strategy are part of the Constitution and are reviewed annually. The Strategic Risk Forum was established in 2013/14 and draws together lead officers from across the council to review and challenge risks and ensure a consistent risk approach is adopted. During the year it has given particular focus on developing the council's awareness of its risk culture.

The council has six select committees who provide challenge to the Cabinet and continue to strengthen 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 County 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 (the 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.

A Pension Fund Board was established during the year to take decisions on behalf of the council as the administering body for the Local Government Pension Scheme. The formal make up of this Board is recognised as representing best practice and follows a review of governance arrangements carried out by an independent advisor.

The annual review of the effectiveness of the system of internal audit encompassed a self assessment of conformance with the Public Sector Internal Audit Standards (PSIAS) and a review of the level of member and officer focus on audit findings and recommendations. The 2013/14 review concluded that in all significant respects, the council's Internal Audit function complies with PSIAS. The review provided positive assurance that senior officers across the council have a good level of awareness of audit activity taking place and of progress in implementing audit recommendations.

The gifts and hospitality register for officers is online and provides a means for staff to easily register anything offered or accepted, making the entire process transparent.

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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, information is 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).

The performance of each directorate is monitored by the production of a scorecard of performance, which is presented to management teams to highlight areas of concern and success and encourage steps taken to improve upon success and remedy failings. These scorecards are then published online on a monthly basis.

People

The People Strategy is annually refreshed to reflect the council's people priorities. It covers employees and the wider workforce, including volunteers, charities and members of the public who help the council to help residents.

The council continues to invest in staff and members to ensure engagement and motivation. 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 and a pilot high performance development programme (planned for roll out in 2014/15) are in place across the organisation to support staff with career development and/or find solutions to issues and problems.

The council holds the Charter for Elected Member Development. A career pathway for members has been created to encourage all members to work on their personal development and highlight key skills and learning that is needed to help them progress through their career path.

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 develop Surrey-i, which publishes information about the council's residents and communities. It gives public service professionals, partner organisations and the public improved access to essential data, including customer needs, demand and supply side data. Information is now available in snapshots (eg on crime and health), which bring together information in a visual and user friendly way.

The council has strengthened the public participation arrangements for each of its 11 local committees that deal with local County Council decision making.

The Council worked together with residents and partners to cope with the severe flooding as well as aid the recovery post flooding. This included staff relocating from the Runnymede Centre to allow it to be used as a base for the army to help to support residents.

The council is part of the Government's Public Service Transformation Programme and is working closely with partners on projects including emergency service collaboration, Supporting Families and health and social care integration. The vision is that services will shift towards prevention and earlier intervention in order to deliver better value for money.

The SE7 Councils, consisting of seven South East councils, are continuing to work together to identify savings from joint working. Progress is being made in the waste and highways workstreams. The council is also building on successful arrangements with East Sussex County Council to develop further efficiencies. 8

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 2013/14 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:

- **Information Governance -** further work is required to raise awareness of the information governance risks across the organisation. Key to this is not only the need to ensure policies and procedures are clear and up to date and easily accessible to staff but to ensure local controls are in place to ensure compliance with them.
- **Social Care Debt –** improvements identified through Internal Audit and service led reviews, need to be fully embedded. This will ensure that more of the monies due to the council are received in a timely manner and appropriate action taken where credit balances exist.
- **Children in Care Health and Dental Checks –** there is a need to reduce the current delay between the time Children's Services are notified of a completed health check and the corresponding paperwork being received so that the completion of the health check can be properly validated. Further work is required to clear a backlog of health assessments for children placed outside Surrey.

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 2014/15

The council's strategic plans need to remain focussed on continuing to strengthen our relationships with residents, businesses and all partners, developing innovative solutions, and planning and managing our finances carefully and responsibly.

The council will continue to take a more networked approach that ensures it acts as one team in delivering strategic objectives and priorities. This will help ensure high performance in the day to day delivery of services while mobilising the resources of the whole organisation to secure the most effective new ways of working.

Effective learning remains a key part of our approach. The learning process is crucial if we are to meet our responsibilities to residents now and in the future. As part of this we have a duty to understand and address any mistakes we do make.

We recognise that despite our achievements to date, we face further challenges ahead and therefore it is even more important that we have a strong and resilient organisation. Strong relationships will be ever more essential over the coming years and our relationship with partners and residents will strengthen our ability to deal with the challenges we face and successfully transform services.

Signed:

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	David McNulty
Leader of the Council	Chief Executive
July 2014	July 2014

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. 8

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 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 £9.4m.

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.

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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.

2012/13 £000	Ref: Note	Fire-fighter Pension Fund Account	2013/14 £000
		Contributions Receivable:	
-3,960	1	Contributions receivable from employer (normal)	-3,953
-2,270	1	Contributions receivable from employees	-2,575
-42	3	Individual transfers in from other schemes	-250
-6,272			**-6,778**
		Benefits payable	
12,103	2	Pensions	11,070
1,768	2	Commutations and lump sum retirement benefits	1,032
0	3	Individual transfers out to other schemes	169
13,871		Total amounts payable	**12,272**
7,599		**Net amount receivable for the year before top-up grant**	**5,494**
-4,926	4	Top-up grant received from DCLG	-5,415
-2,673	4	Top-up grant still owing from DCLG	-79
-7,599		Net amount payable / receivable for the year	**-5,494**

Net Asset Statement

31 March 2013 £000		31 March 2014 £000
	Current Assets:	
2,673	Pension Top-up Grant Receivable from Central Government	**79**
2,673		**79**
	Current Liabilities:	
-2,673	Cash Overdrawn	**-79**
-2,673		**-79**

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 £5.494m in 2013/14 (£7.599m in 2012/13) as contributions are insufficient to meet the cost of pension payments due for the year of which £5.415m was received in year leaving a outstanding balance of £79,000 due from government.

The council has been receiving the top up grant since 2006. In May 2014 it became apparent that the council has been receiving funding under the grant for an element of firefighter pensions relating to injury awards that should have been borne by the council under the terms of the scheme. The council has not received this element, amounting £1.3m, in 2013/14. The council is currently in discussion with DCLG on resolving this issue but a liability may arise for the council to repay some or all of the additional funding received in previous years. This issue does not impact on the pension fund itself as the funding will ultimately be provided by the council or the central government. 8

SURREY PENSION FUND ACCOUNTS 2013/2014

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The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2013/2014 and of the disposition of its assets at 31 March 2014.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over 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 2013 and 31 March 2014 are:

31 Mar 2013		**31 Mar 2014**
30,608	Employees in the fund	32,530
20,553	Pensioners	21,598
27,648	Deferred pensioners	30,639
78,809	**Total**	**84,767**

Surrey pension fund account

2012/2013 £000		Note	2013/2014 £000
	Contributions and benefits		
159,544	Contributions receivable	7	**149,615**
13,833	Transfers in	8	**14,751**
173,377			**164,366**
-113,893	Benefits payable	9	**-119,223**
-7,945	Payments to and on account of leavers	10	**-6,255**
-1,867	Administrative expenses	14	**-1,928**
-123,705			**-127,406**
49,672	**Net additions from dealings with members**		**36,960**
	Return on investments		
41,687	Investment income	17	**47,758**
-1,042	Taxes on income	16	**-1,081**
278,985	Change in market value of investments	18	**175,422**
-6,856	Investment management expenses	15	**-10,275**
312,774	**Net return on investments**		**211,824**
362,446	**Net increase in the fund during the year**		**248,784**
	Net assets of the fund		
2,196,270	**At 1 April**		**2,558,716**
2,558,716	**At 31 March**		**2,807,500**

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Net asset statement

31 Mar 2013 £000		Note	31 Mar 2014 £000
	Investment assets	18	
347,863	Fixed interest securities		**352,134**
99,100	Index linked securities		**94,675**
1,574,687	Equities		**1,747,131**
120,748	Property unit trusts		**165,824**
238,986	Diversified growth		**270,937**
90,336	Private equity		**101,814**
	Derivatives	18c	
-	- Futures		**31**
2,153	- Foreign exchange contracts		**7,865**
59,723	Cash		**39,212**
11,128	Other investment balances	18b	**9,676**
	Investment liabilities		
	Derivatives	18c	
-310	- Futures		**-66**
-7,500	- Foreign exchange contracts		**-3**
-3,810	Other investment balances	18b	**-7,718**
-	Borrowings		**-4,500**
2,533,104	**Net investment assets**		**2,777,012**
16,335	**Long-term debtors**	12	**14,520**
13,582	**Current assets**	11	**20,761**
-4,305	**Current liabilities**	13	**-4,793**
2,558,716	**Net assets of the fund at 31 March**		**2,807,500**

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 26 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 2013/14 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: 8

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

During 2013/14 the investment decision making and governance of the fund was undertaken by the Pension Fund Board, a committee of the Administering Authority, with representation on behalf of employers and members.

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 of services 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 ranged from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and new rates will apply from April 2014 onwards. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits
Pension benefits accrued under the LGPS to 31 March 2014 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 1 April 2008	**Service 1 April 2008 until 31 March 2014**
Basis of pension	1/80th of final salary	1/60th of final salary
Lump sum	Automatic lump sum 3 x 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 UK national 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 commenced on April 1 2014.

The changes will not affect those who currently receive pension payments. All pension benefits built up to 31 March 2014 will be treated according to the existing scheme rules.

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

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

LGPS 2014 employee contribution rates	
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 about the LGPS 2014 please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org) or the LGPS 2014 scheme website (http://www.lgps2014.org).

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Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at the year end at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 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 according to the International Accounting Standard (IAS) 19 is disclosed at note 26 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 may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2014 is reported as a current liability.

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 fund expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments 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 singularly priced, at the closing single price.

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

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

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

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

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

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

l) Financial 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. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with 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 2014 was £102 million (£90 million at 31 March 2013).

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 2014 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 in 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 disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £102 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 July 2014. 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

2012/2013 £000		2013/2014 £000
109,514	Employers	115,441
31,880	Members	34,174
18,150	Magistrates Court Services deficit funding	-
159,544		**149,615**

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2012/2013 £000		2013/2014 £000
78,045	Administering authority	77,812
50,889	Scheduled bodies	59,663
12,460	Admitted bodies	12,140
18,150	Magistrates Court Services deficit funding	-
159,544		**149,615**

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

2012/2013 £000		2013/2014 £000
-	Group transfers from other schemes	-
13,833	Individual transfers in from other schemes	14,751
13,833		**14,751**

Note 9: Benefits payable

By category

2012/13 £000		2013/14 £000
94,191	Pensions	99,529
16,818	Commutation and lump sum retirement benefits	17,092
2,840	Lump sum death benefits	2,519
44	Interest on late payment of benefits	83
113,893		**119,223**

By employer

2012/2013 £000		2013/2014 £000
54,388	Administering Authority	55,943
50,875	Scheduled Bodies	53,503
8,586	Admitted Bodies	9,694
113,849		**119,140**

The total does not include interest on late payment of benefits £83,427 (£43,874 2012/13)

Note 10: Payments to and on account of leavers

2012/2013 £000		2013/2014 £000
96	Group transfers to other schemes	0
7,814	Individual transfers to other schemes	6,222
30	Refunds of contributions	31
5	Payments for members joining state schemes	2
7,945		**6,255**

Note 11: Current assets

2012/2013		2013/2014
£000		**£000**
2,445	Contributions - employees	3,364
9,239	Contributions - employer	13,314
1,898	Sundry debtors	4,083
13,582		**20,761**

Analysis of current assets

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2012/2013		2013/2014
£000		**£000**
713	Central government bodies	1,984
10,907	Other local authorities	16,980
1,962	Other entities and individuals	1,797
13,582		**20,761**

Note 12: Long term debtors

2012/2013		2013/2014
£000		**£000**
16,335	Central government bodies	14,520
16,335		**14,520**

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms were agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). The fund's actuary determined the value of the pensioner and deferred liabilities remaining with the fund and calculated the retained assets to match these liabilities. The actuary determined that the assets were insufficient to match the liabilities and a that balancing payment would be required.

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2014 remains £16.335m but £1.815m is due in 2014/15, leaving a long term debtor of £14.520m.

Note 13: Current liabilities

2012/2013 £000		2013/2014 £000
4,257	Sundry creditors	4,731
48	Benefits payable	62
4,305		**4,793**

Analysis of current liabilities

2012/2013 £000		2013/2014 £000
1,157	Central government bodies	1,225
1,592	Other local authorities	1,550
1,556	Other entities and individuals	2,018
4,305		**4,793**

Note 14: Administrative expenses

2012/2013 £000		2013/2014 £000
901	Employee related	941
826	Support services	626
20	External audit fee	27
6	Legal and other professional fees	1
114	Actuarial fees	333
1,867		**1,928**

Note 15: Investment expenses

2012/2013 £000		2013/2014 £000
6,446	Management fees	9,929
252	Custody fees	218
7	Performance measurement services	7
151	Investment consultancy fees	87
-	Interest paid	34
6,856		**10,275**

Note 16: Taxes on Income

2012/2013		2013/2014
£000		**£000**
697	Withholding tax - equities	790
345	Withholding tax - property	291
1,042		**1,081**

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Note 17: Investment income

2012/2013		2013/2014
£000		**£000**
	Fixed interest	
8,143	UK	5,859
3,051	Overseas	5,554
	Index linked	
55	UK	2
	Equities	
15,648	UK	18,017
8,317	Overseas	10,244
5,116	**Property unit trusts**	6,069
1,118	**Diversified growth**	1,788
239	**Cash**	152
-	**Other**	73
41,687		**47,758**

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

Note 18a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2013	Purchases during the year and derivate payments	Sales during the year and derivative payments	Market movements	Market value at 31 Mar 2014
	£000	£000	£000	£000	£000
Fixed interest securities	**347,863**	65,341	-52,108	-8,962	**352,134**
Index linked securities	**99,100**	3,190	-4,096	-3,519	**94,675**
Equities	**1,574,687**	397,612	-362,932	137,764	**1,747,131**
Property unit trusts	**120,748**	49,281	-13,330	9,125	**165,824**
Diversified growth	**238,986**	25,135	0	6,816	**270,937**
Private equity	**90,336**	48,404	-37,804	878	**101,814**
Derivatives					
- Futures	**-310**	347	-345	273	**-35**
- Forex contracts	**-5,347**	5,727	-25,720	33,202	**7,862**
	2,466,063	**595,037**	**-496,335**	**175,577**	**2,740,342**
Cash	**59,723**			-155	**39,212**
Other investment balances	**7,318**				**1,958**
Borrowing	**-**				**-4,500**
	2,533,104			**175,422**	**2,777,012**

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	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**
Borrowing					
	2,191,793			**278,985**	**2,533,104**

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.

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 18b: Analysis of investments

	31 Mar 2013	31 Mar 2014
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	137,890	136,448
UK pooled funds	87,769	86,739
Overseas public sector & quoted	52,316	60,175
Overseas pooled fund	69,888	68,772
	347,863	**352,134**
Index linked securities		
UK public sector & quoted	2,945	2,199
UK pooled funds	96,155	92,476
	99,100	**94,675**
Equities		
UK quoted	452,587	513,497
UK pooled funds	209,571	237,645
Overseas quoted	423,779	460,880
Overseas pooled funds	488,750	535,109
	1,574,687	**1,747,131**
Property unit trusts	**120,748**	**165,824**
Diversified growth	**238,986**	**270,937**
Private equity		
Limited partnerships	38,683	49,201
Fund of funds	51,653	52,613
	90,336	**101,814**
Derivatives		
Futures	-310	-35
FX forward contracts	-5,347	7,862
	-5,657	**7,827**
Cash deposits	**59,723**	**39,212**
Borrowings		**-4,500**
Other investment balances		
Outstanding sales	5,008	3,291
Outstanding purchases	-3,810	-7,693
Tax due on accrued income		-25
Accrued income - dividends and interest	6,120	6,385
	7,318	**1,958**
Total investments	**2,533,104**	**2,777,012**

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Note 18c: 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 2014 the fund had two futures contracts in place with a net unrealised loss of £35,740 (net unrealised loss of £310,410 at 31 March 2013).

2013/14

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Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	20/06/2013	3 Months	UK Equity	3,992	31	
Futures	26/06/2013	3 Months	UK Government Bonds	10,077		-66

2012/13

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

Forward currency contracts
Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2014 the Fund had forward currency contracts in place with a net unrealised gain of £7,862,075 (net unrealised loss of £5,346,696 at 31 March 2013).

2013/14

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	AUD	HKD	8	-56		
1	One month	EUR	DKK	31	-234		
11	One month	EUR	GBP	260	-215		
6	Two months	GBP	EUR	105,885	-127,629	351	
1	One month	GBP	HKD	34	-443		
3	Two months	GBP	JPY	55,062	-9,092,353	2,079	
5	One month	GBP	USD	1,918	-3,191	4	
10	Two months	GBP	USD	242,455	-395,044	5,431	
1	One month	HKD	SGD	495	-80		
3	One month	JPY	GBP	80,204	-470		-3
1	One month	USD	AUD	9	-9		
						7,865	**-3**

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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**

8

Stock Lending

During the financial year 2013/14 the fund instigated a stock lending programme in partnership with the fund custodian. As at 31 March 14 the value of quoted securities on loan was £83.2m in exchange for collateral held by the fund custodian at fair value of £89.0m

Note 18d: Investments analysed by fund manager

Market value 31 March 2013 £000	%	Manager	Market value 31 March 2014 £000	%
792,326	32.8	Legal & General Investment Management	865,106	32.6
158,471	6.6	Majedie Asset Management	190,067	7.2
98,382	4.1	Mirabaud Asset Management	106,845	4.0
198,809	8.2	UBS Asset Management	236,582	8.9
341,002	14.1	Marathon Asset Management	365,046	13.8
190,680	7.9	Newton Investment Management	200,853	7.6
202,813	8.4	Western Asset Management	205,702	7.8
67,681	2.8	Franklin Templeton Investments	68,772	2.6
143,613	5.9	Standard Life Investments	148,437	5.6
95,372	3.9	Baillie Gifford Life Limited	122,500	4.6
128,307	5.3	CBRE Global Multi-Manager	143,060	5.4
2,417,456			**2,652,970**	

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 investment assets of the fund

Market value 31 March 2013 £000	% of total fund	Security	Market value 31 March 2014 £000	% of total fund
366,009	14.4	Legal & General World Developed Equity Index	410,273	14.8
197,336	7.8	Legal & General UK Equity Index	221,203	8.0
143,613	5.7	Standard Life Global Absolute Return Strategies	148,437	5.3

8

Note 19a: 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 2013				As at 31 March 2014		
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			
347,863			Fixed interest securities	352,134		
99,100			Index linked securities	94,675		
1,574,687			Equities	1,747,131		
120,748			Property unit trusts	165,824		
238,986			Diversified growth	270,937		
90,336			Private equity	101,814		
2,154			Derivatives	7,896		
	59,723		Cash		39,212	
11,128			Other investment balances	9,676		
	29,916		Debtors		35,281	
2,485,002	**89,639**			**2,750,087**	**74,493**	
			Financial liabilities			
-7,810			Derivatives	-69		
-3,810			Other investment balances	-7,718		
		-4,305	Creditors			-4,793
			Borrowings	-4,500		
-11,620		**-4,305**		**-12,287**		**-4,793**
2,473,382	**89,639**	**-4,305**		**2,737,800**	**74,493**	**-4,793**

Note 19b: 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.

31 March 2014	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,537,799	70,289	141,999	2,750,087
Total financial assets	**2,537,799**	**70,289**	**141,999**	**2,750,087**
Financial liabilities				
Financial liabilities though profit & loss	-12,287			-12,287
Total financial liabilities	**-12,287**			**-12,287**
Net financial assets	**2,525,512**	**70,289**	**141,999**	**2,737,800**

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31 March 2013	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,322,578	62,068	100,356	2,485,002
Total financial assets	**2,322,578**	**62,068**	**100,356**	**2,485,002**
Financial liabilities				
Financial liabilities though profit & loss	-11,620			-11,620
Total financial liabilities	**-11,620**			**-11,620**
Net financial assets	**2,310,958**	**62,068**	**100,356**	**2,473,382**

Note 19c: Book cost

The book cost of all investments at 31 March 2014 is £2,284,926,883 (£2,107,273,868 at 31 March 2013).

Note 20: Outstanding commitments

At 31 March 2014 the Fund held part paid investments on which the liability for future calls amounted to £107,414,081 (£101,599,103 as at 31 March 2013).

Note 21: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gain across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pension Fund. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) **Market risk**

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

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

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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 2013/14 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. The percentage change for

Asset type	**Value at 31 March 2014 £000**	**Change**	**Value on increase £000**	**Value on decrease £000**
UK equities	751,142	11.94%	840,828	661,456
Overseas equities	995,989	12.11%	1,116,603	875,375
Total bonds	352,134	5.55%	371,677	332,591
ILG	94,675	8.32%	102,552	86,798
Cash	39,212	0.02%	39,220	39,204
Property	165,824	2.40%	169,804	161,844
Diversified Growth Fund	270,937	4.43%	282,940	258,934
Total Investment Assets (1)	**2,669,913**	**8.49%**(2)	**2,896,589**	**2,443,237**

(1) The above table excludes private equity, derivatives and other investment balances.

(2) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

Asset type	Value at 31 March 2013 £000	Change	Value on increase £000	Value on decrease £000
UK equities	662,158	13.10%	748,901	575,415
Overseas equities	912,529	12.70%	1,028,420	796,638
Total bonds	347,863	5.30%	366,300	329,426
ILG	99,100	8.00%	107,028	91,172
Cash	59,723	0.00%	59,723	59,723
Property	120,748	2.40%	123,646	117,850
Total Investment Assets (1)	**2,202,121**	**8.31%**(2)	**2,385,117**	**2,019,125**

(1) The above table excludes diversified growth funds, private equity, derivatives and other investment balances.

(2) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton. 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 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 **As at 31**

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March 2013 £000		March 2014 £000
59,723	Cash & cash equivalents	39,212
347,863	Fixed interest securities	352,134
407,586	**Total**	**391,346**

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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 2014	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	39,212	392	-392
Fixed interest securities	352,134	3,521	-3,521
Total	**391,346**	**3,913**	**-3,913**

Asset type	Carrying amount as at 31 March 2013	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	59,726	597	-597
Fixed interest securities	347,863	3,479	-3,479
Total	**407,589**	**4,076**	**-4,076**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

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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 2013/14 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 2014 £000	% Change	Value on increase £000	Value on decrease £000
Overseas equities	526,139	5.30%	554,024	498,254
Fixed interest	12,268	5.30%	12,918	11,618
Property and Private Equity	83,469	5.30%	87,893	79,045
Cash and Other Assets	-388,294	5.30%	-408,874	-367,714
Total	**233,582**	**5.30%**	**245,961**	**221,203**

For comparison last year figures are included below.

Asset type	Value at 31 March 2013 £000	% Change	Value on increase £000	Value on decrease £000
Overseas equities	488,369	6.10%	518,160	458,578
Fixed interest	2,207	6.10%	2,342	2,072
Property unit trust	11,432	6.10%	12,129	10,735
Cash	2,701	6.10%	2,866	2,536
Total	**504,709**	**6.10%**	**535,497**	**473,921**

b) Credit risk

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

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

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

The fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy.. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties. The council operates a lowest common denominator approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund has a call account with NatWest Bank. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £15 million. The NatWest call account has a rating of A (or equivalent) with all three credit rating agencies

Balance at 31 March 2013 £000		**Balance at 31 March 2014 £000**
	Call account	
15,000	NatWest	
	Money market fund	
3,910	Royal Bank of Scotland	
	Current account	
343	HSBC	-402
19,253	Internally Managed Cash	-402
40,470	Externally Managed Cash	39,614
59,723	**Total Cash**	**39,212**

The fund's cash holding under its treasury management arrangements as at 31 March 2014 was £-0.4 million (£19.3 million at 31 March 2013).

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. 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
8 bank account in April 2011.

The fund is able to borrow cash to meet short-term cash requirements, The fund exercised this ability on a number of occasions during 2013/14 with one loan outstanding as at the 31 March 2014 for the value of £4.5m.

The fund currently has a long-term positive cash flow, which reflects the fact that contributions into the fund exceed benefits being paid out. Cash flow surpluses are invested with fund managers, given that the fund has an aim of being as fully invested as possible after allowing for the need to hold working balances. Regular rebalancing exercises take place, which involves assessing the level of internal cash available to be invested with managers.

d) Derivative risk

Some portfolios in which the fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Use of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

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Note 22: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2013/14 amounted to £59,321,037.33 (£55,659,746 in 2012/13).

2012/2013 £000		2013/2014 £000
37,035	Employers' current service contributions	42,483
17,354	Lump sum payments to recover the deficit in respect of past service	16,379
1,271	Payments into the fund to recover the additional cost of early retirement liabilities	459
55,660		**59,321**

ii) Surrey Pension Fund paid Surrey County Council £1,502,911 for services provided in 2013/14 (£1,537,236 in 2012/13).

2012/2013 £000		2013/2014 £000
198	Treasury management, accounting and managerial services	188
1,339	Pension administration services	1,315
1,537		**1,503**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2014 were £9,819,633 (£5,866,326 at 31 March 2013).

Note 23: 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.

2012/13 £	Position	2013/14 £	
19,991	Chief Finance Officer	20,057	1
58,456	Pension Fund & Treasury Manager	74,780	2
51,994	Senior Accountant	48,054	3
130,441		**142,891**	

1. 15% of time allocated to pension fund
2. 70% of time allocated to pension fund
3. 100% of time allocated to pension fund

Note 24: 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

8

Note 25 : Actuarial statement for 2013/14 - funding arrangements

This statement has been prepared in accordance with Regulation 34(1)(d) 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 2013/14.

Description of funding policy

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

- to achieve and then maintain a funding target that requires assets equal to 100% on an ongoing basis of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement;
- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised 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 65% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

8 The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,559 million, were sufficient to meet 72.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £980 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 2014

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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Pay increases *	3.8%	1.3%
Price inflation/Pension increases	2.5%	-

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	22.5 years	24.6 years
Future pensioners*	24.5 years	26.9 years

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Surrey County Council, the Administering Authority to the Fund.

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Experience over the year since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been broadly in line with that expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.The next actuarial valuation will be carried out as at 31 March 2016. 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

3 June 2014

Note 26: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2013/14 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 2014 £m	31 March 2013 £m
Present value of promised retirement benefits	4,151	3,982

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Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2013 comprises £1,768m in respect of employee members, £818m in respect of deferred pensioners and £1,565m 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. I have not made any allowance for unfunded benefits.

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 2014 is to increase the actuarial present value by £68m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2014	31 March 2013
Inflation/pension increase rate	2.8%	2.8%
Salary increase rate	4.1%	5.1%*
Discount rate	4.3%	4.5%

*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 Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a..

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 years	24.6 years
Future pensioners*	24.5 years	26.9 years

*Future pensioners are assumed to be currently aged 45.

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

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. 8

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' dated 14 April 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Barry McKay FFA

3 June 2014

For and on behalf of Hymans Robertson LLP

Note 27: Additional Voluntary Contributions

Market Value 2012/13 £000	Position	Market Value 2013/14 £000
7,602	Prudential	8,242
7,602		**8,242**

Additional Voluntary Contributions, net of returned payments, of £1,428,220 were paid directly to prudential during the year (£1,134,656 during 2012/13).

Note 28: 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 29: Annual report

The Surrey Pension Fund Annual Report 2013/2014 provides further details on the management, investment performance and governance of the Fund.

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Annex 1. Accounting Policies

i. General Principles
The statement of accounts summarises the council's transactions for the 2013/14 financial year and its position at the year end 31 March 2014. 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 2013/14 and the Service Reporting Code of Practice 2013/14 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 Accounting Concepts and Principles
The accounting concepts followed in the application of accounting policies are:

- Accruals - sums due to or from the Council during the year are included, whether or not the cash has actually been received or paid in the year.

- Going concern - this assumes that the Council will continue in existence for the foreseeable future.

The accounting concepts are supported by qualitative characteristics prescribed by the International Accounting Standards Board's Conceptual Framework for Financial Reporting:

- Two fundamental characteristics (relevance and faithful representation); and

- Four enhancement characteristics, which complement the fundamental characteristics (comparable, verifiable, timely and understandable).

Faithful representation is a new concept and has three characteristics:

- Completeness - the financial statements should include all information necessary for a user to understand them, including all necessary descriptions and explanations.

- Neutrality - the financial statements should be without bias in the selection or presentation of financial information.

- Free from error - there should be no errors or omissions in descriptions, or in the selection or application of the process used to produce the reported information.

ii. Recognition 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.

8 **Council tax and business rates**
Council tax and business rate income included in the comprehensive income and expenditure statement as local taxation is the total of the:
▪- Precept on the collection funds of each billing authority; and
- The council's share of the actual surplus / deficit on the collection funds of each billing authority at the end of the current year, adjusted for the council's share of the surplus / deficit on the funds at the preceding year end that has not been distributed or recovered in the current year.

Regulations then dictate that the amount credited to the general fund must be equal to the amount precepted as part of the annual budget process (ie the cash flow for the year). Therefore an adjustment is posted to the general fund though the movement in reserves statement to the collection fund adjustment account to mitigate the accrual on the general fund.

The collection of council tax and business rates is an agency arrangement. The Code requires that the council recognises on its balance sheet its share of arrears, impairment allowance for bad debts, overpayments and prepayments and collection fund surplus and deficit for both council tax and business rates. For business rates, an appeals provision has also been created to cover successful appeals by ratepayers against business rates charged in 2012/13 and earlier financial years in their proportionate share.

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, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the pension reserve to remove the notional debits and credits for pension enhancement termination benefits and are replaced with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-employment Benefits

Employees of the council may be members of four separate pension schemes:

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- 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 Nation Health Service (NHS) pension scheme is administered by the NHS

The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the council. The local government scheme is funded whereas the 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.

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

The NHS 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 Public Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to NHS pensions in the year.

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 the following components:

- Service cost comprising:

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

- Remeasurements comprising:

;

  - *return on plan assets* – excluding amounts included in the net interest on the net defined liability. Charged to the Pension Reserve as other comprehensive income and expenditure.;;
  - *actuarial gains and losses* – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or

because the actuaries have updated their assumptions are charged to the Pensions Reserve as other comprehensive income and expenditure.

- Contributions paid to the pension funds – cash paid as employer's contributions to the pension fund in settlement of liabilities are not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards for retirement benefits. In the Movement in Reserves Statement, appropriations are made to and from the pension reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pension reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The council does not make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to teachers are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

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

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

For most of the borrowings that the council has the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. 8

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.

<u>Available-for-Sale Assets</u>

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 the 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: 8

- 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

8 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

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

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. 8

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
8 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 2013/14 (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. 8

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 will not be maintained on the asset register nor held on the balance sheet. No formal de minimis limit applies to infrastructure assets.

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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
8 sale.

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is charged as an impairment to the appropriate service line in the Comprehensive Income and Expenditure Statement. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). The asset is then derecognised at zero value. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, are credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves' Statement. The written-off value of disposals is not a charge against council tax as the cost of 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.

Net rental income received is credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. These gains and losses are therefore reversed out of the general fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

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.

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.

Accruals
An accounting concept that recognises income when it is earned and expenditure when it is incurred, and not when cash is transferred. The inclusion of debtors, creditors and deprecation are examples of accruals.

Amortisation
The process of writing down the value of an intangible asset over time in order to spread the cost of the asset over the period of its useful economic life.

Assets held for sale
Properties that are being actively marketed and sale is expected in the next 12 months.

Assets under construction
Assets not yet ready for use. This could be new building works or road construction.

Balances
Balances are maintained for future years' budgets and to provide a cushion against expenditure being higher or income lower than expected. Contributions to balances can either be a planned contribution from the revenue budget or a transfer of any revenue surplus at the year-end. The maintenance of an appropriate level of balances is a fundamental part of prudent financial management.

Business Rates
See Non-Domestic Rates (NDR).

Capital expenditure
Expenditure on the acquisition or enhancement of a non-current asset. The cost of maintaining an asset at its current value is revenue expenditure.

Capital adjustment account
A balance sheet item, unique to local authority accounting, that is central to the capital accounting regime. The balance on the account cannot be used, but reflects the extent to which, to date, capital funding of assets has preceded depreciation of those assets.

Capital financing requirement
This represents the council's underlying need to borrow for capital purposes. The year on year change will be influenced by capital expenditure in each year.

Capital receipts
Proceeds from the sale of non-current assets. The council earmarks capital receipts to finance future capital expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)
The professional accountancy institute that sets the standards for the public sector. CIPFA publishes the accounting codes of practice for local government.

The Code of Practice on Local Authority Accounting
The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a true and fair view of the financial position and transactions of a local authority. It is based on International Financial Reporting Standards (IFRS), and has been developed by CIPFA/LASAAC under the oversight of the Financial Reporting Advisory Board.

Community assets
Assets that the local authority intends to hold in perpetuity which have no determinable useful life and which may have restrictions on their disposal. Example include the countryside estate and historic assets that are not used in service delivery.

Contingent Assets / Liabilities
Possible assets / liabilities, which may arise in the future if certain events, not wholly within the control of the authority, take place. Contingent assets / liabilities are not recognised in the accounts but are disclosed by way of a note if it is probable that an inflow / outflow of economic benefits will occur.

Corporate and democratic core
The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. It has two elements, corporate management and democratic representation and management. The activities within the corporate and democratic core are in addition to those, which would be incurred by a series of independent, single purpose bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

Creditors
Money owed by the council that is due immediately or in the short term. Creditors are an example of the concept of accruals.

Current service cost (pensions)
The increase in the present value of local government and fire fighter pension scheme's liabilities expected to arise from employee service in the current period.

Curtailment costs (pensions)
For a defined benefit scheme (such as LGPS and fire fighters) an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Debtors
Money that is due to the council but which has not yet been received. Debtors are an example of the concept of accruals.

Defined benefit scheme (pensions)
A pension or other retirement benefit scheme that defines the employees benefits and is independent of contributions and investment performance. Defined benefit schemes may be funded (local government pension scheme) or un-funded (fire fighters' pension scheme).

Depreciation
A charge to the revenue account to reflect the consumption or use of a tangible non-current asset in service delivery. There is a corresponding reduction in the value of the non-current asset.

Discounting
The process of determining the present value of a payment or a stream of payments that is to be received in the future. Given the time value of money, a pound is worth more today than it would be worth tomorrow given its capacity to earn interest. Discounting is the method used to figure out how much these future payments are worth today.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial instruments
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial year
The year of account, which runs from 1 April to 31 March.

Government grants
Financial assistance from central government, or its agents, in the form of cash transfers in return for compliance with certain conditions. These grants may be capital or revenue in nature.

Historic cost
The estimated value of an asset on the balance sheet based upon its original purchase cost less depreciation to date.

Impairment loss
The reduction in an asset's value due to physical deterioration or other factors beyond usual wear and tear.

Infrastructure assets
Non-current assets that cannot be taken away or transferred and from which benefit can only be derived through continued use. Examples of infrastructure assets are roads, bridges and footpaths.

Intangible assets
Intangible assets yield benefits to the council for more than one year but are without physical form. For example software licences and the development of website technology. Intangible assets are recorded at cost and amortised over their estimated useful economic life.

Interest cost (pensions)
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment properties
Any property (land or buildings) held solely for rental income or for capital appreciation or both. Investment properties are not used to support the strategy or service obligations of the local authority.

Leasing
This facility is a means to obtain the use of vehicles, plant and computer equipment without physically owning these items. Leases may be either operational, where the asset reverts to the lessor at contract end; or finance leases, where the assets passes to the lessee.

Lessee
A party to a lease agreement who makes payment to use an asset owned by another party.

Lessor
A party to a lease agreement who receives payment, from another party, for the use of an asset which they own.

Material
Information is said to be material if its omission or misstatement could influence the decisions users take on the basis of the financial statements. Materiality therefore relates to the importance or significance of an amount, transaction, or discrepancy. The assessment of what is material is a matter of professional judgment; the size and nature of the item under consideration must be taken into account in making this judgement.

Minimum revenue provision (MRP)
A statutory provision set aside for the repayment of external debt, equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.

Net current replacement cost
A method of valuation that estimates the cost of replacing or recreating an asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net realisable value
A method of valuation that estimates the open market value of an asset in its existing use (or open market value in the case of non-operational asset), less the expenses required realising the asset.

Non-Domestic Rates (NDR)
The rates paid by businesses. The amount paid is based on the rateable value of the premises they occupy (set by the Inland Revenue) multiplied by a national rate in the pound set by the government. The rates are collected by local authorities and paid over to the government. They are then redistributed to local authorities on the basis of the relevant population. Under the Business Rates Retention Scheme, locally collected business rates are shared between local and central government. In Surrey the business rates income is shared: 50% to central government, 40% to the district or borough council and 10% to the county council.

Non-distributable costs
Non-distributed costs are costs relating to retirement and unused and unusable shares of assets. These cannot be charged to current service revenue accounts.

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Past service cost (pensions)
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept
An amount levied on another public body in respect of the council tax. The county council collects its council tax share from district councils through a precept, and pays the Environment Agency for land drainage.

Provisions
Amounts set aside for any liabilities or losses that are likely to be incurred, but which are uncertain as to the amounts or the dates on which they will arise.

Prudential Code for Capital Finance in Local Authorities
The Prudential Code is a professional code of practice that supports local authorities in taking capital investment decisions. The code requires local authorities to set their own borrowing limits based upon affordability, sustainability and prudence.

Public Works Loan Board
A government agency providing long term loans to Local Authorities to finance part of their *Capital Expenditure.*

Reserves
These are amounts set aside for specific purposes. The council has discretion on whether it wishes to set aside these amounts as distinct from sums set aside in provisions. Movements on reserves are therefore charged or credited to the revenue account after the net cost of service provision has been determined. Revenue reserves are classified as earmarked reserves or as unallocated reserves or balances.

Revenue expenditure
Expenditure incurred on day to day running costs and confined to accounts within one financial year.

Revenue Expenditure Funded by Capital under Statute (REFCUS) is capital expenditure which does not give rise to an asset owned by the council. Examples include capital expenditure on foundation and voluntary aided schools.

Revenue Support Grant (RSG)
The principal way that central government funds local government revenue expenditure. This grant is non-specific and is based upon the government's assessment of how much a local authority should spend to provide a common level of service.

The Service Reporting Code of Practice (SeRCOP) sets out the financial reporting guidelines for local authorities, it supplements the principles and practices set out in the Code of Practice in Local Authority Accounting and aims to achieve consistency and comparability in the presentation of local authority service expenditure.

Soft Loans
Loans made by the authority at less than the prevailing market rate of interest.

Useful life
The period over which the Council will benefit from the use of a non-current asset.

Grant Thornton

The Audit Findings Report for Surrey County Council

DRAFT

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

Year ended 31 March 2014

22 July 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed 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.

Contents

Section 1: Executive summary

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 2014. 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. 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 24 March 2014

Our audit is nearing completion. We are finalising our procedures in the following areas:

- receipt and review of the final version of the financial statements
- receipt and review of the final versions of the Annual Report
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- final senior audit management and quality reviews

We received draft financial statements and accompanying working papers at the start of our audit (2 June 2014) in accordance with the agreed timetable. This was considerably earlier than in previous years.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

There is one adjustment affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements recorded net expenditure of £204,190k; the audited financial statements show net expenditure of £.203,285k This change was identified by the Council before the audit started and was caused by the Billing Authorities not providing Collection Fund information to the agreed schedule. We have also identified a number of adjustments to improve the presentation of the financial statements. Most of these related to the changes arising from the update to IAS 19 (Employee Benefits), which took effect from 1 April 2013.

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

- produced draft statements to a good standard
- needs to ensure that all services are committed to achieving the early sign-off timetable
- needs to ensure the quality of working papers is retained when working to a shorter deadline.

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

Value for Money (VfM) 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 will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

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.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

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 Director of Finance.

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 Director of Finance and the finance team.

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
July 2014

Section 2: Audit findings

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 24 March 2014. We also set out the adjustments to the financial statements arising 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 24 March 2014.

Audit opinion

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

We will not be in a position to issue our certificate certifying completion of our audit until we have undertaken the work required by the National Audit Office on your Whole of Government Accounts. This will be completed by the deadline of 3 October 2014.

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. • The initial working papers provided to support the revenue figures did not agree to the financial statements. This was caused by specific issues when exporting data from SAP to Excel. The Council is investigating possible solutions . • The Council has added specific accounting policies on revenue from Council Tax and National Non Domestic Rates.
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 journal 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 has not identified any significant issues. • We note that following a business efficiency review two years ago, journals are no longer independently authorised. Management gains assurance over the appropriateness of journals through running regular system reports. • 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. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	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 the whether those controls are designed effectively • Substantively tested operating expenses	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual 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 the whether those controls are designed effectively • Substantively tested payroll outputs, including teachers' pensions • Considered the impact of the changes to the Code of Practice requirements	Our audit work has not identified any significant issues in relation to the risk identified. We proposed amendments to the Council's IAS 19 disclosures to meet the updated requirements, and these are reflected in the revised financial statements.

Audit findings against other risks continued

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
Property, plant & equipment	PPE activity not valid	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 the whether those controls are designed effectively • substantively tested additions, disposals and reclassifications, including investment properties	Our audit work has not identified any significant issues in relation to the risk identified. One error (£2.7 million) was identified in relation to the incorrect calculation of depreciation on infrastructure assets. This error is immaterial to the financial statements and will be corrected by the Council in 2014/15.
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 walkthrough of the key controls to assess the whether those controls are designed effectively • substantively tested the revaluations, including consideration of the changes to the Code of Practice	The Council has not fully followed the Code requirements on Property, Plant and Equipment revaluations since not all of the asset class is revalued within one accounting period. It has provided evidence to demonstrate that the carrying value of those assets not revalued in year does not differ materially from the fair value at the balance sheet date. We have also requested specific management representation on the valuation of Property, Plant and Equipment.

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 (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. • 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: a) the Council will comply with the conditions attached to the payments, and b) the grants or contributions will be received.	• Following amendments identified through the audit process, the accounting policies are 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
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	• We proposed improvements to the Council's other accounting policies, which are reflected in the revised financial statements.	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

Accounting policies, estimates & judgements continued

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
Judgements and estimates	• Critical judgements include: - the recognition of grants and contributions - the accounting treatment of the Council's PFI scheme - whether group accounts should be prepared • Key estimates include: - the useful lives of property, plant and equipment - provisions - pension liability - provision for the impairment of receivables	• 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 2014 it had received £124.1 million in PFI credits, and in return has an obligation to invest in waste disposal infrastructure. Planning permission and the environmental licence for the Eco Park are still awaited and therefore a large proportion of this obligation has yet to be delivered. As such the Council has disclosed a contingent liability of £124.1 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. • During 2013/14 the Council undertook a review of its potential liabilities in respect of closed landfill sites . As a result of this the Council made a provision of £700k and a maximum potential contingent liability of £3.3m. • Having reviewed the transactions and balances of the Henrietta Parker Centre, S.E. Business Services Ltd and Surrey Choices Ltd and the Council has determined that they are not material to the single entity financial statements and has therefore not prepared group accounts.	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 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 primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	The Council had not received Council Tax and Business Rate returns from the majority of Surrey District and Borough Councils at the time of preparing the draft accounts and could therefore not process the Collection Fund Adjustment at that time.	(905)	905	(905)
	Overall impact	**(905)**	**905**	**(905)**

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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	9,000	Contingent Liabilities	During the course of the audit the Council identified that it had incorrectly accounted for pre-2006 Fire Fighters' injury benefit payments as expenditure within the Fire Fighters' Pension Fund, instead of charging the costs to Fire Services within the Comprehensive Income and Expenditure Account. This means that it had been over-claiming the Fire Fighters' Pension Fund top-up grant receivable from the Department of Communities and Local Government. The Council has contacted the Department, but has yet to receive confirmation of if, how, or when the overpayment will be recovered. It has therefore included its estimate of the overpayment as a contingent liability.
2	Disclosure	289,118	Carrying value of PFI liabilities	During our testing of the Council's financial liabilities in Note 15 it was identified that the carrying value had been overstated as a result of a typing error and should be disclosed as £289,118k instead of £265,118k. The amended value is reflected in the revised accounts.
3	Disclosure	27	Exit Packages	One disclosure was found to be in the incorrect banding since payment for loss of office was not included.

A number of other presentational adjustments were agreed with the Council to improve the financial statement disclosures.

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1	Incorrect calculation of depreciation on infrastructure assets	(2,715)	2,715	Immaterial to the financial statements and to be corrected in 2014/15.
	Overall impact	**(2,715)**	**2,715**	

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	The Council has not fully followed the Code requirements on Property, Plant and Equipment revaluations since not all of the asset class is revalued within one accounting period.	The Council should review its revaluation methodology to ensure that Property, Plant and Equipment remains fairly stated.
2.	● AMBER	The Council currently reconciles the opening net book value of Property, Plant and Equipment rather than the opening gross values and accumulated depreciation.	The Council should prepare an annual reconciliation between the general ledger and the fixed asset register of the opening gross values and opening accumulated depreciation of Property, Plant and Equipment.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● 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 have not been made aware of any significant fraud issues. 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.
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 the Council. • In particular, representations will be requested from management for not amending the financial statements for the items identified on page 16.
4.	**Disclosures**	• Our review found some areas where disclosures could be improved to comply fully with the requirements of the Code. These amendments are reflected in the revised 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 Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

These criteria are:

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 three expected characteristics of proper arrangements as defined by the Audit Commission:

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

Overall our work highlighted one area of significant risk:

- Arrangements for project managing and profiling capital expenditure.

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 and whether it has achieved cost reductions and improved productivity and efficiencies.

We have completed the following reviews:

- Prioritising resources; and
- Understanding costs

Overall our work highlighted no areas of significant risk.

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 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The table below summarises our overall rating for each of the themes reviewed. Detailed findings can be found in our Value for Money Report.

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance	The Council achieved an underspend of £6.9m against its revenue budget in 2013/14, but underspent by £6m on its capital budget of £230m. For 2013/14 the Council had a savings target of £68.3m against which £62.3m was achieved, a shortfall of £6m, which was met through countervailing savings. As at 31 March 2014 the Council has net liabilities of £244m (net liabilities of £39m as at 31 March 2013 and net assets of £70m as at 31 March 2012). The Billing Authorities acting on behalf of the Council achieved a Council Tax collection rate of 98.3% against a budget of 98.8%. As at March 2014 the average sickness absence was 6.44 days per FTE (7.2 days in 2012/13). This is below both the public sector and local government average, as well as now being similar to the private sector average.	**Green**	**Green**
Strategic financial planning	The total savings required for the period 2014/15 to 2018/19 are forecast to be £231m. Going forward the Council will need to continue to reassess its MTFP in light of the changes enacted by the Care Act 2014 and any implications from the Better Care Fund plans for Surrey. The Council has been required to significantly amend its capital projections for 2014/15 to 2018/19 due to the increasing number of schools places required (4,000 additional places are needed). This has led to a planned increase in capital expenditure on schools from £42m to £69m in 2013/14; and for 2014/15 capital investment in school places has increased from £81m to £105m. Overall, for the period 2014/19, the Council will invest an additional £135m on top of its existing school places capital programme.	**Green**	**Green**

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial governance	The Council has improved scrutiny of its Local Authority Trading Companies. There are now two Boards in place - the Investment Advisory Board and Shareholder Board. Investments to date have been made under powers delegated to the Council under statute. The Council has made further improvements to financial understanding through making changes to strategic director roles, via network leadership where networks of senior managers, Cabinet members and experts are set up for each area. One area of particular good practice is the publication of an Annual Report that is designed specially for public use as soon as the Council's outturn position is known. For the first time in 2013/14 the Annual Report will include audited financial statements.	**Green**	**Green**
Financial control	The Council underspent by £6m against its capital budget of £230m, after including £38.4m spent on investment properties, which were not included in the original budget. The Council chose to obtain short-term borrowing of £24m at the year-end to manage a short-term cash shortfall, which was caused by higher than expected capital expenditure in March, due to the available interest rates. In 2013/14, the Council achieved recurrent savings of £62.3m against a target of £68.3m with countervailing savings covering the £6m remaining savings.	**Green**	**Green**
Prioritising resources	The Council has a sound understanding of the main risks it faces and these 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. Information Governance is identified on the Leadership risk register as a high risk and a recent audit suggests that significant further work is required to raise awareness of the risks across the organisation. Whilst the Council has identified mitigating actions through the action plan, these will not come into effect until 2014/15 and thus this area remains a high risk to the Council.	**N/A**	**Green**
Improving efficiency & productivity	Cabinet receives monthly budget report on costs, demonstrating a high degree of understanding of costs at a service level within each directorate. The reports show a detailed breakdown each month detailing the reasons for a variation compared to budget and the achievement of efficiency savings The Council has not been the subject of any adverse OFSTED inspections during the year and DEFRA have continued in their support of the Waste PFI scheme , maintaining funding following an NAO review into DEFRA's procedures.	**N/A**	**Green**
Management of natural resources	The Council recognises that failure to deliver key waste targets (including key waste infrastructure, such as the Eco Park) will lead to increased cost to residents and tax payers and impacts on the environment. To address this risk it has increased resources in this area and project planning is monitored by the Waste Board	**N/A**	**Green**

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

Residual risk identified	Summary findings	RAG rating
Arrangements for project managing and profiling capital expenditure	The Council underspent by £6m on its capital budget of £230m in 2013/14, having taken into account £38.4m spent on investment properties. The expenditure on investment properties was not included in the original budget, meaning that the underspend would otherwise have been £44.4m. This is mainly due to the decision to carry forward £32.6m of capital expenditure into 2014/15 as a result of re-profiling. Furthermore, £11.7m of capital expenditure was postponed due to the adverse weather conditions. This compares to an overspend of £2.7m in 2012/13 and underspends of £43m in 2011/12 and £31.1m in 2010/11. Whilst the adverse weather conditions could not be predicted, the Council has made significant changes to the profiling of its capital expenditure since 2010/11, with the result that capital expenditure has been re-profiled to later in the Medium Term Financial Plan. In addition to this, higher than planned capital expenditure in March 2014 resulted in the Council choosing to borrow £24m to fund a short-term cash shortfall due to the interest rates available at the time. The Council needs to: - ensure improved profiling of capital expenditure for budget setting - consider the effectiveness of project management arrangements - ensure cash flow impacts are understood and can be planned for.	**Amber**

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	189,464	189,464
Grant certification	4,700	0
Total audit fees	**194,164**	**189.464**

Although the Audit Commission no longer requires the Teachers' Pension Grant Claim to be certified, we are currently discussing the requirements in relation to this non-audit assurance work with the Teachers' Pension Authority.

Fees for other services

Service	Fees £
None	-

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

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	Review the revaluation methodology to ensure that Plant, Property and Equipment remains fairly stated.	Medium	An annual review of the appropriateness of our rolling 5 year revaluation schedule will be undertaken to ensure there is not a potential material misstatement in the carrying value of the non current assets of the Authority. However due to the costs associated with carrying out a full revaluation of the whole land and buildings asset class on an annual basis it is expected that there will be a continuation of the 5 year rolling programme (as allowed by the Code). The review will balance the Code requirement against the value for money and the impact on the reader based on materiality.	Finance Manager (Assets & Accounting) – Annually as part of the year end processes and accounting policy review
2	Prepare an annual reconciliation between the general ledger and the fixed asset register of the opening gross values and opening accumulated depreciation of Property, Plant and Equipment.	Medium	An annual reconciliation will be prepared from 2014/15 onwards alongside a justification of the 2013/14 balances.	Finance Manager (Assets & Accounting) By April 2015

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Appendix B: Audit opinion

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

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

Opinion on the Authority financial statements

We have audited the financial statements of Surrey County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes and include the fire fighters' 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 2013/14.

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 Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance 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 Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the content of the Annual Report 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 October 2013, 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 2014.

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 October 2013, 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 2014.

Certificate

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

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July 2014

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Surrey County Council - Audit for the year ended 31 March 2014

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 2014. 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.

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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.

The Council continues to adopt a five year rolling programme of re-valuations relating to the land and buildings asset class and this will continue to be reviewed for appropriateness on an annual basis. The Council is of the opinion that this rolling revaluation programme meets the requirements of the Code without incurring disproportionate expense in relation to external valuation fees. The Council has provided evidence to the auditors to demonstrate that the carrying values of those assets not re-valued in year does not materially differ from the estimated fair value at the balance sheet date.

Contingent Liabilities

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.

I confirm that we have over-claimed firefighters' pension fund top up grant in relation to injury payments. The Council is in negotiations with the Department for Communities and Local Government but has yet to receive any confirmation of how, when or even if the overpayment will need to be recovered. This 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.

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
Director of Finance
31 July 2014

I confirm that this letter has been discussed and agreed by the Audit and Governance Committee on 31 July 2014.

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Audit & Governance Committee
31 July 2014

Surrey Pension Fund Accounts 2013/14 and Grant Thornton External Audit Findings Report

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SUMMARY

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2014, 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) has issued an unqualified opinion on the accounts and this will be outlined in the Grant Thornton External 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 presented to this Committee to be approved prior to publication.

The primary statements and accompanying notes to the accounts are attached as Annex A. Any amendments that have been made to the draft financial statements following submission to the external auditor, with an explanation for the changes alongside a reference to the statement or note that has been amended, are included as Annex B.

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

RECOMMENDATIONS:

The Committee is asked to:

(i) Approve the 2013/14 Pension Fund financial statements as attached at Annex A.
(ii) Consider the content of the External Audit Findings for Surrey Pension Fund Report at Annex C.
(iii) Determine any issues that need to be referred to Cabinet in relation to the external auditor's conclusions and recommendations.

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

2013/14 PENSION FUND ACCOUNTS

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

2. During the audit, Grant Thornton identified some issues, which have led to minor amendments being made to the 2013/14 draft financial statements and related notes to the accounts.

3. Annex A represents the Pension Fund primary statements and accompanying notes to the accounts.

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4. The financial statements and notes to the accounts included in Annex A will be published in the Pension Fund Annual Report 2014.

5. Changes to the statements of accounts following submission to the external auditor are shown in Annex B.

2013/14 EXTERNAL AUDIT REPORT

6. The external auditor is required to report on the Pension Fund financial statements. The auditor's report for the Surrey Pension Fund is presented at Annex C and sets out a summary of the work carried out, the conclusions reached and recommendations made.

7. The Committee will note that the auditor issued an unqualified opinion on the financial statements.

MANAGEMENT REPRESENTATION LETTER

8. 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.

9. 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

10. The Pension Fund Annual Report will be received by the Pension Fund Board at its meeting on 19 September 2014 and will subsequently be published and distributed among employer bodies.

11. The Pension Fund annual meeting which is open to all employer bodies in the Fund will take place on 21 November 2014.

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REPORT AUTHOR:
Phil Triggs, Strategic Finance Manager (Pension Fund & Treasury)

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

Sources/background papers:
Closure of Accounts Working Papers 2013/2014
Computerised Accounts of the County Council
Quarterly Investment and Performance reports for the year to 31/3/2014

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SURREY PENSION FUND ACCOUNTS 2013/2014

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2013/2014 and of the disposition of its assets at 31 March 2014.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over 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. 9

The number of employees in the fund and the number of pensioners as at 31 March 2013 and 31 March 2014 are:

31 Mar 2013		31 Mar 2014
30,608	Employees in the fund	32,530
20,553	Pensioners	21,598
27,648	Deferred pensioners	30,639
78,809	**Total**	**84,767**

Surrey pension fund account

2012/2013 £000		Note	2013/2014 £000
	Contributions and benefits		
159,544	Contributions receivable	7	**149,615**
13,833	Transfers in	8	**14,751**
173,377			**164,366**
-113,893	Benefits payable	9	**-119,223**
-7,945	Payments to and on account of leavers	10	**-6,255**
-1,867	Administrative expenses	14	**-1,928**
-123,705			**-127,406**
49,672	**Net additions from dealings with members**		**36,960**
	Return on investments		
41,687	Investment income	17	**47,758**
-1,042	Taxes on income	16	**-1,081**
278,985	Change in market value of investments	18	**175,422**
-6,856	Investment management expenses	15	**-10,275**
312,774	**Net return on investments**		**211,824**
362,446	**Net increase in the fund during the year**		**248,784**
	Net assets of the fund		
2,196,270	**At 1 April**		**2,558,716**
2,558,716	**At 31 March**		**2,807,500**

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Net asset statement

31 Mar 2013 £000		Note	31 Mar 2014 £000
	Investment assets	18	
347,863	Fixed interest securities		**352,134**
99,100	Index linked securities		**94,675**
1,574,687	Equities		**1,747,131**
120,748	Property unit trusts		**165,824**
238,986	Diversified growth		**270,937**
90,336	Private equity		**101,814**
	Derivatives	18c	
-	- Futures		**31**
2,153	- Foreign exchange contracts		**7,865**
59,723	Cash		**39,212**
11,128	Other investment balances	18b	**9,676**
	Investment liabilities		
	Derivatives	18c	
-310	- Futures		**-66**
-7,500	- Foreign exchange contracts		**-3**
-3,810	Other investment balances	18b	**-7,718**
-	Borrowings		**-4,500**
2,533,104	**Net investment assets**		**2,777,012**
16,335	**Long-term debtors**	12	**14,520**
13,582	**Current assets**	11	**20,761**
-4,305	**Current liabilities**	13	**-4,793**
2,558,716	**Net assets of the fund at 31 March**		**2,807,500**

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 26 of these accounts.

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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 2013/14 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

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

During 2013/14 the investment decision making and governance of the fund was undertaken by the Pension Fund Board, a committee of the Administering Authority, with representation on behalf of employers and members.

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 of services 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 ranged from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and new rates will

apply from April 2014 onwards. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits
Pension benefits accrued under the LGPS to 31 March 2014 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 1 April 2008	**Service 1 April 2008 until 31 March 2014**
Basis of pension	1/80th of final salary	1/60th of final salary
Lump sum	Automatic lump sum 3 x salary Trade £1 of annual pension for £12 lump sum	No automatic lump sum Trade £1 of annual pension for £12 lump sum

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e) New LGPS Scheme 2014
The current UK national 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 commenced on April 1 2014.

The changes will not affect those who currently receive pension payments. All pension benefits built up to 31 March 2014 will be treated according to the existing scheme rules.

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

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

LGPS 2014 employee contribution rates	
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 about the LGPS 2014 please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org) or the LGPS 2014 scheme website (http://www.lgps2014.org).

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at the year end at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 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 according to the International Accounting Standard (IAS) 19 is disclosed at note 26 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 may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2014 is reported as a current liability.

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 fund expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments 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 singularly priced, at the closing single price.

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

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

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

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

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

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

l) Financial 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. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with 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 2014 was £102 million (£90 million at 31 March 2013).

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 2014 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 in 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 disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £102 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 July 2014. 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

2012/2013 £000		2013/2014 £000
109,514	Employers	115,441
31,880	Members	34,174
18,150	Magistrates Court Services deficit funding	-
159,544		**149,615**

2012/2013 £000		2013/2014 £000
78,045	Administering authority	77,812
50,889	Scheduled bodies	59,663
12,460	Admitted bodies	12,140
18,150	Magistrates Court Services deficit funding	-
159,544		**149,615**

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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

2012/2013 £000		2013/2014 £000
-	Group transfers from other schemes	-
13,833	Individual transfers in from other schemes	14,751
13,833		**14,751**

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Note 9: Benefits payable

By category

2012/13 £000		2013/14 £000
94,191	Pensions	99,529
16,818	Commutation and lump sum retirement benefits	17,092
2,840	Lump sum death benefits	2,519
44	Interest on late payment of benefits	83
113,893		**119,223**

By employer

2012/2013 £000		2013/2014 £000
54,388	Administering Authority	55,943
50,875	Scheduled Bodies	53,503
8,586	Admitted Bodies	9,694
113,849		**119,140**

The total does not include interest on late payment of benefits £83,427 (£43,874 2012/13)

Note 10: Payments to and on account of leavers

2012/2013 £000		2013/2014 £000
96	Group transfers to other schemes	0
7,814	Individual transfers to other schemes	6,222
30	Refunds of contributions	31
5	Payments for members joining state schemes	2
7,945		**6,255**

Note 11: Current assets

2012/2013 £000		2013/2014 £000
2,445	Contributions - employees	3,364
9,239	Contributions - employer	13,314
1,898	Sundry debtors	4,083
13,582		**20,761**

Analysis of current assets

2012/2013 £000		2013/2014 £000
713	Central government bodies	1,984
10,907	Other local authorities	16,980
1,962	Other entities and individuals	1,797
13,582		**20,761**

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Note 12: Long term debtors

2012/2013 £000		2013/2014 £000
16,335	Central government bodies	14,520
16,335		**14,520**

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms were agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). The fund's actuary determined the value of the pensioner and deferred liabilities remaining with the fund and calculated the retained assets to match these liabilities. The actuary determined that the assets were insufficient to match the liabilities and a that balancing payment would be required.

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2014 remains £16.335m but £1.815m is due in 2014/15, leaving a long term debtor of £14.520m.

Note 13: Current liabilities

2012/2013 £000		2013/2014 £000
4,257	Sundry creditors	4,731
48	Benefits payable	62
4,305		**4,793**

Analysis of current liabilities

2012/2013 £000		2013/2014 £000
1,157	Central government bodies	1,225
1,592	Other local authorities	1,550
1,556	Other entities and individuals	2,018
4,305		**4,793**

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Note 14: Administrative expenses

2012/2013 £000		2013/2014 £000
901	Employee related	941
826	Support services	626
20	External audit fee	27
6	Legal and other professional fees	1
114	Actuarial fees	333
1,867		**1,928**

Note 15: Investment expenses

2012/2013 £000		2013/2014 £000
6,446	Management fees	9,929
252	Custody fees	218
7	Performance measurement services	7
151	Investment consultancy fees	87
-	Interest paid	34
6,856		**10,275**

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Note 16: Taxes on Income

2012/2013		2013/2014
£000		**£000**
697	Withholding tax - equities	790
345	Withholding tax - property	291
1,042		**1,081**

Note 17: Investment income

2012/2013		2013/2014
£000		**£000**
	Fixed interest	
8,143	UK	5,859
3,051	Overseas	5,554
	Index linked	
55	UK	2
	Equities	
15,648	UK	18,017
8,317	Overseas	10,244
5,116	**Property unit trusts**	6,069
1,118	**Diversified growth**	1,788
239	**Cash**	152
-	**Other**	73
41,687		**47,758**

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

Note 18a: Reconciliation of movements in investments and derivatives

9

	Market value at 31 Mar 2013	Purchases during the year and derivate payments	Sales during the year and derivative payments	Market movements	Market value at 31 Mar 2014
	£000	**£000**	**£000**	**£000**	**£000**
Fixed interest securities	**347,863**	65,341	-52,108	-8,962	**352,134**
Index linked securities	**99,100**	3,190	-4,096	-3,519	**94,675**
Equities	**1,574,687**	397,612	-362,932	137,764	**1,747,131**
Property unit trusts	**120,748**	49,281	-13,330	9,125	**165,824**
Diversified growth	**238,986**	25,135	0	6,816	**270,937**
Private equity	**90,336**	48,404	-37,804	878	**101,814**
Derivatives					
- Futures	**-310**	347	-345	273	**-35**
- Forex contracts	**-5,347**	5,727	-25,720	33,202	**7,862**
	2,466,063	**595,037**	**-496,335**	**175,577**	**2,740,342**
Cash	**59,723**			-155	**39,212**
Other investment balances	**7,318**				**1,958**
Borrowing	**-**				**-4,500**
	2,533,104			**175,422**	**2,777,012**

	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**
Borrowing					
	2,191,793			**278,985**	**2,533,104**

9

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.

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.

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Note 18b: Analysis of investments

	31 Mar 2013	31 Mar 2014
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	137,890	136,448
UK pooled funds	87,769	86,739
Overseas public sector & quoted	52,316	60,175
Overseas pooled fund	69,888	68,772
	347,863	**352,134**
Index linked securities		
UK public sector & quoted	2,945	2,199
UK pooled funds	96,155	92,476
	99,100	**94,675**
Equities		
UK quoted	452,587	513,497
UK pooled funds	209,571	237,645
Overseas quoted	423,779	460,880
Overseas pooled funds	488,750	535,109
	1,574,687	**1,747,131**
Property unit trusts	**120,748**	**165,824**
Diversified growth	**238,986**	**270,937**
Private equity		
Limited partnerships	38,683	49,201
Fund of funds	51,653	52,613
	90,336	**101,814**
Derivatives		
Futures	-310	-35
FX forward contracts	-5,347	7,862
	-5,657	**7,827**
Cash deposits	**59,723**	**39,212**
Borrowings		**-4,500**
Other investment balances		
Outstanding sales	5,008	3,291
Outstanding purchases	-3,810	-7,693
Tax due on accrued income		-25
Accrued income - dividends and interest	6,120	6,385
	7,318	**1,958**
Total investments	**2,533,104**	**2,777,012**

Note 18c: 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 2014 the fund had two futures contracts in place with a net unrealised loss of £35,740 (net unrealised loss of £310,410 at 31 March 2013).

2013/14

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	20/06/2013	3 Months	UK Equity	3,992	31	
Futures	26/06/2013	3 Months	UK Government Bonds	10,077		-66

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2012/13

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

Forward currency contracts
Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2014 the Fund had forward currency contracts in place with a net unrealised gain of £7,862,075 (net unrealised loss of £5,346,696 at 31 March 2013).

2013/14

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	AUD	HKD	8	-56		
1	One month	EUR	DKK	31	-234		
11	One month	EUR	GBP	260	-215		
6	Two months	GBP	EUR	105,885	-127,629	351	
1	One month	GBP	HKD	34	-443		
3	Two months	GBP	JPY	55,062	-9,092,353	2,079	
5	One month	GBP	USD	1,918	-3,191	4	
10	Two months	GBP	USD	242,455	-395,044	5,431	
1	One month	HKD	SGD	495	-80		
3	One month	JPY	GBP	80,204	-470		-3
1	One month	USD	AUD	9	-9		
						7,865	**-3**

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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**

Stock Lending

During the financial year 2013/14 the fund instigated a stock lending programme in partnership with the fund custodian. As at 31 March 14 the value of quoted securities on loan was £83.2m in exchange for collateral held by the fund custodian at fair value of £89.0m

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Note 18d: Investments analysed by fund manager

Market value 31 March 2013 £000	%	Manager	Market value 31 March 2014 £000	%
792,326	32.8	Legal & General Investment Management	865,106	32.6
158,471	6.6	Majedie Asset Management	190,067	7.2
98,382	4.1	Mirabaud Asset Management	106,845	4.0
198,809	8.2	UBS Asset Management	236,582	8.9
341,002	14.1	Marathon Asset Management	365,046	13.8
190,680	7.9	Newton Investment Management	200,853	7.6
202,813	8.4	Western Asset Management	205,702	7.8
67,681	2.8	Franklin Templeton Investments	68,772	2.6
143,613	5.9	Standard Life Investments	148,437	5.6
95,372	3.9	Baillie Gifford Life Limited	122,500	4.6
128,307	5.3	CBRE Global Multi-Manager	143,060	5.4
2,417,456			**2,652,970**	

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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 investment assets of the fund

Market value 31 March 2013 £000	% of total fund	Security	Market value 31 March 2014 £000	% of total fund
366,009	14.4	Legal & General World Developed Equity Index	410,273	14.8
197,336	7.8	Legal & General UK Equity Index	221,203	8.0
143,613	5.7	Standard Life Global Absolute Return Strategies	148,437	5.3

Note 19a: 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 2013				As at 31 March 2014		
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			
347,863			Fixed interest securities	352,134		
99,100			Index linked securities	94,675		
1,574,687			Equities	1,747,131		
120,748			Property unit trusts	165,824		
238,986			Diversified growth	270,937		
90,336			Private equity	101,814		
2,154			Derivatives	7,896		
	59,723		Cash		39,212	
11,128			Other investment balances	9,676		
	29,916		Debtors		35,281	
2,485,002	**89,639**			**2,750,087**	**74,493**	
			Financial liabilities			
-7,810			Derivatives	-69		
-3,810			Other investment balances	-7,718		
		-4,305	Creditors			-4,793
			Borrowings	-4,500		
-11,620		**-4,305**		**-12,287**		**-4,793**
2,473,382	**89,639**	**-4,305**		**2,737,800**	**74,493**	**-4,793**

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Note 19b: 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

9 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.

31 March 2014	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,537,799	70,289	141,999	2,750,087
Total financial assets	**2,537,799**	**70,289**	**141,999**	**2,750,087**
Financial liabilities				
Financial liabilities though profit & loss	-12,287			-12,287
Total financial liabilities	**-12,287**			**-12,287**
Net financial assets	**2,525,512**	**70,289**	**141,999**	**2,737,800**

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31 March 2013	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,322,578	62,068	100,356	2,485,002
Total financial assets	**2,322,578**	**62,068**	**100,356**	**2,485,002**
Financial liabilities				
Financial liabilities though profit & loss	-11,620			-11,620
Total financial liabilities	**-11,620**			**-11,620**
Net financial assets	**2,310,958**	**62,068**	**100,356**	**2,473,382**

Note 19c: Book cost

The book cost of all investments at 31 March 2014 is £2,284,926,883 (£2,107,273,868 at 31 March 2013).

Note 20: Outstanding commitments

At 31 March 2014 the Fund held part paid investments on which the liability for future calls amounted to £107,414,081 (£101,599,103 as at 31 March 2013).

Note 21: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gain across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pension Fund. Risk management policies are established to identify and analyse the risks faced by the council's
9 pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) **Market risk**
   Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

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

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

Other price risk – Sensitivity Analysis
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 2013/14 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. The percentage change for

Asset type	Value at 31 March 2014 £000	Change	Value on increase £000	Value on decrease £000
UK equities	751,142	11.94%	840,828	661,456
Overseas equities	995,989	12.11%	1,116,603	875,375
Total bonds	352,134	5.55%	371,677	332,591
ILG	94,675	8.32%	102,552	86,798
Cash	39,212	0.02%	39,220	39,204
Property	165,824	2.40%	169,804	161,844
Diversified Growth Fund	270,937	4.43%	282,940	258,934
Total Investment Assets (1)	**2,669,913**	**8.49%**(2)	**2,896,589**	**2,443,237**

(1) The above table excludes private equity, derivatives and other investment balances.
(2) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

Asset type	Value at 31 March 2013 £000	Change	Value on increase £000	Value on decrease £000
UK equities	662,158	13.10%	748,901	575,415
Overseas equities	912,529	12.70%	1,028,420	796,638
Total bonds	347,863	5.30%	366,300	329,426
ILG	99,100	8.00%	107,028	91,172
Cash	59,723	0.00%	59,723	59,723
Property	120,748	2.40%	123,646	117,850
Total Investment Assets (1)	**2,202,121**	**8.31%(2)**	**2,385,117**	**2,019,125**

9

(1) The above table excludes diversified growth funds, private equity, derivatives and other investment balances.
(2) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton. 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 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2013 £000		As at 31 March 2014 £000
59,723	Cash & cash equivalents	39,212
347,863	Fixed interest securities	352,134
407,586	**Total**	**391,346**

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 2014	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	39,212	392	-392
Fixed interest securities	352,134	3,521	-3,521
Total	**391,346**	**3,913**	**-3,913**

9

Asset type	Carrying amount as at 31 March 2013	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	59,726	597	-597
Fixed interest securities	347,863	3,479	-3,479
Total	**407,589**	**4,076**	**-4,076**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

Currency risk – sensitivity analysis

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 2013/14 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.

9

Asset type	Value at 31 March 2014 £000	% Change	Value on increase £000	Value on decrease £000
Overseas equities	526,139	5.30%	554,024	498,254
Fixed interest	12,268	5.30%	12,918	11,618
Property and Private Equity	83,469	5.30%	87,893	79,045
Cash and Other Assets	-388,294	5.30%	-408,874	-367,714
Total	**233,582**	**5.30%**	**245,961**	**221,203**

For comparison last year figures are included below.

Asset type	Value at 31 March 2013 £000	% Change	Value on increase £000	Value on decrease £000
Overseas equities	488,369	6.10%	518,160	458,578
Fixed interest	2,207	6.10%	2,342	2,072
Property unit trust	11,432	6.10%	12,129	10,735
Cash	2,701	6.10%	2,866	2,536
Total	**504,709**	**6.10%**	**535,497**	**473,921**

b) Credit risk

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

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

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

The fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy.. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties. The council operates a lowest common denominator approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund has a call account with NatWest Bank. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £15 million. The NatWest call account has a rating of A (or equivalent) with all three credit rating agencies 9

Balance at 31 March 2013 £000		Balance at 31 March 2014 £000
	Call account	
15,000	NatWest	
	Money market fund	
3,910	Royal Bank of Scotland	
	Current account	
343	HSBC	-402
19,253	Internally Managed Cash	-402
40,470	Externally Managed Cash	39,614
59,723	**Total Cash**	**39,212**

The fund's cash holding under its treasury management arrangements as at 31 March 2014 was £-0.4 million (£19.3 million at 31 March 2013).

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. 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, The fund exercised this ability on a number of occasions during 2013/14 with one loan outstanding as at the 31 March 2014 for the value of £4.5m.

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.

9

d) Derivative risk

Some portfolios in which the fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Use of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

Note 22: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2013/14 amounted to £59,321,037.33 (£55,659,746 in 2012/13).

2012/2013 £000		2013/2014 £000
37,035	Employers' current service contributions	42,483
17,354	Lump sum payments to recover the deficit in respect of past service	16,379
1,271	Payments into the fund to recover the additional cost of early retirement liabilities	459
55,660		**59,321**

ii) Surrey Pension Fund paid Surrey County Council £1,502,911 for services provided in 2013/14 (£1,537,236 in 2012/13).

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2012/2013 £000		2013/2014 £000
198	Treasury management, accounting and managerial services	188
1,339	Pension administration services	1,315
1,537		**1,503**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2014 were £9,819,633 (£5,866,326 at 31 March 2013).

Note 23: 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.

2012/13 £	Position	2013/14 £	
19,991	Chief Finance Officer	20,057	1
58,456	Pension Fund & Treasury Manager	74,780	2
51,994	Senior Accountant	48,054	3
130,441		**142,891**	

1. 15% of time allocated to pension fund
2. 70% of time allocated to pension fund
3. 100% of time allocated to pension fund

Note 24: 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

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Note 25 : Actuarial statement for 2013/14 - funding arrangements

This statement has been prepared in accordance with Regulation 34(1)(d) 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 2013/14.

Description of funding policy

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

- to achieve and then maintain a funding target that requires assets equal to 100% on an ongoing basis of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement;
- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised 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 65% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,559 million, were sufficient to meet 72.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £980 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 2014

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 2013 valuation were as follows:

Financial assumptions	31 March 2013 % p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Pay increases *	3.8%	1.3%
Price inflation/Pension increases	2.5%	-

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	22.5 years	24.6 years
Future pensioners*	24.5 years	26.9 years

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Surrey County Council, the Administering Authority to the Fund.

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Experience over the year since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been broadly in line with that expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.The next actuarial valuation will be carried out as at 31 March 2016. 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

3 June 2014

Note 26: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2013/14 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 2014 £m	31 March 2013 £m
Present value of promised retirement benefits	4,151	3,982

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2013 comprises £1,768m in respect of employee members, £818m in respect of deferred pensioners and £1,565m 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. I have not made any allowance for unfunded benefits.

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 2014 is to increase the actuarial present value by £68m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2014	31 March 2013
Inflation/pension increase rate	2.8%	2.8%
Salary increase rate	4.1%	5.1%*
Discount rate	4.3%	4.5%

*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 Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 years	24.6 years
Future pensioners*	24.5 years	26.9 years

*Future pensioners are assumed to be currently aged 45.

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

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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 2014 for IAS19 purposes' dated 14 April 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Barry McKay FFA

3 June 2014

For and on behalf of Hymans Robertson LLP

Note 27: Additional Voluntary Contributions

Market Value 2012/13 £000	Position	Market Value 2013/14 £000
7,602	Prudential	8,242
7,602		**8,242**

Additional Voluntary Contributions, net of returned payments, of £1,428,220 were paid directly to prudential during the year (£1,134,656 during 2012/13).

Note 28: 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 29: Annual report

The Surrey Pension Fund Annual Report 2013/2014 provides further details on the management, investment performance and governance of the Fund.

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Note/Statement	Adjustment	Draft	Updated
Net Asset Statement (NAS) and applicable notes	Adjustment made for fair value of cash in accounts arising from incorrect market value adjustment	£34,812,000	£39,212,000
Note 11	Removed 'public corporations and trading funds' from additional current asset disclosure as both current and comparative years are nil		
Note 13	Removed 'public corporations and trading funds' from additional current liability disclosure as both current and comparative years are nil		
Note 17	The restated 2012/13 investment income rounding error adjusted		
Note 18a	Comparator for 2012/13, total of market movements was omitted		
Note 18b	Added additional disclosure for tax due on income outstanding at year end		
Note 18d	2012/13 total did not tally with individual values due to rounding		
Note 21	Removed diversified growth for 2012/13 sensitivity analysis, no sensitivity data for diversified growth was used in last set of accounts but was included for 2013/14		
Note 21	Added explanatory notes from 2013/14 sensitivity analysis table for 2012/13 comparator		

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

The Audit Findings Report for Surrey County Council Pension Fund

Year ended 31 March 2014

31 July 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed 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 Surry County Council Pension Fund's ('the Fund') financial statements for the year ended 31 March 2014. 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 whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

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 May 2014.

Our audit is nearing completion. We are finalising our procedures in the following areas:

Procedures nearing completion, subject to provision of evidence:

- finalising of our testing of investment balances, where we are awaiting third party confirmations
- finalising of our testing of purchases and sales, where are awaiting details from the custodian.

Procedures to be performed as part of audit closing procedures:

- receipt and review of the final version of the financial statements
- receipt and review of the final version of the annual report
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- final senior audit management and quality reviews

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements.

We have identified one adjustment affecting the Fund's reported financial position. The draft and unaudited financial statements recorded net assets carried forward of £2,803 million; the audited financial statements show net assets carried forward of £2,808 million. This change is a result of an amendment of investment market returns and the cash balance as set out in section two of this report. We have also agreed with officers, a small number of adjustments to improve the presentation of the financial statements.

Executive summary

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

- the financial statements provided to audit on 16 June 2014 were complete and prepared in accordance with the CIPFA's Code of Practice for Local Authority Accounting
- officers produced high quality working papers to support the financial statements and provided timely responses to audit queries
- officers agreed to amend the financial statements for all recommended accounting and disclosure changes we identified.

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
July 2014

Section 2: Audit findings

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 29 May 2014. 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.

Audit opinion

We anticipate that we will provide an unqualified opinion as 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, 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.	**Revenue** Under ISA 240 there is a presumed risk that revenue (which for the purposes of the Surrey County Council Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	We rebutted this presumption and did not consider this to be a significant risk for Surrey County Council Pension Fund since: • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules. They are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred. They are subject to agreement between the transferring and receiving funds.	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 has 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.

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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 potential risk	Work completed	Assurance gained & issues arising
Investments	• Investments not valid • Alternative investments not valid • Investment activity not valid • Fair value measurements not correct	We have undertaken the following work in relation to this risk: • We have reviewed the reconciliation between information provided by the fund managers, the custodians and the Pension Fund's own records and are satisfied with the explanations for any material variances. • 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 (quoted investments) or by review of the valuation methodology used to ensure it represents fair value (unquoted investments and direct property investments). • We confirmed the existence of investments directly with independent custodian and/or fund managers. • We tested a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers.	During the audit one misstatement relating to investment market returns and cash balances was identified. This is set out on page12. Subject to the satisfactory resolution and completion of outstanding matters set out on page 5 of this report, our audit work has not identified any other significant issues in relation to the risk identified.
Benefit Payments	• Benefits improperly computed/ liability understated	• We selected a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and tested them by reference to the benefit calculation on their member file. • We rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year. We did not identify any unusual trends. • We completed testing on transfers out and lump sum payments. • We compared the movements on membership statistics by reference to starters, leavers and changes in circumstances.	Our audit work has not identified any significant issues in relation to the risk identified.

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Audit findings against other risks (continued)

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
Contributions	• Recorded contributions not correct	• We confirmed the existence of controls operated by the Pension Fund to ensure that it receives all expected contributions from member bodies. • We rationalised contributions received with reference to changes in member body payrolls and number of contributing pensioners.	Our audit work has not identified any significant issues in relation to the risk identified.
Member data	• Member data not correct	• We confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. • We tested the key controls identified.	Our audit 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	• 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.	●
Judgements and estimates	• Key estimates and judgements include; – Investment valuation – Promised value of future retirement benefits	• 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 available information. • The level of judgement required by the Fund is low . Estimates used are generally supported by adequate working papers. • Disclosure of accounting policies in the financial statements is in line with the recommended disclosures .	●
Other accounting policies	• We have reviewed the Fund'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	●

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

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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 in detail below along with the impact on the financial statements.

	Detail	Fund Account £'000	Net Asset Statement £'000	Impact on net assets carried forward £000
1	The Fund has amended investment market returns re-analysed and purchase and sales transactions following the identification of differences to fund manager confirmations. This has resulted in changes to the net assets statement, fund account and a number of other notes. The adjustment is: Change in Market Value of Investments Cash	 (4,400) 	 4,400	 4,400
	Overall impact	**£4,400**	**(£4,400)**	**£4,400**

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Misclassifications & disclosure changes

During the audit we identified a number of narrative presentation and disclosure items in the financial statements and recommended additional disclosures to enhance the presentation of the financial statements. All amended disclosures have been agreed and applied in the Pension Fund accounts.

There are no unadjusted misstatements.

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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.

From the work we completed we did not identify any significant weaknesses in internal controls.

Assessment
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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 previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
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 standard letter of representation has been requested from 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

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fund audit	27,105	27,105
Total audit fees	**27,105**	**27,105**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm 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 we are independent and are able to express an objective opinion on the financial statements.

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

Section 4: Future developments

Developments relevant to your Pension Fund and the audit

Developments and other requirements

1. Financial reporting

There are no significant emerging issues affecting the Pension Fund expected for the year ending 31 March 2014 although PRAG has formed a working party to update the Pensions SORP. An updated version is expected later in 2014.

2. LGPS 2014

Planning for the impact of the implementation of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014.

3. Triennial valuation

Following the 31 March 2013 actuarial valuation the Council is in the process of considering the level of additional employer deficit contributions required and how to fund them.

4. Financial Pressures

Pension Funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income. Pension Fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

Our response

1. Financial reporting

We will carry out our usual substantive testing to ensure that the pension fund complies with the requirements of the CIPFA Code of Practice.

2. LGPS 2014

We will discuss the impact of the changes through our regular meetings with management.

Where appropriate, we will report any observations we have from our work and the implementation of new administration systems software to successfully process benefit payments under both the old and new schemes from 1 April 2014.

3. Triennial valuation

We will maintain regular dialogue with management to assess the impact this has on the administration of the Pension Fund and any required disclosures in the 2013/14 pension fund financial statements.

4. Other issues

We will monitor the changes being made to the Pension Fund investment strategy through our regular discussions with management.

We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

Section 5: 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 auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendices

Appendix A: Audit opinion

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

DRAFT 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 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Surrey Pension 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 2013/14.

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 Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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 pension fund 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 Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund 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 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Darren Wells
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton
Fleming Way
Manor Royal
Crawley
RH10 9GT

July 2014

Grant Thornton

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Annex D

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31 July 2014

9

Dear Sirs

Surrey County Council Pension Fund:
Financial Statements for the Year Ended 31 March 2014

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 2014 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 2014, 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 2013/14 (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.

9

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 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
Director of Finance and Administrator of Surrey Pension Fund

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SURREY
COUNTY COUNCIL

Audit & Governance Committee
31 July 2014

External Audit Report on Value for Money for Surrey County Council

Purpose of the report:

The purpose of this report is to inform the Committee of the results of the external auditor's review of the Council's arrangements for securing financial resilience. Their report is attached at Annex A for consideration by this Committee.

10

Recommendations:

It is recommended that the committee considers the contents of the Value for Money Report at Annex A.

Value for Money arrangements:

1. As part of the statutory external audit of the 2013/14 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.

2. 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 have found that the council's current arrangements are adequate.

Conclusions:

Financial and value for money implications

3. There are no direct financial implications of this report.

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

None

10

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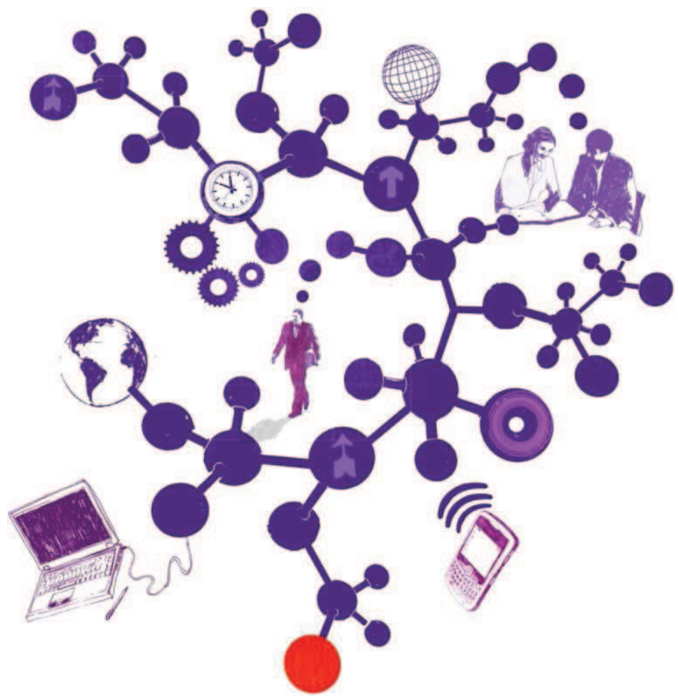
Sources/background papers:

Grant Thornton

Report on Value for Money for Surrey County Council

Year ended 31 March 2014

22 July 2014



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Contents

Introduction

What is this report?

This report summarises the findings from our work supporting our Value for Money (VfM) conclusion, which is required as part of the statutory external audit responsibilities.

It compliments our Audit Findings Report, by providing additional detail on the themes that underpin our VfM conclusion.

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 two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

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 (defined by the Audit Commission as "twelve months from the date of issue of the report".)

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.

The Code require auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

Our approach

The approach involves:

- desktop analysis of relevant documentation
- meetings with key internal stakeholders
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2013-14 and what that says about those arrangements
- any significant risks that we have identified.

Introduction

What is this context?

Nationally

The 2010 Spending Review set the Coalition Government's financial settlement for the four years to 2014/15, and the 2013 Review then covered 2015/16. By the end of this period, central funding to local government will have reduced by 35%.

2013/14 is the fourth year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Spending Round and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering these efficiency savings and maintaining financial resilience is becoming increasingly difficult, even for top-performing councils. Challenges other than government funding reductions include:

- demographic pressures;
- reducing income from fees and charges;
- limitations on the ability to finance capital projects;
- responding to welfare reform; and
- the drive towards more integrated health and social care.

To fulfil their statutory requirements, councils must continue to provide certain services. But the opposing trends in funding and demand will create a sizeable funding gap even if carefully managed. In short, the sector is working through its greatest financial challenge since the 1920s.

Locally

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 over £1.5billion.

A challenging savings programme is in place, with plans to deliver savings of £231m in the five years to March 2019. The Council has already achieved savings of over £250m in the past four years. In addition to this the Council is forecasting increasing demand for services, particularly in the areas of Adult Social Care and Schools. Overall, for the period 2014/19, the Council will invest an additional £135m on top of its existing school places capital programme.

The Council is constrained with regards to raising funding because 35p 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 in order to avoid an on-going funding gap.

Now, more than ever, it is important that councils have sound arrangements for securing Value for Money.

Executive Summary

Overall Risk Assessment

In planning our work on the VfM conclusion we identified the following areas of focus:

- the progress the Council has made in implementing the recommendations raised in our 2012/13 Financial Resilience report
- the Council's revised Medium Term Financial Plan in the light of the Local Government finance settlement
- the Better Care Fund plan for Surrey
- the Council's value for money assessment of its Waste PFI scheme
- the impact of the winter storms and flooding on the Council's finances

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 2014.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

Overall our work highlighted one area of significant risk:

- Arrangements for project managing and profiling capital expenditure

However, in all other areas and overall, the Council has adequate or better arrangements in place.

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 and whether it has achieved cost reductions and improved productivity and efficiencies.

Overall our work highlighted no areas of significant risk.

Therefore, the Council has adequate or better arrangements in place.

Executive Summary

We use a red/amber/green (RAG) rating with the following definitions.

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Financial Performance	The Council achieved an underspend of £6.9m against its revenue budget in 2013/14, but underspent by £6m on its capital budget of £230m, taking into account £38.4m spent on investment properties. The expenditure on investment properties was not included in the original capital budget, meaning that the underspend would otherwise have been £44.4m. For 2013/14 the Council had a savings target of £68.3m, which was set out in its Medium Term Financial Plan (MTFP). At the end of 2013/14 £62.3m was achieved, a shortfall of £6m, which was met through countervailing savings. As at 31 March 2014 the Council has net liabilities of £244m (net liabilities of £39m as at 31 March 2013 and net assets of £70m as at 31 March 2012). Net liabilities have increased due to an increase in the long-term net pension liability of £132m (£134m increase in 2012/13) following the triennial revaluation that took place during the year. This net pension liability is a long-term accounting treatment and does not represent a cash impact on the Council in the medium term. The Billing Authorities acting on behalf of the Council achieved a Council Tax collection rate of 98.3% against a budget of 98.8%. This has resulted in a collective surplus to year-end of £8.7m. This is the largest surplus that has been achieved since 2006/07. A higher surplus has been achieved due to the Billing Authorities over-estimating their bad debt provision at the start of the year. The Council chose to obtain short-term borrowing of £24m at the year-end to manage a short-term cash shortfall, which was caused by higher than expected capital expenditure in March. This precautionary short-term borrowing was at an advantageous interest rate and there was no net cost to the council. The Council maintains a comparatively low level of borrowing. As at March 2014 the average sickness absence was 6.44 days per FTE (7.2 days in 2012/13). This is below both the public sector and local government average, as well as now being similar to the private sector average. This has been achieved by the implementation of a process called the "Bradford factor" which focuses on root causes rather than numbers of days absence.	Green

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Strategic Financial Planning	As a consequence of the Central Government Spending Reviews the Council identified, as part of its annual update of the MTFP, required reductions in revenue spending of £68.3m in 2013/14 and £73m during 2014/15. The total savings required for the period 2014/15 to 2018/19 are forecast to be £231m. Going forward the Council will need to continue to reassess its MTFP in light of the changes enacted by the Care Act 2014 and any implications from the Better Care Fund plans for Surrey. These are national issues and represent areas of risk for the Council since the budgetary and operational impact from both are significant and uncertain. The Council has been required to significantly amend its capital projections for 2014/15 to 2018/19 due to the increasing number of schools places required (4,000 additional places are needed). This has led to a planned increase in capital expenditure on schools from £42m to £69m in 2013/14; and for 2014/15 capital investment in school places has increased from £81m to £105m. Overall, for the period 2014/19, the Council will invest an additional £135m on top of its existing school places capital programme. The Council is currently revisiting its schools' capital projections as part of the most recent quarterly refresh of the MTFP. The Council will need to ensure that its Plan remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan. The Council has updated its MTFP following the reprofiling of PFI credits from DEFRA and has taken into account the impact of flooding, which amounts to £11m for the estimated cost of the immediate response and temporary repairs associated with this, with £5.3m to be incurred in the current financial year. £10m of the total relates to local highways. In the longer term the estimated cost to repair highways resulting from flooding damage and prior bad weather is in the region of £15m, but this is subject to a final assessment being undertaken.	**Green**

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	The Council has improved scrutiny of its Local Authority Trading Companies. There are now two Boards in place - the Investment Advisory Board and Shareholder Board. The Investment Advisory Board is chaired by the Leader and reviews and recommends investments to Cabinet. The Council has developed a property investment portfolio and although the final targets in the MTFP are not yet due, income has been increased in this area. Investments to date have been made under powers delegated to the Council under statute. The Council has made further improvements to financial understanding through making changes to strategic director roles, via network leadership where networks of senior managers, Cabinet members and experts are set up for each area. There is also a Continual Improvement Board, which involves a wider group of senior managers to discuss corporate issues such as budget monitoring, productivity and service improvement. One area of particular good practice is the publication of an Annual Report that is designed specially for public use as soon as the Council's outturn position is known. For the first time in 2013/14 the Annual Report will include summary audited financial statements.	Green
Financial Control	The Council underspent by £6m against its capital budget of £230m, after including £38.4m spent on investment properties, which were not included in the original budget. This is mainly due to the decision to carry forward £32.6m of capital expenditure into 2014/15 as a result of re-profiling and £11.7m of capital expenditure was postponed due to the adverse weather conditions. The Council chose to obtain short-term borrowing of £24m at the year-end to manage a short-term cash shortfall, which was caused by higher than expected capital expenditure in March. This precautionary short-term borrowing was at an advantageous interest rate and there was not net cost to the council. Increased capital costs may be an area of increased risk because as the economy improves the capital programme becomes more challenging given supply and demand issues in the construction industry. In 2013/14, the Council achieved recurrent savings of £62.3m against a target of £68.3m. This compares to 2012/13 when 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. Within the monthly budget reporting to Cabinet, non-recurrent savings are now clearly explained so that it is clear to members that this saving will have to be achieved going forward as well.	Green

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Prioritising Resources	Strategy development has been led by the Cabinet. Significant work is ongoing in relation to developing the MTFP and savings programme in light of the recent changes made by Central Government. The Council has a sound understanding of the main risks it faces and these 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. Staff engagement has been key to the achievement in delivering efficiency savings, for example through increased involvement at a service level through strong liaison with service leads and teams. Partnership working is critical to the Council given the nature of its service delivery. Information Governance is identified on the Leadership risk register as a high risk and a recent audit suggests that significant further work is required to raise awareness of the risks across the organisation. Whilst the Council has identified mitigating actions through the action plan, these are being introduced at different points during 2014/15 and thus this area remains a high risk to the Council.	**Green**
Improving Efficiency & Productivity	Cabinet receives monthly budget report on costs, demonstrating a high degree of understanding of costs at a service level within each directorate. The reports show a detailed breakdown each month detailing the reasons for a variation compared to budget and the achievement of efficiency savings The Council continues to improve its data both internally and with partners. Key changes include supporting members' awareness of data and its usage, refreshing the data quality strategy and working with partners on the robustness of data. New technology has been piloted in some areas such as the financial dashboard to aid quicker decision making. There is a data quality corporate action plan and each directorate also has an action plan. The Council has not been the subject of any adverse OFSTED inspections during the year and DEFRA have continued in their support of the Waste PFI scheme , maintaining funding following an NAO review into DEFRA's procedures. Surrey County Council's scheme is now the only Waste PFI scheme whose funding has not been reduced by DEFRA.	**Green**
Management of Natural Resources	The development of a waste strategy is included in the Leadership Risk Register. The Council recognises that failure to deliver key waste targets (including key waste infrastructure, such as the Eco Park) will lead to increased cost to residents and tax payers and impacts on the environment. To address this risk it has increased resources in this area and project planning is monitored by the Waste Board. The Council is undertaking further work with the Districts and Boroughs to review waste plans to achieve the targeted increase in recycling.	**Green**

Executive Summary

Next Steps

Area for consideration	Recommendation	Responsibility	Timescale	Management response
Key Indicators of Financial Performance Reserves balances	As at 31 March 2014 the Council's balance sheet shows net liabilities of £243m, caused by an increase in the long term pension liability of £133m. 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.	DoF	Feb 2015	The Council are reviewing the reserves and balances policy informally with the Cabinet during the budget planning process and will formally propose any adjustments as part of the MTFP in Feb 2015. The increase in the pension reserve represents an increase in the pension liability due to the tri-annual valuation undertaken by the Council's independent actuaries. This liability represents an accounting adjustment and does not need to be met immediately, but over the 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.
Strategic financial planning Focus of the MTFP	The Council should review its MTFP to ensure it appropriately responds to the requirements of the Care Act 2014 and any implications from the changes arising from the Better Care Fund for Surrey	DoF	Feb 2015	The Council are working pro-actively with Department of Health on modelling and influencing the Care Act implications and will be up-dating existing assumptions in the up-dated MTFP 2015-20 by Feb 2015. The Council will continue throughout the year to develop detailed local plans to ensure the provisionally agreed level of BCF contributes to sustaining adult social care services.

Executive Summary

Area for consideration	Recommendation	Responsibility	Timescale	Management response
Strategic financial planning Adequacy of planning assumptions	Due to the continuing increase in demand for Adult Social Care Services, the Council should continue to review its MTFP to ensure longer-term assumptions are appropriate.	DoF	Feb 2015	The budget planning process includes monthly informal workshops with Cabinet /CLT at which assumptions will be refreshed – although with a particular focus on assumptions planned for 23 Sept workshop
Financial Governance Understanding of the financial environment	The roll-out to date of the financial dashboard has had demonstrable improvements but the Council need to ensure the use of this and associated behaviours are fully embedded across all services areas.	DoF	March 2015	The roll out programme continues together with supplementary programmes to continually improve financial literacy of budget holders and senior managers throughout 2014/15.
Financial control Budget setting & monitoring - revenue & capital	The Council should review its budget setting procedures to ensure: 1) Improved profiling of expenditure for budget setting and consideration of capital project management effectiveness. 2) Cashflow impacts are understood and can be planned for.	DoF	On-going	A planned quarter 1 refresh of the capital programme was submitted to Cabinet on 22 July 2014 that adjusted the profile of the capital programme in light of recent programme reviews (in particular land purchases). A further review will be undertaken by Nov 2014 by the Cabinet ahead of formal up-date of the programme in Feb 2015. Consideration will be given to increasing the reporting of cashflow to Cabinet as part of the regular budget monitoring reports. A detailed presentation of cashflow policy was shared informally with Cabinet on 14 July
Improving efficiency and productivity IT Systems and Data quality	Information Governance is identified on the Leadership risk register as a High Risk and a recent audit of Information Governance suggests that significant further work is required to raise awareness of the risks across the organisation. The Council needs to implement the mitigating actions identified.	Assistant Chief Executive	By March 2015	The audit report MAP identifies a number of mitigating actions that are being put in place throughout 2014/15. In addition, the Chief Executives Office continue to review the risk on a monthly basis.

Key Indicators of Financial Performance

Area of focus	Summary observations	RAG-Rating
Liquidity	The Council's working capital ratio has reduced from 1.71 in 2007/08 to 1.16 in 2012/13, 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's working capital ratio dropped to 1.16 in 2012/13 due to the repayment of £130m of borrowing in that year. As at 31 March 2014, the Council's working capital ratio is 0.75. This reduction is mainly due to the reduction in cash and cash equivalents, together with borrowing of £24m at year-end to manage a short-term cash shortfall. The Council chose to obtain short-term borrowing of £24m at the year-end to manage a short-term cash shortfall, which was caused by higher than expected capital expenditure in March. This precautionary short-term borrowing was at an advantageous interest rate and there was no net cost to the council. Net current assets decreased by £72m from 2008/09 to 2009/10 with counteracting increases in 2010/11 and 2011/12. The Council has reduced its minimum cash balance through the repayment of a £68m loan that fell due in September 2013. This was to maximise the benefit of unprecedented low interest rates. It is this repayment that reduced the working capital ratio for the year. The Council should continue to monitor its liquidity to ensure financial resilience is maintained. The Billing Authorities acting on behalf of the Council achieved a Council Tax collection rate of 98.3% against a budget of 98.8%. This has resulted in a collective surplus to year-end of £8.7m. This is the largest surplus that has been achieved since 2006/07 and is different from the position being projected in January month-end reports because of the Billing Authorities over-estimating their bad debt provision at the start of the year. This indicates that there may be issues to address at the Boroughs and Districts since authorities may have been overly pessimistic in estimating the impacts of Local Council Tax Support Scheme (LCTSS) and the technical changes to Council Tax discounts and exemptions. The estimated 2013/14 Collection Fund position in relation to Business Rates reported in 2014/15 NNDR1 forms was for a collective deficit of £19.4m. Of this, £1.9m relates to the Council against an original budgeted deficit of £1.2m. Council Tax is forecast to represent 35% of the Council's income in 2014/15, with 41% coming from grants and 15% from Business Rates.	**Green**

Key Indicators of Financial Performance

Area of focus	Summary observations	RAG-Rating
Borrowing	The ratio of long term borrowing to long term assets is 0.24 in 2013/14 compared to 0.18 in 2012/13, 0.24 in 2011/12 and 0.23 in 2010/11 and 2009/10. The ratio of short term borrowing to revenue is 0.03 in 2013/14 compared to 0.05 in 2012/13, 0.018 in 2011/12 and 2009/10, whilst in 2010/11 it was 0.016. The increase in 2012/13 related to the short-term loan to be repaid in September 2013 and the 2013/14 ratio has decreased due to this repayment. This is in line with the Council's Treasury Management Strategy. 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. This has been compounded by the low interest rate levels which means that it is more financially sound for the Council to use cash balances to reduce the level of borrowing.	**Green**
Workforce	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 2014 the average sickness absence was 6.44 days per FTE (7.2 days in 2012/13). This is below both the public sector and local government average, as well as now being similar to the private sector average. In line with expectations the Adult Social Care directorate was the worst performing with 7.83 (9.71 in 2012/13), whilst other services such as the Chief Executive's Office perform better (3.32 days per FTE). The Council has improved performance across all directorates during 2013/14 and is under the Public Sector average for 2012/13 of 8.7 days per FTE. The Council use a system of monitoring sickness called the "Bradford Factor", which reviews the number of days per person off sick in a period , multiplied by the number of incidences squared. This reflects the fact that one-off issues can skew the results and focuses on issues for managers to review, based upon a score for each team member on a monthly basis. However, despite the work performed by the Council in improving performance, stress remains the key reason for sickness absence, particularly within the Adult Social Care directorate.	**Green**

Key Indicators of Financial Performance

Area of focus	Summary observations	RAG-Rating
Performance against budgets (Revenue Capital & Savings)	The Council achieved an underspend of £6.9m against its revenue budget in 2013/14. This excludes the Dedicated Schools Grant (DSG), but includes £23m support from earmarked and general reserves and £7.9m revenue carried forward from 2012/13. This compares with a positive outturn in 2012/13 of £18.1m, 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 ongoing basis. For 2013/14 the Council had a savings target of £68.3m, which was set out in its MTFP. At the end of 2013/14 £62.3m was achieved, resulting in a shortfall of £6m. This is mainly due to slippage in Adult Social Care's (ASC's) innovative Family, Friends and Community Support (FFC) strategy (£6m), delays in achieving efficiencies in services for children with disabilities and higher demand for care packages (£1.5m), partly offset by Business Services' planning to bring forward some 2014/15 efficiencies (£1.3m).This compares to 2012/13 where the Council had a savings target of £71.1m and achieved £66.0m leaving a shortfall of £5.1m. During 2013/14 the Council has improved its reporting to Cabinet on the achievement of savings through more explicitly presenting one-off and countervailing savings. The MTFP 2014/19 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. Within the monthly budget reporting to Cabinet, non-recurrent savings are explained so that it is clear to members that this saving will have to be achieved going forward as well. For example, in 2013/14 £10.4m Adult Social Care savings were re-categorised as one-off measures and so new schemes to that value will have to be identified in 2014/15 to avoid an on-going budget gap. The Council underspent by £6m on its capital budget of £230m in 2013-14, having taken into account £38.4m spent on investment properties. The expenditure on investment assets was not included in the original budget, meaning that the underspend would otherwise have been £44.4m. This is mainly due to the decision to carry forward £32.6m of capital expenditure into 2014/15 as a result of re-profiling. Furthermore, £11.7m of capital expenditure was postponed due to the adverse weather conditions. This compares to an overspend of £2.7m in 2012/13 and underspends of £43m in 2011/12 and £31.1m in 2010/11.	**Green**

Key Indicators of Financial Performance

Area of focus	Summary observations	RAG-Rating
Reserves balances	As at 31 March 2014, the ratio of useable reserves to gross revenue expenditure is 0.15 compared to 0.18 in 2012/13, 0.16 in 2011/12, 0.11 in 2010/11 and 0.07 in 2009/10. This has been caused by the increase in expenditure in relation to Education and Children's Services (in relation to schools transferring to academy status) and the transfer of Public Health responsibilities to the Council. With regards to Education and Children's Services, this is an accounting adjustment rather than cash expenditure. As at 31 March 2014 the Council has net liabilities of £244m (net liabilities of £39m as at 31 March 2013 and net assets of £70m as at 31 March 2012). Net liabilities have increased due to an increase in the long-term net pension liability of £132m (£134m increase in 2012/13) following the triennial revaluation that took place during the year. This net pension liability is a long-term accounting treatment and does not represent a cash impact on the Council in the medium term. 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 2013/14 the Council did not spend £6.9m of its allocated Dedicated Schools Grant (DSG) compared with £13.8m in 2012/13, £12.8m in 2011/12, £7.4m in 2010/11 and £2.5m in 2009/10. However, £0.7m of the above has already been committed to support schools budgets in 2014/15. Since 2011/12, the allocation of DSG from central government has decreased by over £58.5m because of the conversion of schools to academies. 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 met their annual spending against their Devolved Formula Capital allocations for 2013/14.	**Green**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Focus of the MTFP	The Council's revenue budget for 2013/14 was set in February 2013, along with an updated five-year medium term financial plan (MTFP) for the period 2013/14 to 2017/18. This has since been updated in February 2014 for the period 2014/15 to 2018/19 based upon updated financial information included the forecast position for 2013/14. As a consequence of the Central Government Spending Reviews the Council identified, as part of the annual update of the MTFP, required reductions in revenue spending of £68.3m in 2013/14 and £73m during 2014/15. The total savings required for the period 2014/15 to 2018/19 are forecast to be £231m. Savings are prioritised as in previous years, and were approached strategically by the Corporate Leadership Team with the prioritised aim being improved service provision rather than purely financial savings. At the end of 2013/14 £62.3m of these were achieved leaving a shortfall of £5m, which was met in the short-term through one-off savings, expenditure under spends and the use of previously unused reserves. During 2013/14 the Council improved its approach to identifying savings as a result of recommendations made and has ensured that savings going forward have been identified in detail. The Cabinet approved an increased in-year capital budget for 2013/14 of £230m. An in-year underspend of £6m has occurred, when taking into account £38.4m of unbudgeted investment property acquisitions. The Council has carried forward £32.6m of the underspend into 2014/15 through reprofiling. The main areas we would expect the Council to consider in setting the 2014/15 budget and updating the MTFP include the update for Council Tax and Business Rate changes, 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 2014/15 to 2018/19 MTFP, as demonstrated by the Council's decision to raise Council Tax and taking into account of the impact of the localisation of business rates. Going forward the Council will need to reassess the MTFP in light of the changes enacted by the Care Act 2014 and any implications arising from the Better Care Fund plans for Surrey. These areas are significant to the Council because Adult Social Care represented 25% of spending in 2013/14 and the position is highly fluid. The Council recognises this within its Risk Register as being a high risk area and this is enhanced through the fact that the Council will need to deliver savings in a partnership setting where the Council won't have direct control over arrangements. These are national issues that impact upon all Council's with social care responsibilities and represent areas of risk for the Council, since the budgetary and operational impact on both are significant and currently uncertain. However, the Council have sufficient arrangements in place to mitigate against this risk. For example, the MTFP is currently being refreshed in light of the implications known to date, Cabinet have been briefed a number of times during the year on implications and the Department of Health shared the Council's Financial Implication model as National best practice. The Financial Implication model is expected to be adopted by 50 out of 60 Local Authorities, and we have been advised is also being used by ADASS.	Green

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
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 for the redevelopment of its town centre. During 2013/14 the Council has incorporated two Local Authority Trading Companies in order to realise further potential efficiency savings and income generation opportunities. The Council has considered inflation in two main formats. Firstly, pay inflation at an average of 1.6% per annum for those employed directly by the Council and 1% per annum for those under national schemes, 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 its trading companies. This is an area that the Council will need to update as these develop and expand their operations. 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. On a regular basis (last completed in 2013/14) this is updated 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 and this has been heightened due to the increase in potholes resulting from the bad winter weather. The Council fully adopted a longer-term approach to its road maintenance strategy and in 2012 approved a £100m investment programme to resurface 312 miles of road over five years (known as Project Horizon).	**Green**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Adequacy of planning assumptions continued	The Council has been required to significantly amend its capital projections for the 5 year period due to the increasing number of schools places required (4,000 additional places are needed). This has led to a planned increased capital expenditure on schools from £42m to £69m in 2013/14, and for 2014/15 the capital investment in school places has increased from £81m to £105m. Overall, for the period 2014/19, the Council will invest an additional £135m on top of its existing school place capital programme. 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 and will continue to do so on an annual basis. Further to this, the Council took a proactive approach to updating its severe weather assumptions in light of the recent flooding. The Council had already re-profiled its MTFP for its expectations from early discussions with DEFRA regarding a potential reprofiling of Waste PFI credits and this demonstrates that it takes a prudent approach to its planning assumptions. This was further supported by the actual re-profiling not being significantly different to that in the updated MTFP. The Council has already identified schemes to reflect all of the savings in relation to 2014/15 and 2015/16 as well as having identified the majority of schemes up until 2018/19. 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. Assumptions have also been made based on the draft Better Care Fund for Surrey, but these will require updating following the finalisation and any updates to the plan. Overall, whilst the Council has sound processes in place over the planning assumptions in relation to the capital expenditure on schools and the allocation of efficiency savings, the scale of the challenge facing the Council represents a risk over the long-term. However, due to the recognition of this by the Council, the appropriate monitoring processes in place and the level of efficiencies already identified, this is not felt to be a significant risk in the medium term.	**Green**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
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**
Review process	The MTFP is constantly being reviewed in light of new data (e.g. the impact of the winter flooding) 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 represents good practice. The Chief Executive and Director of Finance regularly track and monitor progress on the further development and implementation of robust plans for achieving the efficiencies across the whole MTFP period. The Council has improved scrutiny of its Local Authority Trading Companies. There are now two Boards in the place - the Investment Advisory Board and Shareholder Board. The Investment Advisory Board is chaired by the Leader and reviews and recommends investments to Cabinet. To date, the Council has developed a property investment portfolio and although the final target in the MTFP has not yet been achieved, income has been increased in this area. Investments to date have been made under powers delegated to the Council under statute, but going forward the Council is considering incorporating a fully owned private property holding company for investment in pure commercial opportunities. The Shareholder Board oversees the businesses once they have been incorporated and they are the first point of review within the Council over the performance of the Trading Companies.	**Green**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Responsiveness of the Plan	The Council has prepared its MTFP on the basis of prudent assumptions, but applies an on-going 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 it is at an early stage of identifying innovative income streams, this appears an appropriate position to take. The Council will need to ensure that its Plan remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan. The Council has updated the MTFP following the reprofiling of PFI credits from DEFRA and have taken into account the impact of flooding, which amounts to £11m for the estimated cost of the immediate response and temporary repairs associated with this, with £5.3m to be incurred in the current financial year. £10m of the total relates to local highways. In the longer term the estimated cost to repair highways resulting from the flooding and prior bad weather is in the region of £15m, but this is subject to a final assessment being undertaken. The costs associated with this more recent flooding are still to be determined, but as the flooding was more severe and widespread, the costs are likely to be higher. However, the Council is able to obtain partial funding to cover revenue costs under the Bellwin scheme above the £1.6m threshold and is estimating approximately £2m funding from the Department for Transport against capital costs. The Council is working with District and Borough councils on a scheme to allow a Council Tax discount to residents affected by flooding. The cost of this scheme is estimated to be around £700k to the Council, although central government funding is expected to fund all or part of this.	**Green**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Responsiveness of the Plan continued	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. In an improvement compared to the prior year, the Council has now explicitly considered the increases in Adult Social Care demand and schools places as key risks within the relevant MTFP section. This is more a matter of documentation, as the level of consideration over these areas has not needed to increase. 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 levels of usable reserves (£278.6m as at 31 March 2014) 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. This was demonstrated in 2013/14 when the Council was able to use their Severe Weather reserve to fund expenditure that resulted from the bad weather in the winter of 2013.	**Green**

Financial Governance

Area of focus	Summary observations	RAG-Rating
Understanding of 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 of the main risks it faces. 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 Director of Finance and Chief Executive. 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.	Green

Financial Governance

Area of focus	Summary observations	RAG-Rating
Understanding of the financial environment continued	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 has managed the ongoing impact of this cultural shift by reviewing the progress made and identifying further actions for improvement going forward . This has been partially achieved to date by implementing a phased roll-out of the dashboard to the directorates. Going forward the Council is aiming considering widening the use of the financial dashboard so that it also includes capital monitoring and budget setting. The roll-out to date of the financial dashboard has had demonstrable improvements but the Council need to ensure the use of this and associated behaviours are fully embedded across all services areas. This will partially be achieved by using the 'early adopters' to promote the dashboard to more reluctant colleagues. The Council has made further improvements to financial understanding through making changes to strategic director roles, via network leadership where networks of senior managers and experts are set up for each area. There is also a Continual Improvement Board, which involves a wider group of senior managers discussing corporate issues such as budget monitoring, productivity and service improvement. The Board meets monthly to review data and complete deep-dives into selected services , making recommendations where appropriate. To date recommendations have been made across a number of areas including to the Investment Panel, Productivity and Efficiency Panel and Customer Care Group. The Council has complied with the NAO review into DEFRA's management of the Waste PFI scheme and although a reprofiling of PFI credits has been made, there is no evidence to date to suggest that any of the credits will be subject to clawback. This means the Council are now the only Local Authority with a Waste PFI scheme that is being funded centrally at the originally agreed amount.	**Green**

Financial Governance

Area of focus	Summary observations	RAG-Rating
Executive & Member Engagement	The Strategic Director for Business Services is part of the Corporate Leadership Team. In addition to this, the Chief Executive meets either formally or informally with the Director of Finance on almost a weekly basis, who now reports directly to him. From our attendance at Audit and Governance Committee (AGC) meetings and minute reviews completed, 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. For the first time in 2013/14 the Annual report will include summary audited financial statements. As part of its budget setting process for 2014/15 the Council conducted a public engagement campaign in order to understand residents' service priorities and views on spending. In addition to this, the Chief Executive and Director of Finance regularly track and monitor progress on the further development and implementation of robust plans for achieving the efficiencies across the whole MTFP period. During 2013/14 the Council initiated its new financial dashboard. The dashboard and conjoined forecasting tool is a revenue budget monitoring and forecasting tool. The tool is automated so that budget holders are automatically linked to their span of control and can view data in either graphical or tabular formats. The dashboard allows for live budget monitoring, which is updated overnight. This has increased the accessibility of budget monitoring to both the Executive and members.	Green

Financial Governance

Area of focus	Summary observations	RAG-Rating
Overview for controls over key cost categories	As for most County Councils, the key costs for the Council relate to staffing and service provision (43% and 57% in 2013/14 compared to 44% and 42% 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 the most significant element of the Directorate's savings plans is Family, Friends and Community. It is a strategy designed to provide more personalised community support options to individuals requiring care, while reducing direct costs to the Council. This has been a key driver in the recent Rapid Improvement Events on the social care and financial assessment processes. 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. The Council incorporated two new trading companies in 2013/14 (SE Business Services and Surrey Choices Ltd), with the aim to improve cost efficiencies and generate income.	Green

Financial Governance

Area of focus	Summary observations	RAG-Rating
Budget Reporting (Revenue & Capital)	Budget monitoring reports are presented to Cabinet monthly with year to date and forecast outturn positions at a service level. Information is produced within three weeks of the month end. The analysis of each service's' 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. The Council implemented a new financial dashboard in August 2013 that allow officers and members to review the budget position in real time and drill-down to the level of detail they require quickly and easily. As per the February 2014 staff survey 70% of budget holders found the dashboard intuitive and felt that it had improved the financial management of their span of control. However, this 70% is not reflected in the number of budget holders using the tools and the Council is currently reviewing the usage of the dashboard to further develop the tool. One key area in which demonstrable improvement has been made is in relation to the time spent by directorate finance staff on data manipulation (i.e. taking information from SAP and presenting it). Instead, time is being charged to insightful conversations and challenge, as demonstrated by staff timesheet entries. This means the directorate finance staff are being used in a more effective manner.	Green

Financial Governance

Area of focus	Summary observations	RAG-Rating
Adequacy of other Committee 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 on a monthly basis, 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, which covers the cash flow position. 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. 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. 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. 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 provided training in this area as part of the provision of the 2012/13 financial statements to members. During 2013/14 this was topped up by member training on the financial statements so that updates to the technical accounting requirements are understood.	**Green**

Financial Control

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring – revenue & 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, including the Director of Finance, are responsible for producing a budget that is within the provided cash limit. The Leader presents the budgets to Cabinet in January and Full County 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 and applies the most suitable scenario at the time. This is then updated once further information is obtained (e.g. the update in relation to credit receipts for the Waste PFI scheme). 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. An Internal Audit review of this system did not identify any significant weaknesses.	**Amber**

Financial Control

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring – revenue & capital continued	Due to the current economic climate, the Council is prudent with regards to cash management and investment and only invests or borrows where it is the most financially effective strategy. The Council underspent by £6m on its capital budget of £230m in 2013/14, having taken into account £38.4m spent on investment properties. The expenditure on investment assets was not included in the original budget, meaning that the underspend would otherwise have been £44.4m. This is mainly due to the decision to carry forward £32.6m of capital expenditure into 2014/15 as a result of re-profiling. Furthermore, £11.7m of capital expenditure was postponed due to the adverse weather conditions. This compares to an overspend of £2.7m in 2012/13 and underspends of £43m in 2011/12 and £31.1m in 2010/11. The amber rating for this area is as a result of the issues resulting from the capital programme position. Whilst the adverse weather conditions could not be predicted, the Council has been required to significantly re-profile its capital expenditure since 2010/11 with the result that capital expenditure is re-profiled to later in the MTFP. In addition to this, higher than planned capital expenditure in March 2014 resulted in the Council choosing to borrow £24m to fund a short-term cash shortfall. This precautionary short-term borrowing was at an advantageous interest rate and there was no net cost to the council. This may be an area of increased risk because as the economy improves the capital programme may become more challenging to deliver given supply and demand issues in the construction industry. The council needs to ensure: improved profiling of expenditure for budget setting, consider the effectiveness of project management arrangements, and that cashflow impacts are understood and can be planned for.	**Amber**

Financial Control

Area of focus	Summary observations	RAG-Rating
Savings plans setting & monitoring	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 increase Council Tax) 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. In 2013/14, the Council achieved recurrent savings of £62.3m against a target of £68.3m. This compares to 2012/13 when 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. Within the monthly budget reporting to Cabinet, non-recurrent savings are now clearly explained so that it is clear to members that this saving will have to be achieved going forward as well. For example, in 2013/14 £10.4m Adult Social Care savings were re-categorised as one-off measures and so new schemes to that value will have to be identified in 2014/15 to avoid an on-going budget gap. 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.	Green

Financial Control

Area of focus	Summary observations	RAG-Rating
Key financial accounting systems	Internal Audit have reviewed all of the key financial systems in 2013-14 and determined that there are some areas that need "some improvement". We do not consider that these areas represent material weaknesses. The Council'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. Where issues arise in relation to miscoding the Council are aware of the importance of both identifying and correcting this quickly. The Property systems (mainly PAMS) are now linked to SAP. Maintenance was the first area to be linked for backlog reviews and reports were generated for issue identification. Clarity and speed of project monitoring has also increased, which significantly helped management of flood repairs.	Green

Financial Control

Area of focus	Summary observations	RAG-Rating
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 over 100 staff within financial management roles. The Council has historically been particularly reliant on the Finance Manager (Assets and Accounting) and Capital Accountant, in compiling the financial statements. However, during 2013/14 the central finance team has been strengthened to provide additional resiliency. 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 service with the Finance Vision and the process improvements identified as part of the Public Value Review. As a result of this, the finance team now has a total of 103 staff (97 in 2012/13), of which 47 are CCAB qualified accountants, 18 part-qualified and 13 are members of AAT. Those without formal finance qualifications hold the qualifications in their specialism. The Council restructured the finance service following the Public Value Review, 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. This change in status for finance staff has been commented upon favourably by services, who state they receive the appropriate level of support from finance. During our fieldwork the Director of Finance, who now reports directly to the Chief Executive, was identified by a number of key stakeholders as providing effective leadership of the finance function, and having constructive relationships with the Corporate Leadership Team and Cabinet colleagues. Stakeholders interviewed during our fieldwork also commented positively on the service that the finance function was providing.	Green

Financial Control

Area of focus	Summary observations	RAG-Rating
Adequacy of 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 and receives positive feedback from Management. 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 recommendations are outstanding but progress against each of these is demonstrated on a bi-annual basis. In addition to this, there is now a process in place whereby any audit that includes a High Priority Audit Recommendation should be considered for inclusion in the relevant Select Committee forward plan. Furthermore, the HoIA attends the Performance and Finance Sub-group of the Council Overview and Scrutiny Committee every two months to report on completed audits. At these meetings the HoIA is required to report where any High Priority recommendations have missed their agreed implementation date. New Internal Audit 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 had an action plan in place, which they have now met to ensure full compliance has been met during 2013/14.	Green
External audit conclusions	Six recommendations were made in 2012/13 in relation to the financial statements. All of these have been progressed during 2013/14 and the majority of these have been fully resolved. Nine recommendations were made in 2012/13 in relation to financial resilience. All of these have been progressed during 2013/14 and the majority resolved. Where recommendations have not been fully resolved, this is only because they are unresolvable and the Council have ensured that proper improvement arrangements are in place in these areas. 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 March 2014.	Green

Financial Control

Area of focus	Summary observations	RAG-Rating
Assurance framework/risk management processes	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 Leadership Team. The Council has strengthened its risk management approach during the year with the Director of Finance chairing the Strategic Risk Forum. As a result of this, the Risk Register has also improved and this is demonstrated through the approach applied by the Council to the Eco Park whereby the Council was able to respond quickly to implications of various risks (e.g. when the main supplier went into administration. Internal Audit have identified some areas of improvement in relation to risk management and the Council have identified actions to make this improvements. 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 risks within the Leadership Risk Register, it appears reasonable for the Cabinet to maintain an adequate review of the main risks to the Council considering the level of detail included on each risk.	Green

Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Leadership and challenge in prioritising resources	Strategy development has been led by the Cabinet. Significant work is on-going in relation to developing the MTFP and savings programme in light of the recent changes made by Central Government. The Council has a sound understanding of its main risks 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 MTFP and issues going forward. These seminars are jointly led by the Leader and Chief Executive. The Cabinet is informed of financial matters at each meeting through the monthly budget monitoring report. A number of members have financial or business backgrounds, providing sound financial awareness on a broader scale. From our attendance at the Audit and Governance Committee meetings we have witnessed the robust challenge by Committee members. Required actions and recommendations are monitored and officers are called to account if improvements are not implemented by the due date. The Director of Finance has a direct reporting line to the Chief Executive and has regular meetings with him.	**Green**

Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Better Care Fund	The Surrey-Wide Better Care Fund Plan was reviewed and signed off by Surrey Health and Wellbeing Board on 3 April 2014, prior to submission to NHS England. The amount transferred for Surrey is £14m, which s is reflected in Surrey County Council's MTFP. Surrey County Council will hold the pooled budget for 2014/15. The benefit to sustaining social care in 2015/16 is expected to be £25 million. However, this figure has not been completely signed up to by the CCGs and final funding allocations have yet to be agreed. The aim is to continue to provide universal, preventative and non-statutory services without having to adjust eligibility criteria. Governance arrangements are as follows: a) The Local Joint Commissioning Groups will be responsible for all Better Care Fund investment decisions; b) The Local Joint Commissioning Groups will be responsible for overseeing the operational delivery of the schemes set out in their local joint work programme; c) The Surrey Better Care Fund Board will provide strategic leadership and hold the Local Joint Commissioning Groups to account for how they invest the Fund and the progress and outcomes they deliver; d) Surrey's Health and Wellbeing Board will continue to set the overarching strategy.	**Green**

Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Consultation with key stakeholders	Service redesign should be agreed with the public, but also other stakeholders such as the CCG and community providers. Agreeing changes with CCG and community providers is very important and this has been demonstrated through the on-going contract negotiations in areas such as the Surrey Better Care Fund. The Council has ensured that robust arrangements are put in place for risk management in these areas. Staff engagement has been key to the achievement in delivering efficiency savings, for example through increased involvement at a service level. Strong liaison with service leads and teams has been key to this. Partnership working is critical to the Council given the nature of its service delivery. The Council works closely with the NHS commissioners and providers, the local District and Borough Councils and the SE7 are as well as private sector partners. Although these relationships are being further developed in light of the structural changes imposed by Central Government, the Council had already started to strengthen these ties through their consideration of improving service delivery. One example of this is the consideration of private sector partnerships in relation to care home provision and another is the Surrey Local Enterprise Partnership which aims to maintain and grow the local economy.	Green
Basis for decision making	Based on the review of minutes and discussions with officers and members there is no indication that decision-making is not based on appropriate or adequate information. The need to meet the efficiency savings target has meant that alternative service delivery options have been considered. However, the Council has been keen to not always adopted the lowest cost option as it is dependent on the needs of service users first. One example of this is that the Council uses its PVR programme to concentrate on improving service delivery rather than pure financial savings since it sees financial savings as a result of improving service. The Council has an understanding of its costs (including whole life transactions and unit costs), what influences these and how they are linked to performance. Costs are taken into account while the Council is making decisions and are reviewed as part of the balanced scorecard. The Council show a good awareness of long term options for reductions, for instance in its decision not to take the Council Tax Freeze grant over the past three years.	Green

Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Understanding impact and outcome of decisions	For every efficiency saving plan identified, as part of the implementation process a Quality Impact Assessment is completed by the service manager to ensure that the service provided will not be adversely affected. Where the quality of the service may be affected by the savings scheme, both mitigating actions and monitoring plans are in place to reduce this impact. Where adverse quality impacts are identified during the process of identifying the efficiency saving, specific monitoring processes are put in place, in addition to mitigating actions being identified, in order to ensure that performance does not decline. The Cabinet is updated on a monthly basis regarding the progress of directorates against the savings plan. This helps them to see how savings in one department may affect another adversely. 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 2013/14 the Council has improved its reporting to Cabinet on the achievement of savings through more explicitly presenting one-off and countervailing savings.	Green

Improving Efficiency & Productivity

Area of focus	Summary observations	RAG-Rating
Understanding costs	Cabinet receives monthly budget report on costs, demonstrating a high degree of understanding of costs at a service level within each directorate. The reports show a detailed breakdown each month detailing the reasons for a variation compared to budget and the achievement of efficiency savings. This level of understanding is sufficient for the monthly Cabinet meetings due to the more detailed availability within the financial dashboard, which allows for officers and members to view data in either graphical or tabular formats for: a) the overall financial position (with petrol gauge RAG rating for income, expenditure and total). This can be viewed by month, YTD or forecast. b) a trend analysis showing actual and forecast against current or original budgets or prior year actuals c) a breakdown of spend/income by directorate or type (i.e. employees, stationery etc.). The drilldown option allows for detailed transactions to be identified down to an individual transaction The Council has been involved in the meetings for the preparation for both the Surrey Better Care Fund Plan and no issues have been identified that impact upon the Council's understanding of its costs. The Council have considered the Audit Commission Value for Money indicators, which notes that: a) The Council receives a comparatively low level of funding for its population b) Net expenditure per population is lower than other local Counties (Kent, Hampshire, Essex) c) Spend on cultural services and housing services are comparatively high	Green
Effectiveness of key services	With regards finance, the Cabinet reviews the effectiveness of each service in detail at every meeting, where it also reviews the strategic impact of service decisions and performance. The Council has not been the subject of any adverse OFSTED inspections during the year and DEFRA have continued to fund the Waste PFI scheme following an NAO review into DEFRA's procedures. Surrey County Council's scheme is now the only Waste PFI scheme being funding by DEFRA.	Green

Improving Efficiency & Productivity

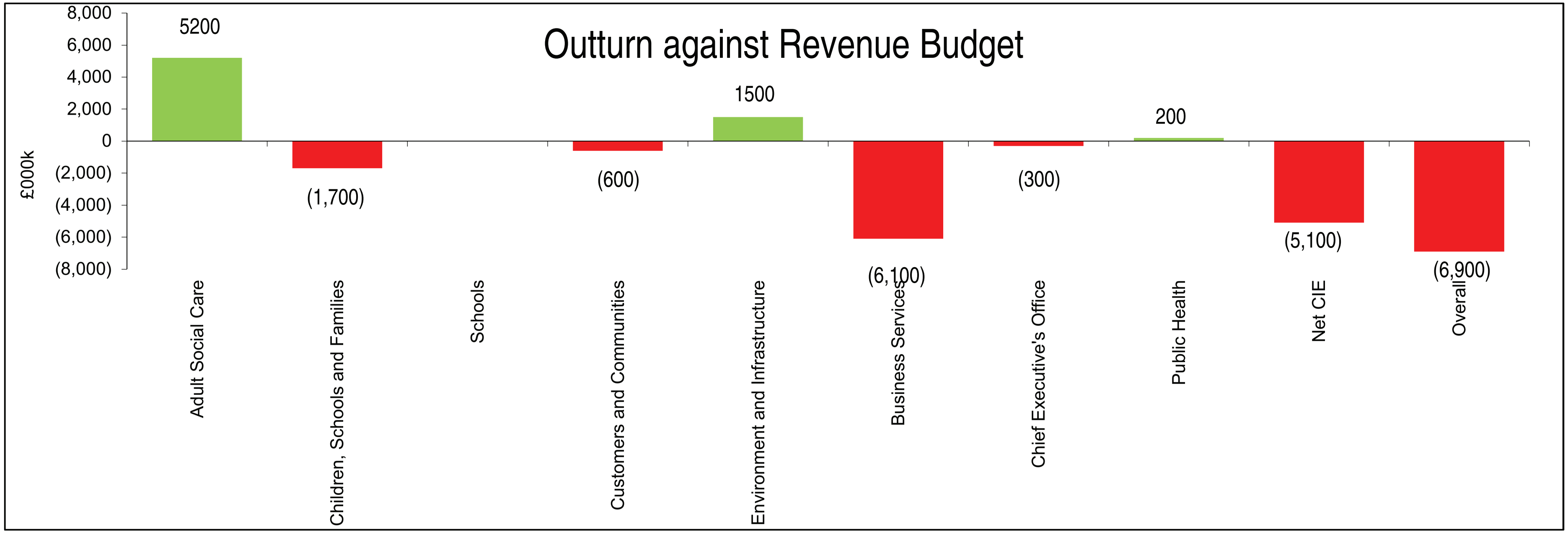
Area of focus	Summary observations	RAG-Rating
IT Systems and Data quality	The Council continues to improve its data both internally and with partners. Key changes include supporting members' awareness of data and its usage, refreshing the data quality strategy and working with partners on the robustness of data. New technology has been piloted in some areas such as the financial dashboard to aid quicker decision making. There is a data quality corporate action plan and each directorate also has an action plan. No areas of significant weakness were identified in 2013-14. The only area of significant weakness identified in the prior year in relation to data quality is Adult Social Care direct payments. This was an area of significant weakness in 2012-13, whereby the service has developed management reports to assist in the management of workload as a result of the Internal Audit review. An Internal Audit follow-up review in 2013-14 identified that improvements had been made but need time to be fully embedded. Information Governance is identified on the Leadership risk register as a High Risk and a recent audit of Information Governance suggests that significant further work is required to raise awareness of the risks across the organisation. This is due to a breach in prior years and although no new instances have occurred and the Council has identified mitigating actions through the action plan, these are being introduced at different points during 2014/15. Thus, this area remains a high risk to the Council, particularly with the impact of any breaches potentially being significant to its reputation.	Green
Delivery of QIPP and service re-design	The Overview and Scrutiny Committee monitors performance and the Cabinet monitors achievement of efficiencies and savings. Savings are prioritised as in previous years, and were approached strategically by the Corporate Leadership Team with the prioritised aim being improved service provision rather than purely financial savings. In 2013/14 £62.3m of efficiency savings were achieved against a target of £68.3m. The shortfall was met through one-off underspends during the year and this has been clearly reported both in internal and external reports. The Council has incorporated two new trading companies during the year, which are aimed at increasing income generation, improving service provision and achieving efficiency savings. The risk remains that shared service arrangements and the trading companies do not deliver these planned improvements to service and financial return, but the Council has appropriate governance and risk management arrangements in place to mitigate against this.	Green

Management of Natural Resources

Area of focus	Summary observations	RAG-Rating
Management of Natural Resources	The development of a waste strategy is included in the Leadership Risk Register. The Council recognises that failure to deliver key waste targets (including key waste infrastructure, such as the Eco Park) will lead to increased cost to residents and tax payers and impacts on the environment. To address this risk it has increased resources in this area and project planning is monitored by the Waste Board. The Council is undertaking further work with the Districts and Boroughs to review waste plans to achieve the targeted increase in recycling. One of the Council's strategic objectives in its Corporate Strategy is stewardship. The strategy states: 'When striving to fulfil our most pressing duties it is critical we use resources responsibly and safeguard them for future generations. We will focus on conserving Surrey's environment and will reduce our dependency on carbon and other scarce resources. We will maintain rigorous financial and risk management so we have a sound basis for achieving current priorities and investing for future needs.' Progress against targets is monitored in the quarterly business update reports. In 2012/13 the Environment and Infrastructure directorate successfully bid for and secured more than Surrey's anticipated per capita share of the Local Sustainable Transport Fund (LSTF). A key performance indicator has been developed to enable the monitoring of renewable energy generated from renewable energy systems installed on the Council's estate. The Council has a webpage dedicated to energy efficiency and energy sustainability.	Green

Appendix 1 – Benchmarking

Performance Against 2013-14 Revenue Budget: Major Variances from Working Budget



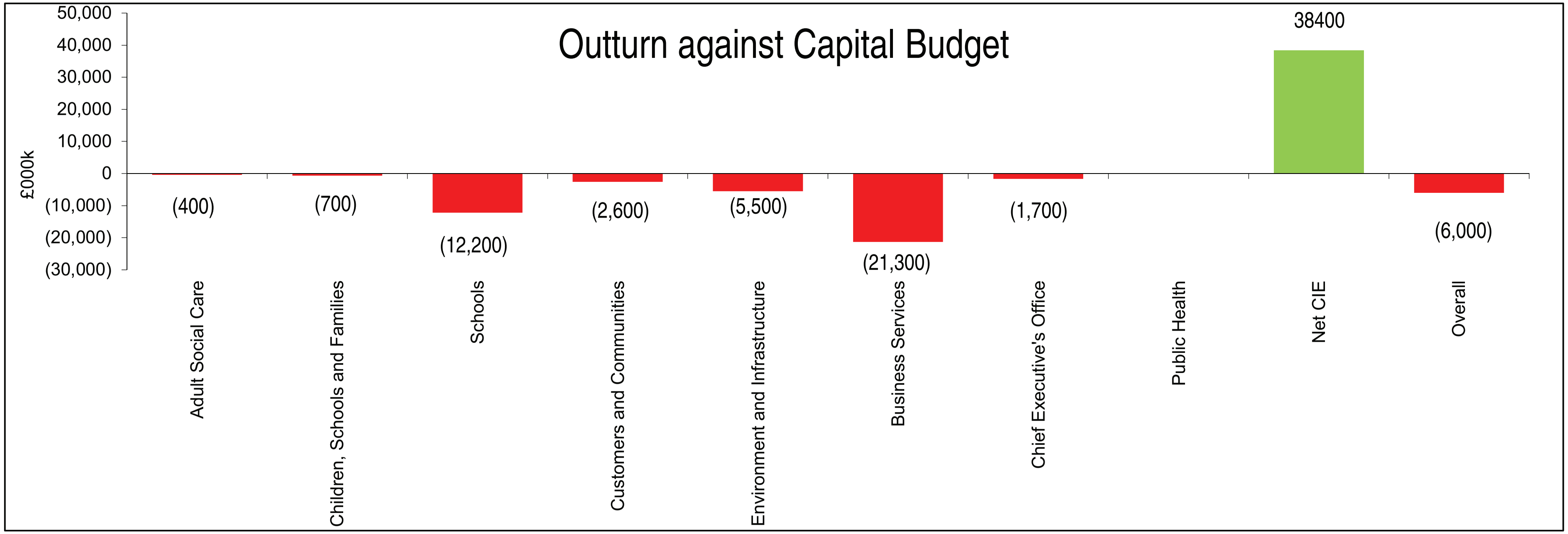
Findings

The overall revenue outturn position is an underspend of £6.9m excluding roll forwards. The directorate with the best performance is Business Services, with an underspend of £6.1m.

The only directorates with overspends are Adult Social Care and Environment and Infrastructure, which were £5.2m and £1.5m respectively.

Appendix 1 – Benchmarking

Performance Against 2013-14 Capital Budget: Major Variances from Working Budget

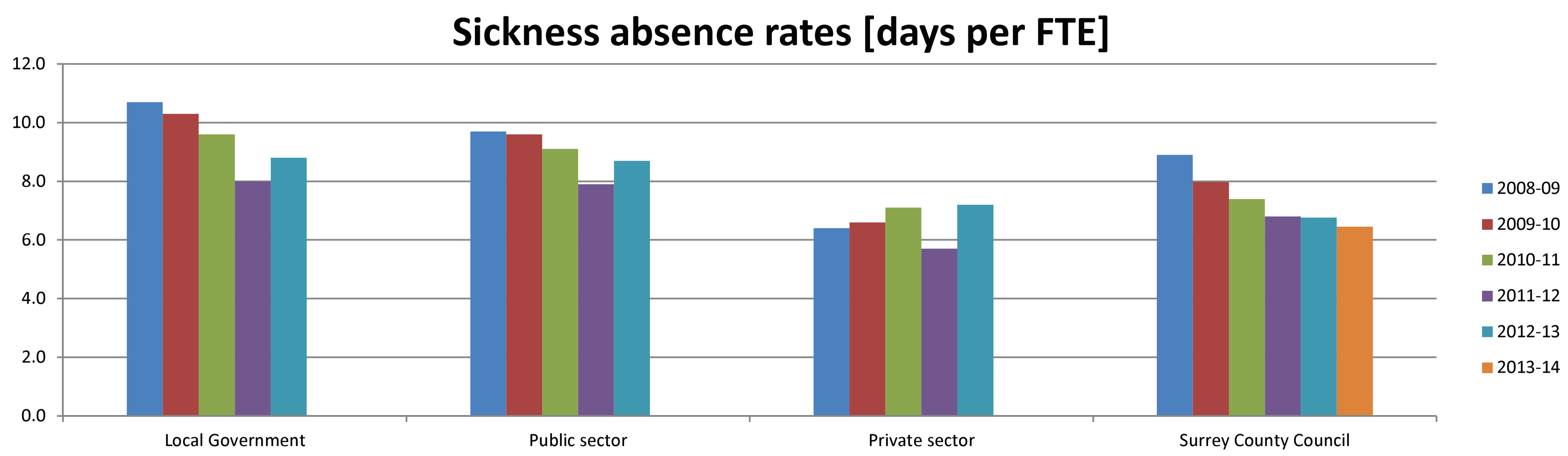


Findings

The £38.4m overspend in relation to the Net CIE budget resulted from investment properties bought during the year.

Appendix 1 – Benchmarking

Sickness Absence levels

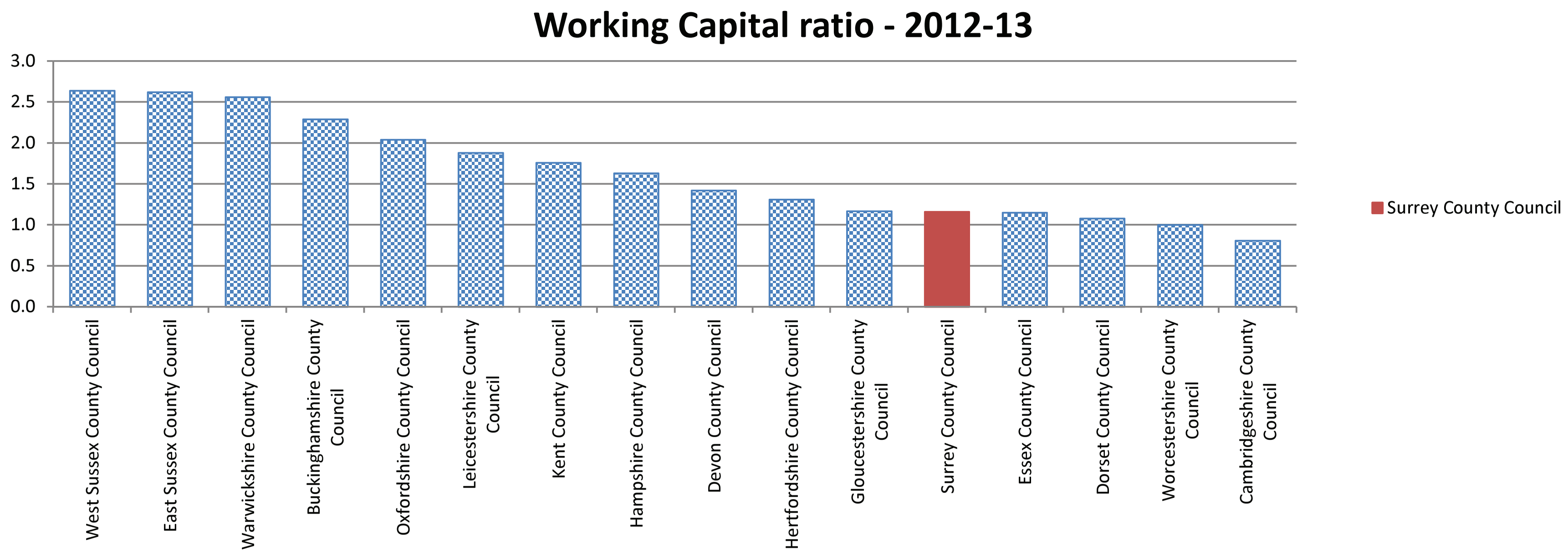


Findings

The Council has not only consistently reduced the average sickness rate across the five year period (8.9 to 6.44 FTEs), but has also ensured the rate is below both the public sector and local government averages. The rate is now in line with the 2012/13 Private Sector average as well.

Appendix 1 – Benchmarking

Working Capital Ratio 2012-13

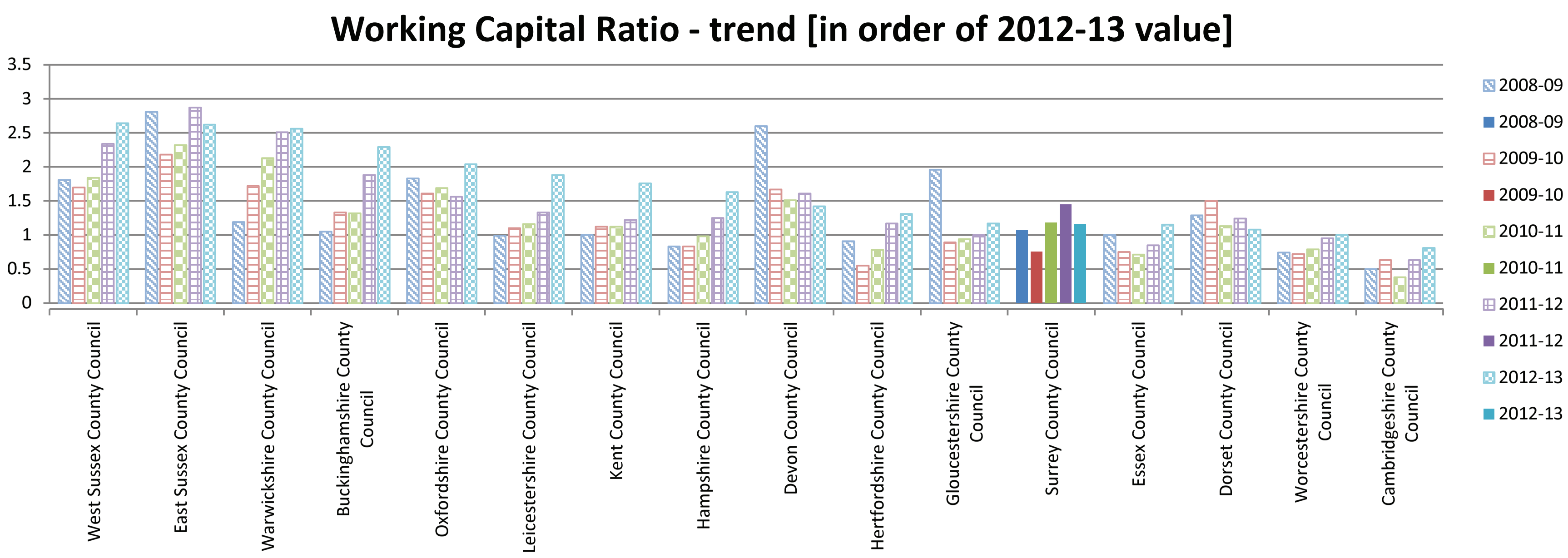


Findings

The Council had a working capital below average in 2012/13. As at 31 March 2014, the Council's working capital ratio is 0.75. This reduction is mainly due to the reduction in cash and cash equivalents and borrowing of £24m at year-end to manage a short-term cash shortfall. The short-fall was a result of higher than expected capital expenditure in March.

Appendix 1 – Benchmarking

Working Capital Ratio 2012-13 - trend



Findings

There is a mixed picture in terms of the movement in working capital ratios across the nearest neighbours. Some Councils have decreased working ratios whilst others are increasing. However, were it not for the £24m of short-term borrowing over year-end, the ratio would have increased in 2013/14.

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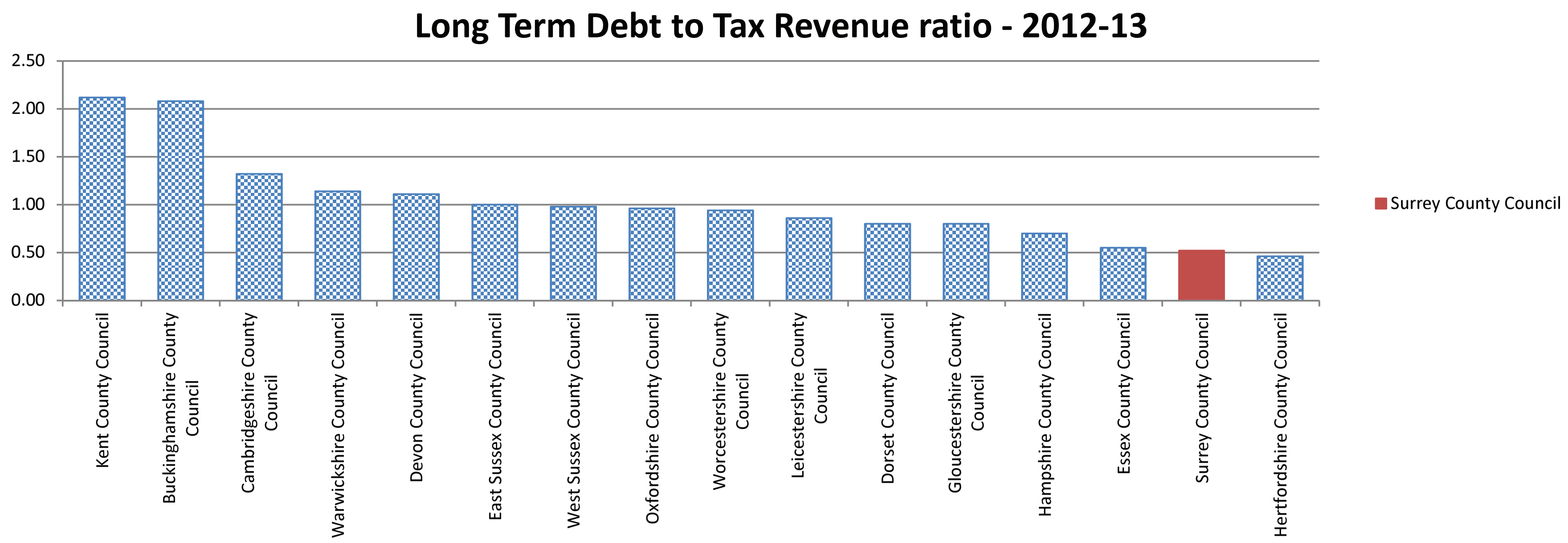
Appendix 1 – Benchmarking

Long-term debt to Tax revenue 2012-13

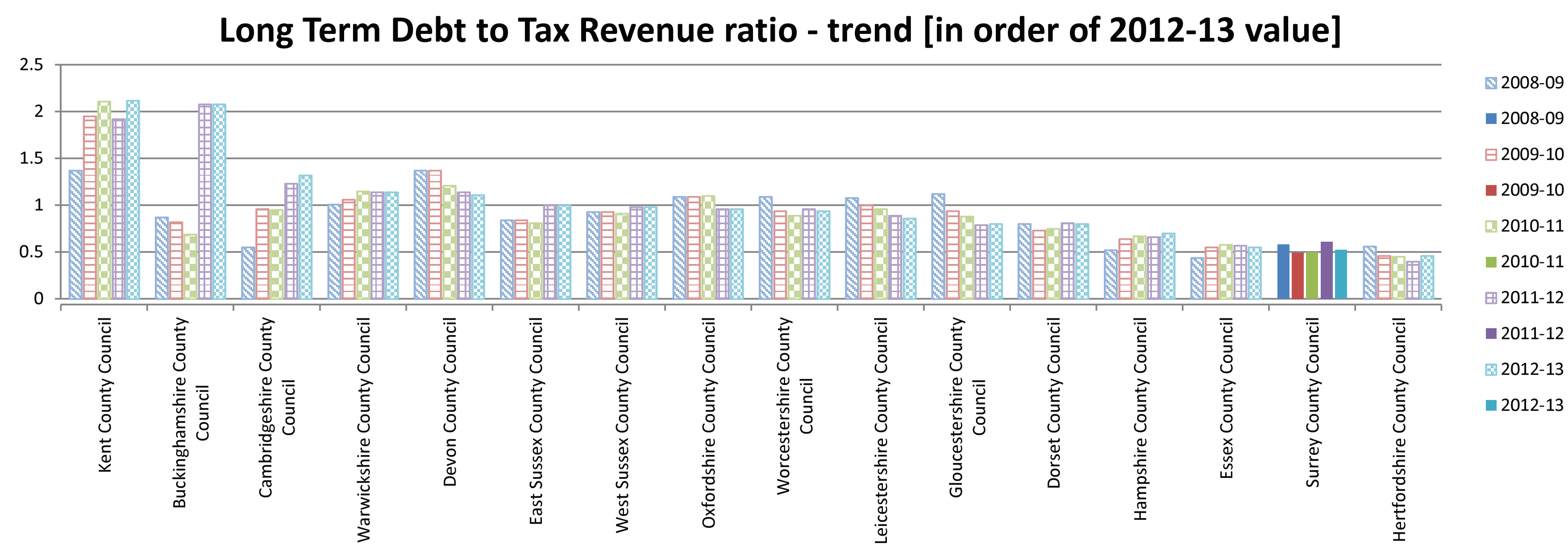


Findings

The Council's long term borrowing ratio (as a percentage of tax revenue) is in line with the Council's Treasury Management Strategy. 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 2012/13.

Appendix 1 – Benchmarking

Long-term debt to Tax revenue - trend



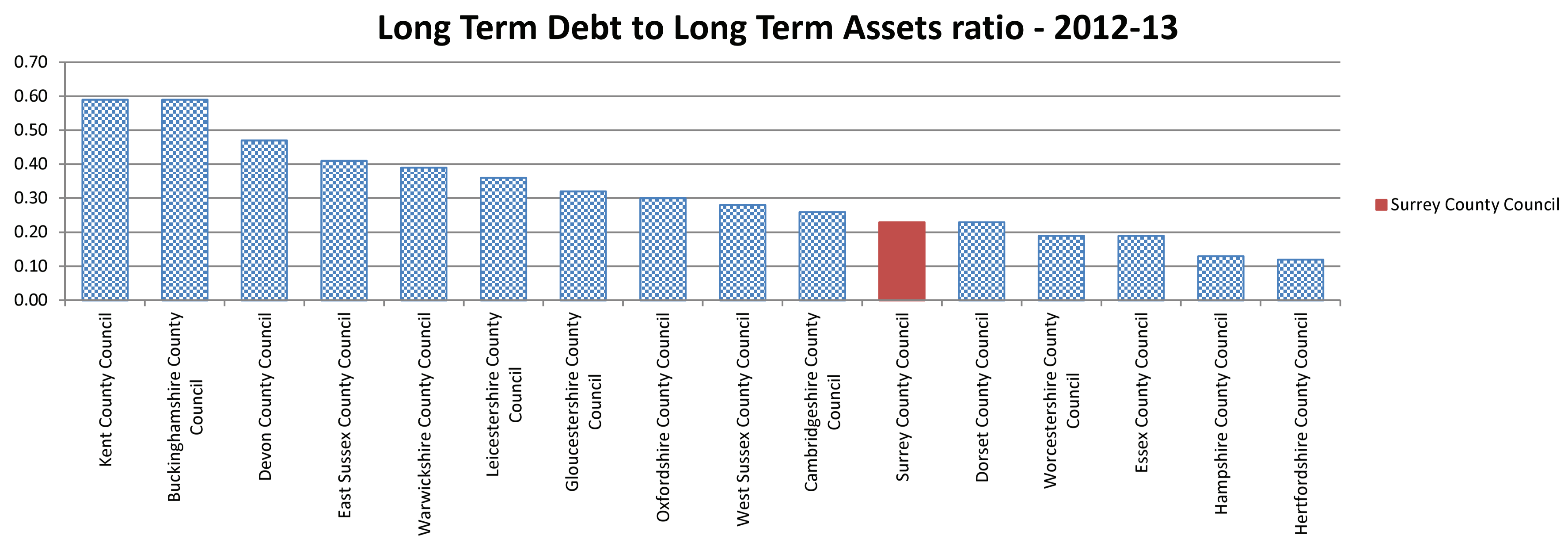
Findings

The majority of similar Councils have reduced their long-term borrowing since 2008/09 and Surrey is not an outlier in comparison to this. As long-term borrowing was already low, this demonstrates the lack of significant Council Tax rises since 2008/09.

10

Appendix 1 – Benchmarking

Long-term debt to long-term assets 2012-13

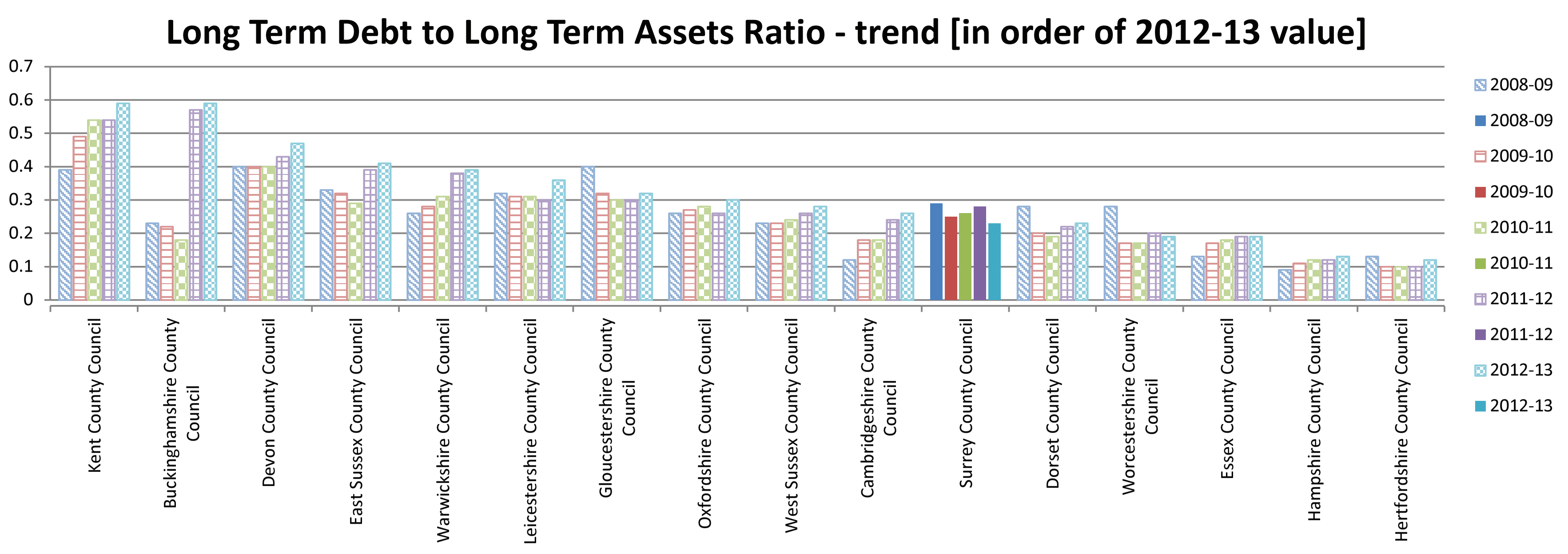


Findings

The Council's long term borrowing to assets ratio is in line with the Council's Treasury Management Strategy. Overall the Council is slightly below the average across its neighbours. This is, in part, due to the Council's strategy to avoid borrowing.

Appendix 1 – Benchmarking

Long-term debt to long-term assets - trend

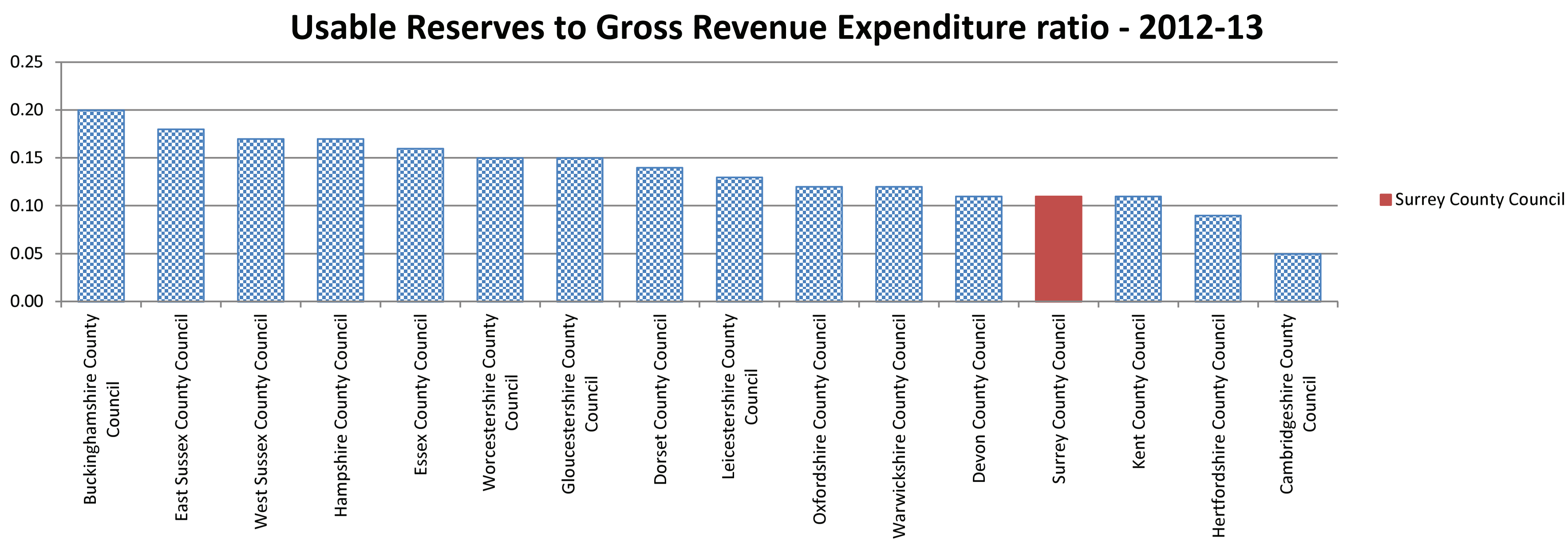


Findings

The Council's long term borrowing to assets ratio has decreased by 20% from 2008/09 (0.29) to 2012/13 (0.23), 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 eleven out of the sixteen having increased their ratio from 2008/09 to 2012/13, whilst five out of the sixteen Councils have seen a decrease over the same period.

Appendix 1 – Benchmarking

Usable reserves to gross revenue expenditure 2012-13



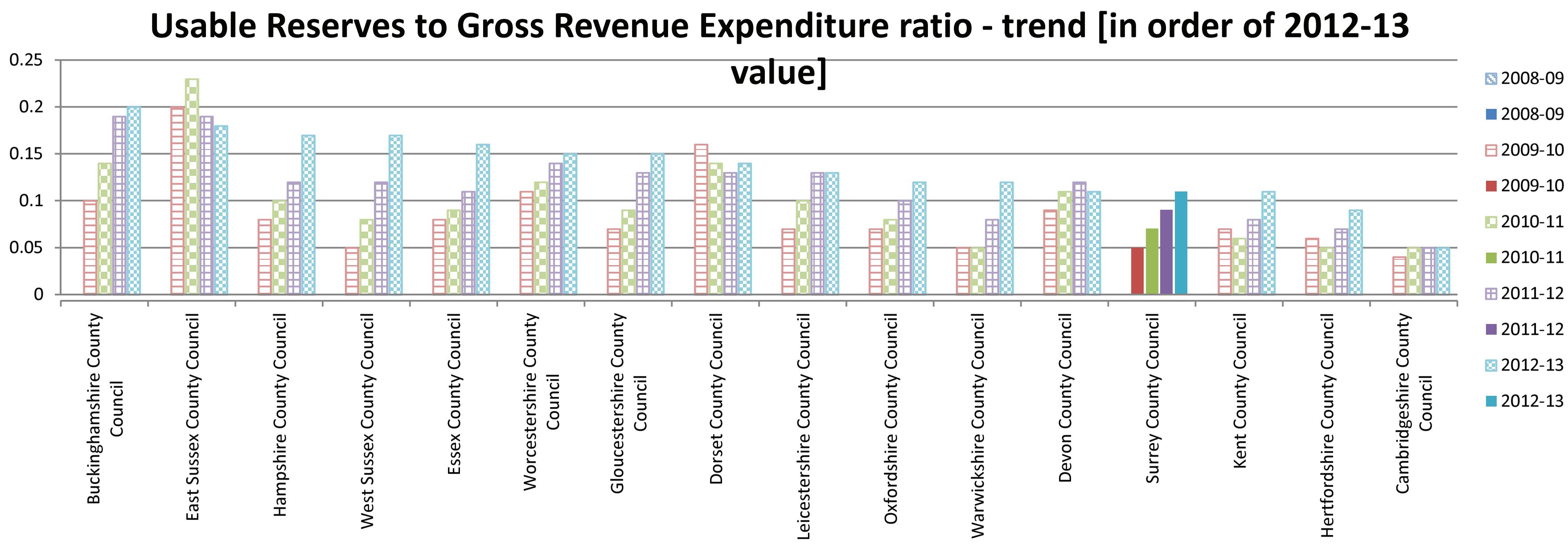
Findings

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.

Appendix 1 – Benchmarking

Usable reserves to gross revenue expenditure - trend

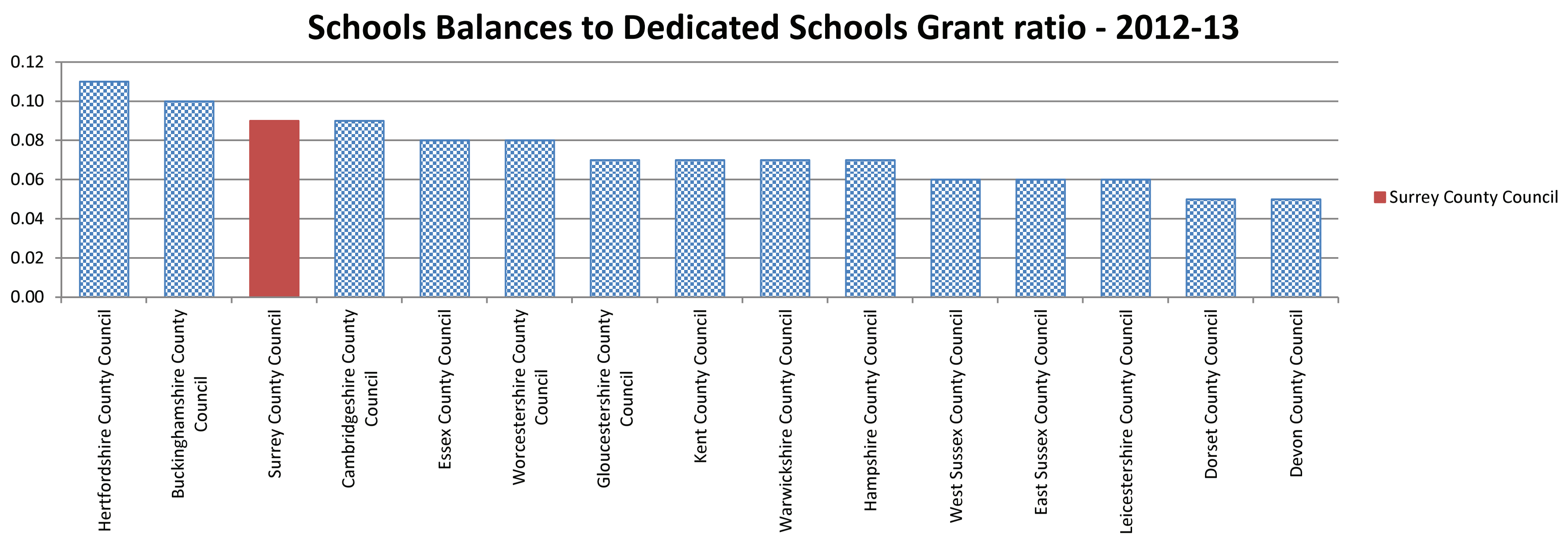


Findings

The Council has increased its ratio of useable reserves to Gross Revenue Expenditure (GRE)since 2008/09 as part of its strategy to allow for contingency in achieving its mid and long-term strategies. This is in line with the majority of other Councils.

Appendix 1 – Benchmarking

Schools balances to Dedicated Schools Grant 2012-13

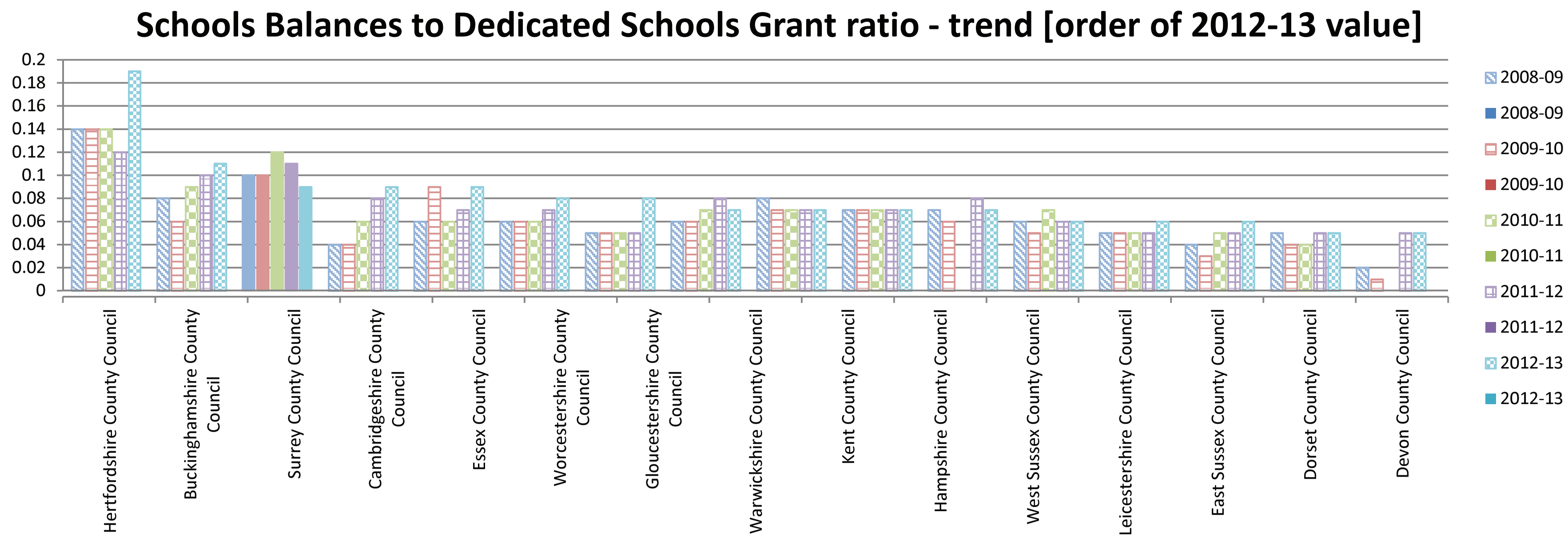


Findings

The Council had a ratio of 0.09 in 2012-13, which remains slightly above average across the period (0.08) compared to its neighbours

Appendix 1 – Benchmarking

Schools balances to Dedicated Schools Grant - trend



Findings

The Council's ratio has not changed materially over the period, being 0.07 in 2008/09 and 0.09 2012/13. This remains slightly above average across the period compared to its neighbours

Grant Thornton

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AUDIT & GOVERNANCE COMMITTEE
31 July 2014

TREASURY MANAGEMENT OUTTURN REPORT 2013/14

SUMMARY AND PURPOSE:

This report summarises the council's treasury management activity during 2013/14, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential Indicators for 2013/14, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities.

RECOMMENDATIONS:

It is recommended that:

1) the Committee note the content of the Treasury Management Annual Report for 2013/14;

and

2) adopt the revised Treasury Management Risk Register shown in Annex 4.

BACKGROUND:

1. Treasury management is defined as the management of the organisation's cash flows, banking, money market and capital market transactions, the effective management of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

TREASURY MANAGEMENT ANNUAL REPORT 2013/14:

Key Prudential Indicators and Compliance Issues

2. Under CIPFA's Prudential Code, the council is required to report on its actual Prudential Indicators after the year end. Annex 1 Table 11 provides a schedule of all of the council's mandatory Prudential Indicators relating to treasury management, as agreed at the budget meeting of 12 February 2013. Key indicators that provide either an overview or a limit on treasury activity are summarised in the following paragraphs.

3. The Capital Financing Requirement (CFR) shows the council's underlying need to borrow for capital purposes. To ensure that, over the medium term, borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the short-term, exceed the total CFR at the end of the previous year plus any increase in the CFR anticipated at the end of the current and next two financial years. The council has complied with this requirement as shown in Table 1:

Table 1: Borrowing Position Against CFR

	£m
Total Borrowing at 31 March 2014	288
Investments at 31 March 2014	102
Net borrowing position at 31 March 2014	**186**
CFR 2013/14	560
CFR 2014/15	682

4. The Authorised Limit is the council's "affordable borrowing limit" required by section 3(1) of the Local Government Act 2003. This represents the limit beyond which borrowing/external debt is prohibited. The limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. Table 2 demonstrates that during 2013/14, the council has maintained gross borrowing within its Authorised Limit.

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5. The Operational Boundary is the level of borrowing that the council could reach during the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It includes allowances for unusual but possible events. It acts as an indicator to ensure that the council's Authorised Limit is not breached.

Table 2: Borrowing Against Authorised Limit & Operational Boundary 2013/14

	£m
Authorised Limit	676
Operational Boundary	612
Highest gross borrowing position during 2013/14	305

6. The Minimum Revenue Provision (MRP) is a statutory amount set aside in order to repay the principal amounts of sums borrowed. Capital financing costs (the MRP and interest payments on borrowing) incurred by the council during 2013/14 are detailed as follows:

Table 3: Capital Financing Costs 2013/14

Description	**Original Estimate £000**	**Outturn £000**
Minimum Revenue Provision (MRP)	21,039	20,506
Interest on long-term borrowing	12,002	11,178
Interest on short-term cashflow	(350)	(1,575)
Total	32,691	30,109

7. Interest on long-term borrowing has been to budget, as no further borrowing has been made during the year due to the internal borrowing strategy. Net interest received on short-term cashflow is higher than the estimate due to higher levels of cash on deposit than originally expected, mainly as a result of receipt of significant government grant in April 2013, resulting in higher cash balances at the start of the year before expenditure to match it has incurred.

Treasury Management Activity during 2013/14

8. The treasury position at 31 March 2014 compared with the end of the last financial year is shown in Table 4. The council's credit rating criteria effective at 31 March 2014 are shown at Annex 2 Table 12.

Table 4: Investment and Borrowing Position 2013/14

	31 March 2013		31 March 2014	
	Principal £m	**Average Rate**	**Principal £m**	**Average Rate**
Fixed Interest Rate Debt*	305	4.20%	261	4.42%
Total Debt	**305**	**4.20%**	**261**	**4.42%**
Fixed Interest Investments	240	0.55%	102	0.41%
Total Investments	**240**	**0.55%**	**102**	**0.41%**
NET BORROWING	**65**		**159**	

*Excludes Office of the Police and Crime Commissioner for Surrey debt

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9. The treasury management gross borrowing position decreased during 2013/14 as a result of continuing the strategy of internal borrowing, as well as the repayment of £68.0m in September 2013. The authority judges as a prudent strategy the utilisation of existing cash held for earmarked reserves, working capital and provisions, rather than entering into new external borrowing arrangements and incurring interest expenses. In doing so, the authority does not avert the need for the funds it is holding for these purposes, but it is simply adopting an efficient and effective treasury management strategy.

10. The decrease in investment balances is the result of lower cash balances at the end of 2013/14 as a result of the actions described above compared with 2012/13. The average interest rate paid on debt has increased slightly (from 4.20% in 2012/13 to 4.42% in 2013/14) and this is attributable to the repayment of the £68.0m which was subject to a lower interest rate than the average of the total portfolio. The decrease in investment interest income is due to the general interest rates available for deposits remaining low.

Borrowing Position

11. The weighted average interest rate on PWLB debt from 2004/05 is shown in Table 5.

Table 5: Interest on PWLB Debt

Financial Year	% Interest on Debt
2004/05	4.96
2005/06	4.86
2006/07	4.73
2007/08	4.45
2008/09	3.59
2009/10	4.20
2010/11	4.20
2011/12	4.20
2012/13	4.20
2013/14	4.42

12. All of the council's current long-term borrowing has been taken from the Public Works Loan Board (PWLB), whose purpose is to provide loans to local authorities in order to finance capital spend, apart from a £10m market loan taken from Barclays. A summary showing the movement of long-term borrowing during 2012/13 and 2013/14 is as follows:

Table 6: Long-Term Borrowing Position

Long-term Borrowing	1 April 2012 to 31 March 2013 £000	1 April 2013 to 31 March 2014 £000
Total debt outstanding at 1 April	305,230	305,230
Loans raised	0	0
Loans repaid	0	67,983
Total debt at period end	**305,230**	**237,247**

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13. The council is able to undertake temporary borrowing for cash flow purposes. The council also manages cash on behalf of the Office of the Police and Crime Commissioner for Surrey, which is classified as temporary borrowing. The balances outstanding at 31 March 2014 are detailed in Table 7.

14. At the start of March 2014, the cash forecast was reviewed with the expectation that the available cash balances would potentially drop below the margin of safety for three days at the end of March 2014. As a result, a decision was taken to secure borrowing of £24m at a favourable rate in early March 2014. Agreeing the borrowing in advance provided assurance that funds would be available with a known interest cost. Ultimately, the council had sufficient cash available at the end of March 2014 to have not required the loan. There was no overall net cost of borrowing as the instant access deposit account (where short term cash balances are held) generated a yield that surpassed the gross borrowing cost.

Table 7: Temporary Borrowing Position

Temporary Borrowing at 31 March 2014	£000
Short-term borrowing for cash flow purposes	24,000
Office of the Police and Crime Commissioner for Surrey	26,483
Total Temporary Borrowing	**50,483**

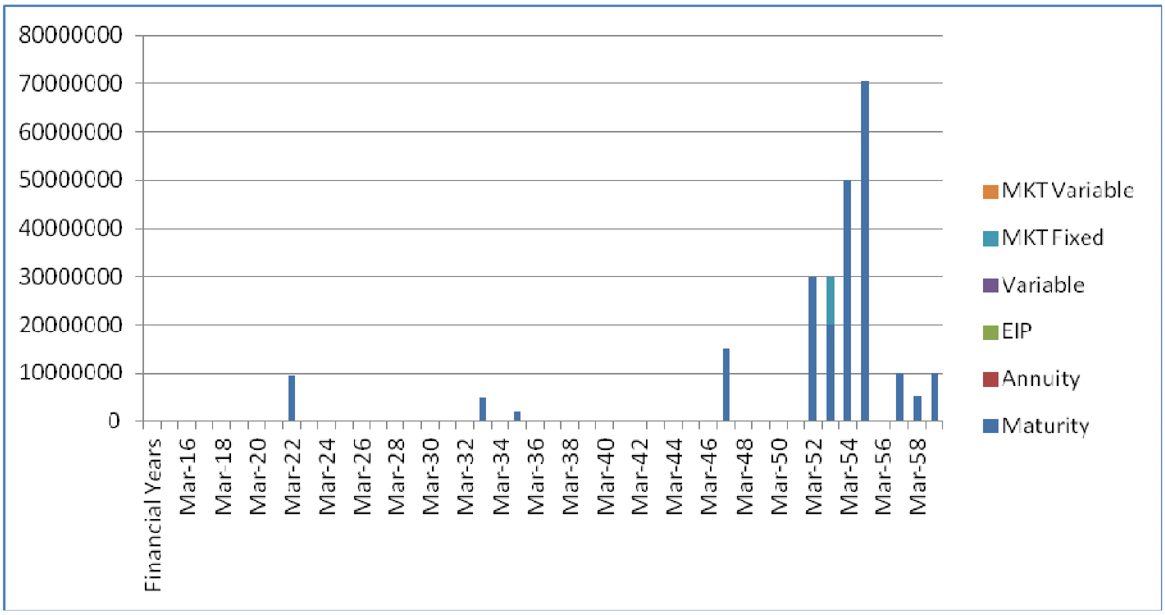
15. The council has limited its exposure to large fixed rate loans maturing in any one year by setting gross limits for its maturity structure of borrowing in accordance with the Prudential Code.

Table 8: Debt Maturity Profile as at 31 March 2014

Maturity Profile	Upper Limit	Lower Limit	Actual
Under 12 months*	50%	0%	10.0%
1 year and within 2 years	50%	0%	0.0%
2 years and within 5 years	50%	0%	0.0%
5 years and within 10 years	75%	0%	4.0%
10 years and above	100%	25%	86.0%

* Includes balances held on behalf of the Office of the Police and Crime Commissioner for Surrey.

16. The debt maturity profile of the council's long-term debt is shown on the following chart:



11

Investment Position

17. Average investment returns from 2004/2005 onwards are shown in Table 9.

Table 9: Return on Investments

Financial Year	% Return on Investments
2004/2005	4.65
2005/2006	4.75
2006/2007	4.90
2007/2008	5.78
2008/2009	4.38
2009/2010	1.01
2010/2011	0.75
2011/2012	0.70
2012/2013	0.55
2013/2014	0.41

18. The deterioration in the ratings of the majority of banks, coupled with the Bank of England base interest rate sustained at 0.50%, has resulted in very low rates available with a small number of institutions.

19. All cash held by the council is aggregated for the purpose of treasury management and daily surpluses are invested temporarily until required to meet daily outgoings. Such monies include funds held on behalf of schools and the Office of the Police and Crime Commissioner for Surrey. Pension Fund balances are held in a separate bank account.

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20. Some 310 schools have their cash balances incorporated within the council's balances, earning interest on an agreed basis. Under this arrangement, these schools receive interest on their balances at a rate of 0.50% below base rate.

21. In 2013/14, the council applied the average return of its whole investment portfolio to all of the funds that were held on behalf of the Office of the Police and Crime Commissioner for Surrey (as per the current service level agreement).

22. Money brokers are used to facilitate investment dealing and loans are only made to institutions that meet the council's approved counterparty criteria. In addition to dealing through brokers, short-term investments are also made by dealing direct with some approved institutions, including banks, building societies and money market funds.

23. Due to frequent action on the part of credit ratings agencies, the council's credit rating criteria, investment limits and resultant counterparty list have been under continual scrutiny. The counterparty criteria set out for the period 1 April 2013 to 31 March 2014, which was affirmed at the County Council meeting of 12 February 2013, is shown in Annex 2, with investment limits effective during that period.

24. During 2013/14, the council maintained an investment portfolio with a daily average balance of £281m (£307m in 2012/13) and received an average return of 0.41%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.35% for the period. The council therefore outperformed its benchmark by 0.06%.

25. A summary of the economic background throughout 2013/14 can be found in Annex 3.

Icelandic Deposits

26. The Audit & Governance Committee has received regular reports on the prospects for recovery of the remaining Icelandic deposits and the efforts being made by the Local Government Association (LGA) and its legal advisors in this regard.

27. With regard to Landsbanki, at a meeting of 22 October 2013, the Cabinet authorised, on the Council's behalf, the Local Government Association (LGA) and its legal representatives to arrange an auction of the Council's claim for its deposit with Landsbanki, managed by Deutsche Bank. It authorised the Leader or Cabinet Member for Business Services, in consultation with the Chief Finance Officer and the Monitoring Officer, to make a final decision on the sale price and to report back to the council with an update on the outcome of the auction.

28. The Local Government Association and its legal representatives commenced negotiations with interested third parties on the Council's behalf in order to achieve the best possible price. On 30 January 2014, this was confirmed at a level that satisfied the minimum required stipulated by Cabinet. Proceeds from the sale in the amount of £4,123,006.05 were received into the Council's bank account on 4 February 2014, which includes an amount of interest due on the investment. This concludes the council's debt relationship with Landsbanki.

29. The current position is that over 84% of Glitnir deposits have been repaid. The balance owed on each deposit is shown in the table below. It should be noted that the balance has been placed in an escrow account awaiting repayment, and subject to the final processes of the Icelandic Winding Up Board. The remaining balance will be subject to exchange rate fluctuations when capital controls in Iceland have been lifted.

Counterparty	Period	Principal £000	Rate	Principal Repaid £000	Principal Outstanding £000
Glitnir	364	5,000	6.25%	4,192	808
Glitnir	366	5,000	6.20%	4,193	807
		10,000		8,385	1,615

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Member and Officer Training

30. Officers and members involved in the governance of the council's treasury management function are required to participate in training. Officers are also expected to keep up to date with matters of relevance to the operation of the council's treasury function. Officers continue to keep abreast of developments via the CIPFA Treasury Management Forum as well as through two local authority networks. Capita provides daily, weekly and quarterly newsletters and update meetings are held with Capita twice a year. Members attended a Capita training session on the gilts market on 24 October 2013. Further training events are planned for 2014/15.

Treasury Management Advisors

31. The Council uses Capita as its treasury management advisor. The company provides a range of services including:

- technical support on treasury matters, capital finance issues and reports;
- economic and interest rate analysis;
- debt services, which includes advice on the timing of borrowing;
- debt rescheduling advice surrounding the existing portfolio;

- generic investment advice on interest rates, timing, and investment instruments;

- credit ratings/market information service comprising the three credit rating agencies.

Risk

32. A development in the revised CIPFA Code on Treasury Management, which is intended to improve the reporting of treasury management activities, is the consideration, approval and reporting on security and liquidity benchmarks. Yield benchmarks are already widely used to assess investment performance, while discrete security and liquidity benchmarks are new reporting requirements. A Treasury Management Risk Register is included as Annex 4.

Security: The Council analyses the investment portfolio at year end against historic default rates to estimate the maximum exposure to default as shown in Table 10 below:

Liquidity: The Council currently restricts termed deposits to less than one year, and ensures the minimum level of cash available each day stands above £15m. This provides a safety margin to help ensure the Council does not need to borrow to fund treasury activity.

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Yield: The Council currently reports the overall return in interest against the 7-Day LIBID rate. The overall return in 2013/14 on deposits was 0.41%, compared with the benchmark of 0.35%, a margin of 0.06%.

Table 10: Benchmarking Deposits against Default Rates at 31 March 2014

Deposits with banks and financial institutions	**Amount £000**	**Historical experience of default %**	**Estimated exposure to default £000**
	(a)	(b)	(a x b)
AAA rated counterparties*	-	0.00%	0
AA rated counterparties	-	0.02%	0
A rated counterparties	40,950	0.09%	37
Other counterparties**	61,500		0
Total	102,450		37

* *includes £61.5m with other Local Authorities that do not have credit ratings

Regulatory Framework, Risk and Performance

33. The council's treasury management activities are regulated by statute. The DCLG has also issued investment guidance to regulate the Council's investment activities.

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Act permits the Secretary of State to set limits either on the council or nationally on all local authorities, restricting the amount of borrowing which may be undertaken (no restrictions were made in 2013/14);

- Statutory Instrument (SI) 3146 2003, as amended, specifies the controls and powers within the Act. The SI requires the council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The SI also requires the council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under section 238(2) Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices.

34. The council has complied with all of the above relevant statutory and regulatory requirements, which require the council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management ensures that capital expenditure is prudent, affordable and sustainable, and treasury practices demonstrate a low risk approach.

35. The council is aware of the risks of passive management of the treasury portfolio and, with the support of the council's advisors, has proactively managed the debt and investments. The council has utilised historically low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio, as it consists of predominantly fixed long-term loans, with the capacity for repayment of any shorter dated debt. Shorter term interest rates and likely future movements in these rates predominantly determine the council's investment return. These returns can be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult. 11

Risk Register

36. A risk register for the Treasury Management operation is shown in Annex 4.

37. The Committee is invited to comment on the register and propose amendments as appropriate.

Treasury Management Investment in Property

38. A summary of the implications of future treasury management funds being placed into pooled property investments is included as Annex 5.

IMPLICATIONS:

A) Financial
There are no direct financial implications.

B) Equalities
There are no direct equality implications.

C) Risk management and value for money
See paragraphs 32 and 33.

<u>WHAT HAPPENS NEXT</u>:

i. The Pension Fund & Treasury Team will monitor the UK and overseas banking sector and will continue to update this Committee as appropriate.

ii. In line with the requirements of CIPFA's Code of Practice for Treasury Management, this committee will receive a half year report on the council's treasury management position in December, and a full-year report for 2014/15 at the meeting in June 2015.

iii. The Pension Fund & Treasury Team will prepare the annual Treasury Management Strategy, which will be presented as part of the MTFP presented to Council in February 2015.

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Sources/background papers:
Capital Budget and Treasury Management Strategy 2013/14
Prudential Indicators and Treasury Management Strategy 2012/13 to 2013/14
CIPFA Code of Practice for Treasury Management in the Public Services (Revised)
CIPFA Treasury Management Benchmarking Club Report 2013/14

Table 11: Summary of Prudential Indicators for 2013/14

Prudential Indicator	**Maximum Position 2013/14 £000**	**Limit 2013/14 £000**
Maximum net borrowing incurred against the Capital Financing Requirement (CFR)	185,730	560,000
Maximum gross borrowing incurred against the Authorised Limit	305,230	676,000
Maximum gross borrowing incurred against the Operational Boundary	305,230	612,000
Ratio of financing costs to net revenue stream	4.46%	N/A
Limits on fixed interest rates	100%	100%
Limits on variable interest	0%	0%
Maturity structure of fixed rate borrowing *(maximum position during the year)*		
Under 12 months	10%	0% - 50%
12 months to 2 years	0%	0% - 50%
2 years to 5 years	0%	0% - 50%
5 years to 10 years	4.0%	0% - 75%
10 years and above	86 %	25% - 100%
Maximum principal funds invested for more than 365 days	(0%)	35% of value of investments held

In addition to the above the council is required as a Prudential Indicator to:

i) Adopt the CIPFA Code of Practice.

ii) Ensure that over the medium term borrowing will only be for a capital purpose (i.e. net external borrowing is less than the CFR).

Annex 2

Table 12: Effective counterparty limits 1 April 2013 to 31 March 2014

Type	Fitch				Moody's			S&P		Maximum Value
	ST	LT	Via	Sup	ST	LT	FSR	ST	LT	
Bank / BS	F1	A	-	1	P-2	Baa 1	D+	A-2	A-	£60m
Bank / BS	F1	A	a-	1	P-1	A2	D+	A-1	A	£60m
MMF	AAA				AAA			AAA		£20m
DMADF	-				-			-		Unlimited
Supranational	-				-			-		£10m
Local Authority	-				-			-		£20m

i) Deposits are permitted with UK banks that do not comply with the council's credit rating criteria subject to the following:

a) That they have been nationalised or part nationalised by the UK government;

and/or

b) That they have signed up to the UK government financial support package.

11 ii) The use of Money Market Funds is restricted to Funds with three AAA ratings up to a maximum of £100m (with a maximum of £20m per Money Market Fund).

iii) An additional £40m is made available to invest in overnight high interest call accounts with both RBS and Lloyds (making a total of £60m limit with each). This will be maintained while they remain part nationalised.

iv) Deposits with foreign banks are now permitted, on the condition that they meet our minimum criteria, and that the country in which the bank is domiciled is "AAA" rated with all three ratings agencies (Fitch, Moody's and Standard and Poor's).

GLOSSARY

MMF = Money Market Fund; DMADF = Debt Management Account Deposit Facility at the Bank of England; BS = Building Society. ST = Short-Term; LT = Long-Term; Ind = Individual rating; Sup = Support rating; FSR = Financial Strength Rating.

F1 Indicates the strongest capacity for timely payment of financial commitments; an added "+" denotes any exceptionally strong credit feature.

P-1 Indicates superior credit quality and a very strong capacity for timely payment of short-term deposit obligations. No enhanced rating available.

A- Indicates a strong capacity to meet financial commitments; an added "+" denotes a capacity to meet financial commitments as extremely strong.

Annex 3

Economic Review

Sovereign Debt Crisis

The European Union sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do "whatever it takes" to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

Government Policy

The UK Coalition Government maintained its tight fiscal policy stance and recent strong economic growth has led to a cumulative as demonstated in the March budget, a reduction in the forecasts for total borrowing is expected to create a surplus in 2018-19.

UK Growth

Economic growth in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14. 11

UK CPI Inflation

Inflation remained stubbornly high and above the 2% target being at 2.8% in March 2013. However, by January 2014 it fell below the target rate of 1.9% and dropped further to 1.7% in February (now at 1.5% in May 2014). It is forecast to remain below the target rate for the majority of the two years ahead.

Gilt Yields

The trend of Gilt yields sharply rising in 2013 ended when volatility returned during the first quarter of 2014 as economic fears sparked a flight to quality.

Bank Rate

The rate was unchanged at 0.5% throughout the year, while expectations of when the first increase would occur were pushed back to Q1 2015 at the earliest.

Deposit Rates

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year and continuing into 2013/14. The part of the scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over increasing house prices.

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Annex 4

Risk Group	Risk Ref.	Previous	Risk Description	Impact Financial	Impact Reputation	Impact Total	Likelihood	Total risk score	Mitigation actions
Financial	1	5	**Interest Rate Risk (Borrowing)** The risk that fluctuations in the levels of interest rates (gilt yield) create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	4	1	5	3	15	As part of the Treasury Management Strategy, the TM function will continually monitor interest rates available to ensure any borrowing is prudent, and at an affordable level.
Financial	2	New Entry	**Too Conservative Strategy** The overall treasury management strategy is judged as too prudent and unnecessarily stringent, resulting in investment returns being lower than might have been with a more risky, but ultimately safe, approach.	3	2	5	2	10	Treasury strategies, outturn reports and monitoring reports and scrutinised on a regular basis by the Audit and Governance Committee with recommendations and opinions minuted and actioned.
Operational	3	10	**Financial failure of SCC's main bankers** The collapse of the council's main bankers, leading to a total shutdown of services.	4	4	8	1	8	The UK Goverment has implied by its takeover of both Lloyds TSB and RBS that it will not allow a UK financial institution to fail. The suitability of the council's banker (HSBC) in terms of its security and stability is assessed on a regular basis.
Financial	4	1	**Credit and counterparty risk** The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or revenue resources.	3	4	7	1	7	As part of the Treasury Management Strategy, counterparty criteria has been set at a level to allow only the most finanically secure banks and other counterparties within the lending list. Such lists are regularly monitored against updates and advice provided by our Treasury consultant.
Operational	5	3	**Fraud, Error and Corruption** This is defined as the risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends.	3	4	7	1	7	Ongoing internal audit advice will ensure that the Council identifies the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Advice is also supplied with regard to the use of internal controls and compliance testing as to their effectiveness. Managers will maintain a constant watch over the suitability of its systems and procedures.
Financial	6	4	**Interest Rate Risk (Investments)** The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	2	1	3	2	6	As part of the Treasury Strategy, all investments will be kept with counterparties with a high rating, on a short term basis of one year or less, minimising any interest rate risks.
Financial	7	2	**Exchange Rate Risk** Exchange rate risk is defined as the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. Such a risk will arise from the Council's current exposure to the Glitnir Bank in Iceland where a £1.6m balance remains in respect of an original £10m deposit, held in Icelandic Krona.	3	2	5	1	5	As part of the Treasury Manegement Strategy, all treasury activity is restricted to banks with offices in the UK, and in Sterling amounts only.
Operational	8	6	**Legal and Regulatory Risk** Defined as the risk that the organisation itself, or a third party with which it is dealing, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.	1	4	5	1	5	The Treasury Management function will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements, by receiving relevant updates from CIPFA and from the treasury advisors.
Operational	9	11	**Unauthorised access to offices leads to theft of intellectual property and confidential information.**	1	4	5	1	5	Clear desk policy. Ensure all sensitive data is locked away. Challenge any unknown visitors. Use of secure passwords to protect against unauthorised access.
Financial	10	8	**Market Risk** The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.	1	1	2	2	4	The Treasury Management Strategy prevents exposure to instruments which can be subject to signicant adverse market fluctuations in the capital sum invested.
Operational	11	7	**Liquiduity Risk** The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.	1	1	2	1	2	As part of the Treasury Management Strategy, a minimum cash balance of £15m will be maintained. In the event of unforseen circumstances leading to a negative balance, short term borrowing is widely available from both the money markets and from other local authorities.
Financial	12	9	**Refinancing Risk** The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.	1	1	2	1	2	As part of the Treasury Management Strategy, restrictions have been set on the proportion of borrowing that is due for refinancing in the short term..

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Annex 5

Local Authorities Property Fund Briefing

General Points to Note

- This would require a change in the current Treasury Management Investment Strategy.
- A number of local authorities have invested treasury monies in property.
- There is an increased exposure to risk, so officers would need to be prepared to report to Members on possible short-term (or even long-term) capital losses.
- If a decision to invest in property funds is taken, this is a different investment opportunity than that under the current capital strategy. This would be a revision to the Treasury Management Strategy for the investment of surplus cash balances, not an investment purely for investment returns. CIPFA's treasury management guidance places security, liquidity and yield in that order as the investment objectives.
- The Treasury Management Strategy would be required to authorise to invest long-term in order to reduce the risk of having to call back a property investment at a time when capital values have reduced. As a comparison, the Surrey Pension Fund is able to invest in property funds without large exposure to risk because it can take a long-term view and has a large, diversified portfolio.
- Timing is everything: timings of initial investment and the withdrawal of investment are essential in order to minimise risk of capital loss. 11
- In an environment of future rising interest rates, timing is even more essential.

Pros and Cons of Property Funds

Pros	Cons
• Higher yield • Diversification	• Increased risk of capital loss • Illiquid investment • Manager fees

Property funds produce two sources of income:

- Rental income (yield)
- Increases (or decreases) in capital value: these are harder to predict and can be volatile. There is a need to be prepared to have to 'sit it out' if the council makes initial capital losses.

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SURREY
COUNTY COUNCIL

Audit & Governance Committee
31 July 2014

Annual Report of Surrey County Council

Purpose of the report:

To formally consider the Annual Report for the authority

Recommendations:

It is recommended that:

1. Note and endorse the Annual Report (Annex A) for the authority

Introduction:

2. In previous years the Annual Report included the unaudited financial accounts. Due to the improvements in the progress of producing the Statement of Accounts and working with the external auditors, this year the Annual Report now contains the audited financial statements and has its own audited opinion. There are other internal process and external guidance changes.

Changes to the annual report

Internal process changes:

3. The leadership of the Council has led the improvements in accountability and governance further through the Annual Report. There have been major improvements to the audit timetable that means the auditor can give his opinion on the accounts by the end of July. In the past the Chief Executive and Leader approved the Annual Report with unaudited accounts. This year, there is a significant improvement in the quality of the financial information that is published including the audited financials in Annual Report.

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4. The endorsement of the Audit & Governance Committee, will formalise the completion of the 2013/14 Annual Report. Council delegates responsibility to the Audit & Governance committee to receive the audited Statement of Accounts and the result of the external audit, and approval of the Annual Report supplements this process.

5. The Annual Report contains some key transparency information that in the past has been reported only through “freedom of information” requests. For example: the complaints information has been summarised and collated to provide a cohesive position of the council’s complaints incorporating the three different complaints processes we are required to have. There is only one significant reduction in the information relating to member attendance as formal council and committee meeting. This information is available on the external website in a simple analytical tool.

External guidance changes:

6. Shareholders are challenging corporate entities to communicate their business value more effectively. Over the last few years some corporate entities have piloted an integrated annual reporting process. This explains an entity’s business story more effectively by clearly and consistently demonstrating its stewardship and how it creates and sustains value over the short, medium and long-term.

7. Recently, Integrated Report (IR) guidance has been published by the International Integrated Reporting Council (IIRC). This guidance is currently voluntary but is best practice. One of the benefits of Integrated Reporting is better articulation of the organisation’s strategy and business model, connecting silos and improving internal processes. All of these lead to better understanding of the business, more and broader consideration of risks and opportunities, and improved communication to stakeholders of the value improvements the organisation has made.

8. The IIRC definition of the Integrated Report is:

> *An integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. IR is needed by business and investors. Businesses need a reporting environment that is conducive to understanding and articulating their strategy, which helps to drive performance internally and attract financial capital for investment.*
>
> *International Integrated Reporting Council*

9. IR isn’t fully transferable to local government especially with regard to aspects of creating value. However, there are some principles of articulating and understanding our strategy in a concise communication that befits the transparency strategy. With this in mind the 2013/14 Annual Report has been collated using these principles but on a basis that is appropriate for the authority.

10. The council already produces most of the information that is needed for integrated reporting. Some of the available information could be added to the 2013/14 annual report is how the corporate strategy links to the organisation, greenhouse gas emissions, and risks.

11. The 2013/14 Annual Report is a report integrating the authority's business and performance in one place. Whereas, in previous years there has been a clear distinction between the performance and financial sections. Also, there has been a conscious approach of integration and keeping things simple throughout the report especially by using shorter web address when referring to the Surrey external website.

Conclusions:

12. The county council's annual report, set out in Annex A, now includes:

    due to the internal process changes:
    - Audited financial information
    - Improved and summarised complaints information

    due to the Integrated Report guidance:
    - The council's business model and strategy
    - Environmental sustainability review
    - Summarised Governance structure
    - Principal risks
    - Salary banding with gender proportions.

13. The Annual Report 2013/14 will be available and published (external website and paper) in August.

Financial and value for money implications

14. 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 2013/14 budget has been considered in the outturn report to the Cabinet.

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

The Annual report 2013/14 will be available and published (external website and paper) in August.

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Contact details: 020 8541 9225 / verity.royle@surreycc.gov.uk

Sources/background papers:

Financial Reporting Council. (2011). Cutting clutter – combating clutter in annual report.
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Parliamentary and Health Service Ombudsman (PHSO) – The Parliamentary Ombudsman's review of government complaint handling 2013
Financial Outturn 2013/14 – Report to Cabinet 27 May 2014.
Statement of Accounts 2013/14 – Report to Audit & Governance Committee 31 July 2014

Overview

Overview

Summary

From the Leader

The past few years have not been easy for anyone involved in local government. Central government austerity measures have resulted in significant funding cuts for public services. At Surrey County Council we have had to find £260 million worth of efficiencies over the past four years. During 2014/15 will be required to find yet another £65m.

Despite our difficult position - this Council is performing strongly. We are working as "one team" with our partners. We are ensuring that Surrey residents receive high quality and value for money services. We are listening and working with residents. We are making a positive difference to people's lives - day after day, week after week.

There is no complacency. Our job gets tougher as demand for our services increases whilst resources from government continue to decrease. And we are reaching a critical moment where it is becoming harder and harder to guarantee we can continue to meet the demands for our services.

In Surrey our job is made more all the most difficult because of the demographic pressures we face:

- We have some of the most heavily used roads in the country
- We have a birth rate which has risen by 20% in the past decade
- And we have an ageing population where our population of over 85s is set to double in the next 20 years.

And on top of all of this, we continue to receive the lowest funding of any County Council in the country! When you consider this alongside our demographic pressures it really is unacceptable – and indeed it will be simply unsustainable going forward. That's why I will continue to lobby government, particularly our 11 Surrey MPs, for a fairer funding settlement for Surrey. **If we are to continue to deliver the services that residents value the most we need to be funded accordingly.**

Tomorrow's public services will need to be leaner, smarter and less constrained by organisational boundaries. That's why, ever since I became Leader , I've been advocating the One Team approach, whereby services and organisations work together for the benefit of Surrey residents.

And we have proved that we can do it. Perhaps our greatest example of One Team working was the recent response to the flooding in Surrey, when a host of partners pulled together to support residents through some of the worst weather this county has ever faced. If we are to tackle the significant challenges that lie ahead, we need to continue to build on these relationships and pull together as One Team for the benefit of Surrey residents.

David Hodge

Leader of the Council

31 July 2014

Approach to deliver services

Our next challenge
The challenge facing us is simple. We cannot afford to deliver the services demanded of us in the way we deliver them today. This problem will only get worse.

There are growing demands for our existing services and that growth is speeding up. There are new responsibilities that we have to meet. At the same time our resources in real terms will reduce. If we don't find an answer the future looks very bleak for us and those residents who need us most. We will also be unable to play our part in working with others to secure strong economic growth in Surrey.

Time for leadership: time for change
Now that we have re-established Surrey as a high performing council the time is right to set out how we will continue to improve services for residents with the resources we will have in future.

During the next few years many councils will respond to the challenges they face by reducing their capacity and capability. We won't. We will conserve and where we can build on our strengths. We are a large organisation. That is a major strength if we work together effectively. We will continue to focus on building our one team culture for Surrey.

Our purpose – To ensure that Surrey residents remain healthy, safe and confident about their future

Our vision for 2019 - To be delivering great value for Surrey residents
What we will focus on - This vision is ambitious. To achieve it there are six things we have to focus on and get right. These explain how we will transform the way we work with residents, businesses, partners and staff to tackle the issues facing Surrey and how we will navigate our way through the most difficult financial environment local government has faced for the last 80 years.

Residents - Individuals, families and communities will have more influence, control and responsibility
Individuals, families and communities across Surrey have different needs and aspirations. To meet these it is crucial we develop new approaches that increase their control over how services are designed and delivered. This move to greater localism will develop in different ways. We will stimulate changes by engaging with and listening to residents, moving some decision-making powers and funding to local levels, and being transparent about what we do and how much it costs. We will work with adults and children who need support to shape the sort of services they receive so they can lead more independent and fulfilled lives. In everything we do we will treat all residents fairly and with respect.

Value - We will create public value by improving outcomes for residents
In the way that a company seeks to maximise shareholder value, we will focus on generating increased value for residents. We have to reduce our spending by more than £200m over five years to 2019. This is a huge challenge. We will focus relentlessly on reducing our costs. We will deliver the things that are important for Surrey residents, maintain a rigorous focus on value for money, and find innovative solutions that can achieve more for less. This will include looking at different ways of delivering services such as joining up with partners and establishing arrangements to trade services.

Partnerships - We will work with our partners in the interests of Surrey
Putting residents' interests first means setting aside organisational boundaries and traditional roles. We will work with whoever is best placed to help improve outcomes for Surrey residents. This could range from co-designing specific services with residents to formal arrangements with social enterprises or partners such as other councils, the private sector and the voluntary, community and faith sector. Only by remaining a strong organisation will we have the strength to support others in the voluntary, community and faith sector to make their contribution to Surrey's wellbeing. And we will be able to play our part in working with business partners to improve Surrey's competitiveness as the world economy recovers.

Quality - We will ensure high quality and encourage innovation
However services change and whoever delivers them, we will pride ourselves on ensuring high quality at all times. This means working relentlessly with residents, businesses, partners and staff to find improvements and develop fresh approaches. We will focus on prevention; anticipating and avoiding problems before they arise. We will respond quickly to the changing demands - and seize the opportunities - that new technology can bring.

People - We will develop and equip our officers and Members to provide excellent service
One of our key assets is the quality and commitment of the people who work for Surrey. We will invest in the people who work for Surrey. We will make sure that they have the right equipment training and development to support their work. This investment will improve our productivity and the quality of the work we do for residents. It will also support a one team culture where all officers and Members take responsibility for providing excellent service and work together in creative ways for the benefit of residents.

Stewardship - We will look after Surrey's resources responsibly
When striving to fulfil our most pressing duties it is critical we use resources responsibly and safeguard them for future generations. We will continue to maintain rigorous financial and risk management so we have a sound basis for achieving current priorities and investing for future needs. We will focus on conserving Surrey's environment and will reduce our dependency on carbon and other scarce resources.

Our values
Making these changes will not be easy and we will face some tough choices. To succeed we will need to live up to our values. These are at the heart of our goal to make a difference for Surrey residents.

Listen - We actively listen to others
Responsibility - We take responsibility in all that we do
Trust - We work to inspire trust and we trust in others
Respect - We treat people with respect and are committed to learning from others

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What we do

Surrey County Council acts within legislative delegated powers and high level directives from central government departments. We spend public money in Surrey so that we can meet our local people's needs and ensure that Council Tax and Business rate payers get value for money by being transparent and accountable.

Examples of the legislative powers and high level directives (statutory duties) include waste management, education, libraries, social services, transport and highways, strategic planning, consumer protection, and fire.

Social services include responsibilities such as assessing the needs of, and providing support to, children, older, disabled or vulnerable people in the community.

The changes and improvements that we will make over the next five years are all designed to achieve better outcomes for Surrey and its residents.

Where we do it

We are responsible for services and support people who:

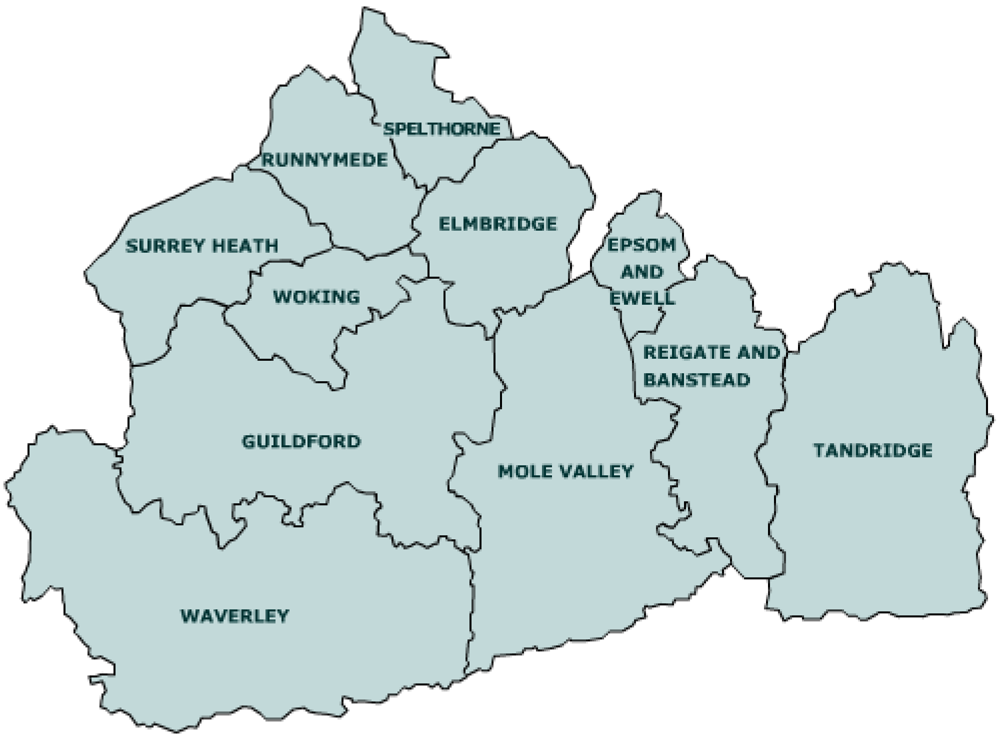
live in,

work in,

do business in and

visit Surrey.

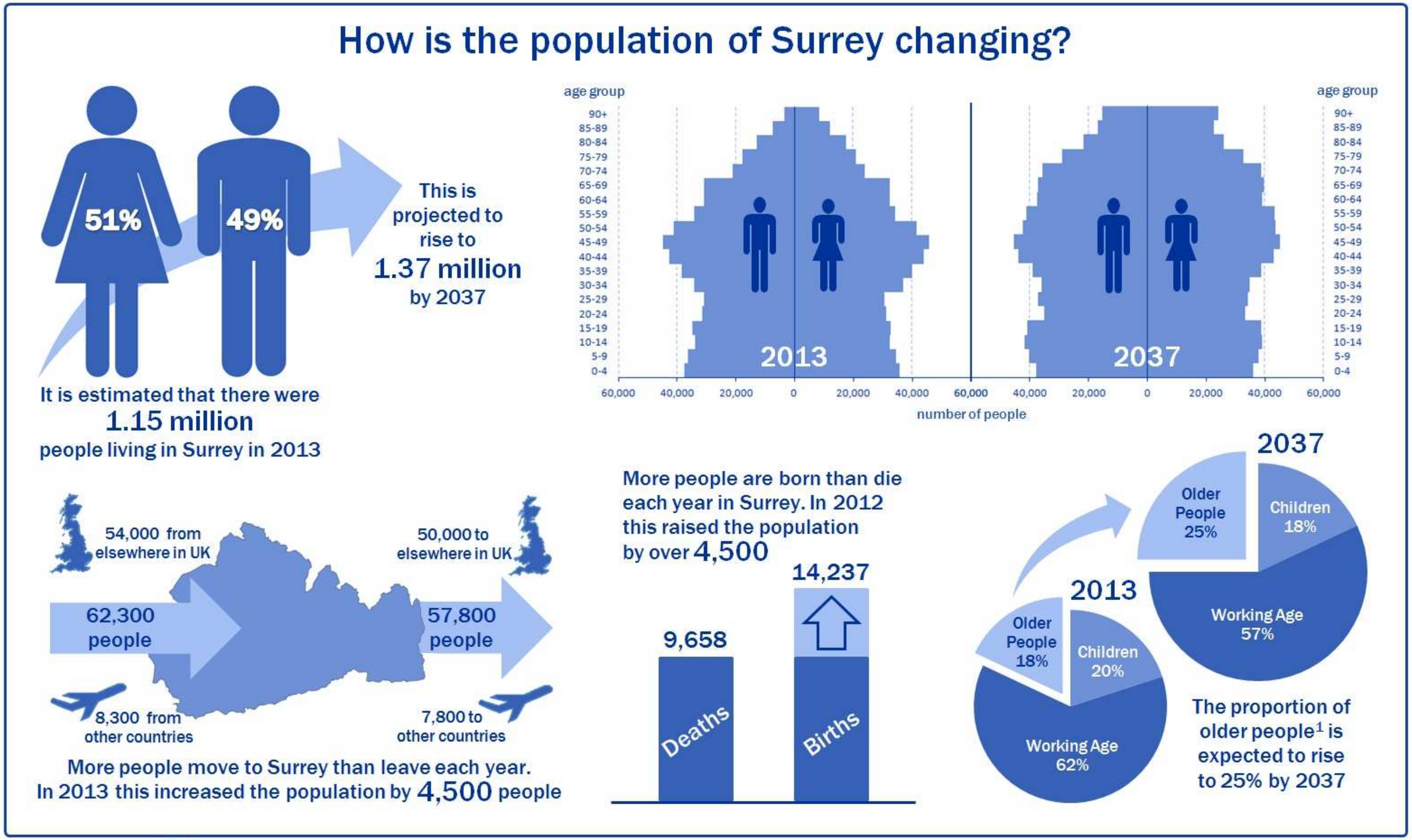
Sometimes that involves using facilities beyond our boundaries as a county, for example: care homes, fire stations and primary, secondary and special needs schools.



Presentation of information in pictures and graphics

Over the next few pages Surrey information has been analysed and presented in pictures to explain complex information quickly and clearly. Our online resource, Surrey-i, compiles and publishes information about the council's residents and communities. It gives public service professionals, partner organisations and the public improved access to essential data, including customer needs, demand and resource data. Information is now available in snapshots (eg on crime and health), which bring together information in a visual and user friendly way.

Some of these examples are snapshots on; How is the population of Surrey changing? (page 7), What opinions do our residents have about their neighbourhood and the council? (page 10) and, What does School provision look like in Surrey? (page 32).



Surrey-i

You can find all of the data used in this Snapshot in the How is the population of Surrey changing? data collection on www.surreyi.gov.uk

Sources: Office for National Statistics

● Annual mid year population estimates ● 2012 based subnational population projections ● Deaths registration summary tables 2012 ● Birth summary tables 2012

[1] Age Groups: Children 0-15, Working Age 16-64, Older People 65+

Interview with the Leader of the Council and Chief Executive

Leader of the Council, David Hodge

After 22 years in the British Army, David entered politics in 1992 when he was elected to Tandridge District Council. In 2005 he became a Surrey County Councillor and was elected Deputy Leader in 2009 with responsibility for the finance portfolio. In that role he led the council's Public Value Review (PVR) programme. He was elected Leader of the Council in October 2011 and describes himself as "a passionate believer in working with public partners, businesses and the voluntary sector to deliver better and more efficient public services". In 2013, he was elected Chairman of the County Councils Network (CCN), representing 37 county councils across England.

David McNulty, Chief Executive Officer

David joined Surrey County Council in 2009 at a time when its performance was the subject of very critical judgments by external inspectors. Under his leadership the council embarked on a sustained improvement programme, resulting two years later in its achieving national recognition as a high performing organisation. David has a track-record in organisational improvement, having overseen a turnaround in performance at his two previous councils - Trafford Metropolitan Borough Council, where he was Chief Executive (2005-2009), and Walsall Metropolitan Borough Council, where he was Executive Director for Education and Lifelong Learning.

How has the council continued its strong performance despite the tough economic climate?

Leader: Since I became Leader in 2011, I have been an advocate of 'One Team' working – where public services work across organisational boundaries in order to deliver services to Surrey residents. Over the past year, we've seen some excellent examples which have enabled us to continue to perform strongly – such as our Supporting Families Programme, which has been commended by government ministers. Developing new ways of delivering services in partnership will simply become more important over the next few years, as government funding continues to reduce across the public sector.

Chief Executive: A combined focus on continual improvement and financial responsibility has enabled us to maintain strong performance through a tough economic climate. I am proud of the progress we have made and it is crucial that we continue to improve, which means being honest about the areas where we can still do better.

Delivering £62m of savings in 2013/14 and setting a refreshed Medium Term Financial Plan are significant achievements. But despite our progress on increasing productivity and public value, the reality is there is still much more to do. It is becoming increasingly challenging to deliver year-on-year savings, which is why the quality and strength of our planning process are crucial.

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Are there any key memories of the year?

Leader: I know that many residents are still coming to terms with both the financial and emotional impacts of flooding. However, I am a firm believer that we should look for the opportunity in every challenge. And if there was one thing that the flooding highlighted to me, it was the power of partnership working. I was so proud of how the council joined together with partners such as the police, Environment Agency, district and borough councils, voluntary and community groups as well as the Military to support residents during this difficult time. It was a real example of 'One Team' working in action. I am keen to build on the relationships developed during this time and see where we can continue to work together and learn from each other for the benefit of Surrey residents.

Chief Executive: The flooding seen in many parts of the county had a significant impact on our communities. It was fantastic to see colleagues across the organisation working so hard with partner organisations to respond and help the communities affected get back to normal as quickly as possible. This was no easy task given the duration and scale of the damage, and we still have a long list of roads, bridges, embankments, and footpaths to assess and repair.

Looking ahead, what next? What's the strategy for the organisation for the next five years?

Leader: Our progress over the past few years indicates we have the right strategy in place. The challenge for the next five years will be accelerating the pace of change as our budget continues to reduce. It is quite sobering to think that over 60% of the planned spending reductions in the public sector are yet to delivered.

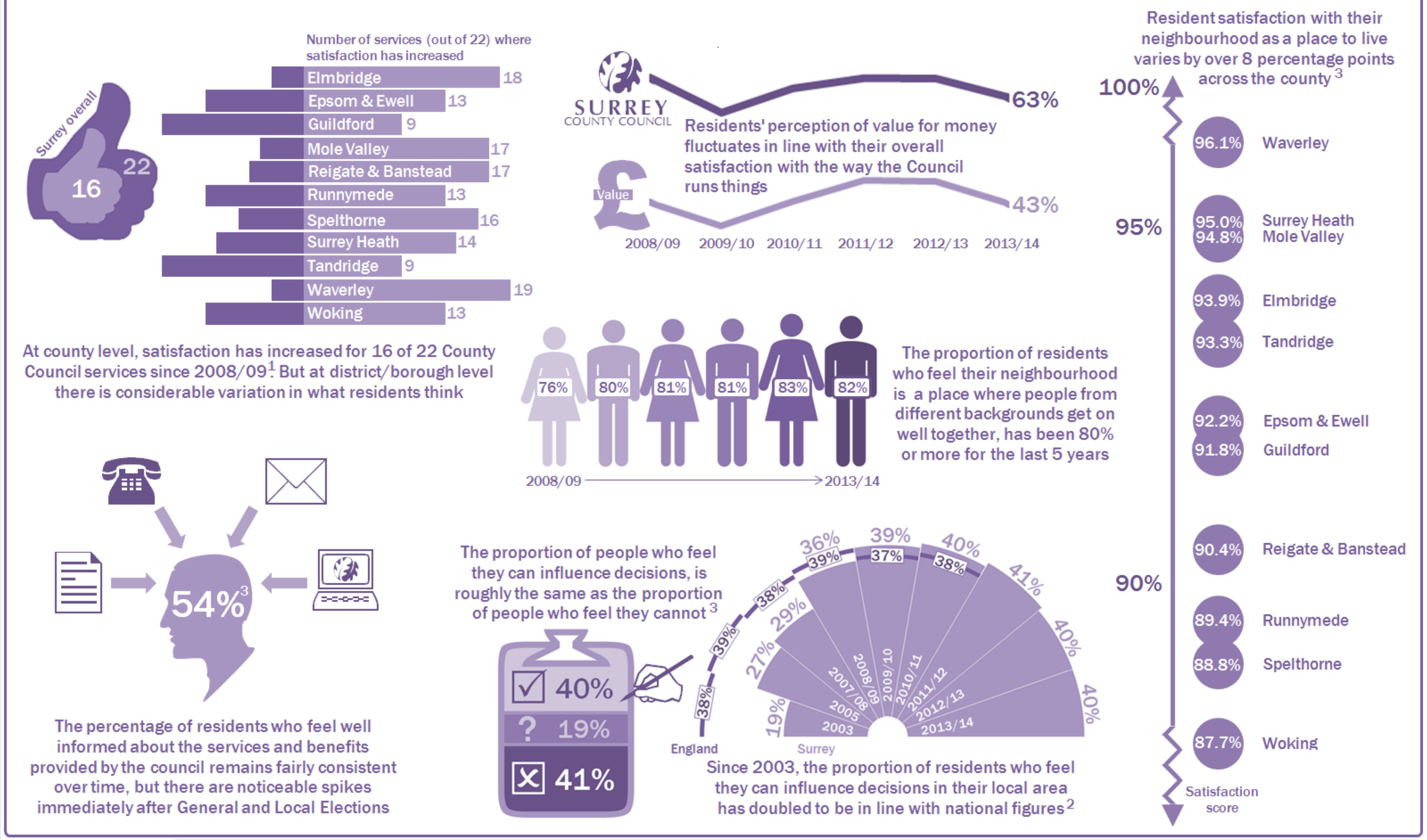
Chief Executive: Our strategy is based on: a constant focus on building strong relationships within and outside the council; taking a long-term strategic view; prioritising support to our most vulnerable residents; and finding innovative ways to work together with residents and colleagues in other organisations to design and deliver better services.

What is the main focus for the year ahead?

Leader: The challenge will be continuing to meet our statutory responsibilities while at the same time innovating and planning for the future. As Leader of the Council, I also remain focused on representing Surrey at a national level. Through my role as Chairman of the County Councils Network, I will continue to lobby the Government for greater freedoms and flexibilities for local authorities - which would enable us to deliver services more effectively and efficiently to our residents.

Chief Executive: In the short-term, we must make sure we continue to work as 'One Team', focusing our resources and skills on the most important tasks, while balancing the delivery of vital day-to-day services with the drive towards new models of public services. Strong leadership will be crucial. We have started to develop a more widely distributed leadership model, which will allow us to draw on the experience and skills of our senior officers more effectively. This means supplementing the current directorate- and service-centred arrangements with networks focused on cross-cutting goals. The portfolios of Cabinet Members have already been adapted to reflect this approach.

What opinions do residents have about their neighbourhood and the Council?



You can find all the data used in this Snapshot in the What opinions do residents have about their neighbourhood and the Council? Data Collection on www.surreyi.gov.uk

All data used in this Snapshot is taken from the results of The Surrey Residents' Survey which is a telephone interview survey conducted throughout the year with randomly selected Surrey residents. It began in April 2008. In each 3 month period, 1,650 people are interviewed for the survey, 150 from each of the Surrey districts and boroughs. This means that each year, 6,600 people are interviewed across the whole county, 600 from each district and borough.

[1] Any increase is from comparing 2013/14 results to 2008/09 results. [2] National figures are taken from the Citizenship Survey. This was discontinued after 2010/11. [3] 2013/14 Annual results.

Our performance, 2013-14

£260m savings achieved so far
The latest figures show Surrey County Council made savings for council taxpayers in 2013-14 of £62 million. That represents a rate of nearly £170,000 a day over the course of the year, and brings the total annual savings achieved by the council to almost £260 million since 2010.

Central to this success has been a "One Team" approach to work across professional boundaries and more effectively with partners to ensure taxpayers' money stretches further. The council has been developing closer collaboration with other councils and agencies across a wide range of services for the benefit of residents.

Examples include:

- Public Service Transformation Network - Surrey was one of only nine places in England invited to join the Government's ambitious programme of public service collaboration and integration, including the emergency services, district and borough councils, and health organisations in Surrey and Sussex, to improve services for residents;
- Joining forces with the South East 7 group of councils to improve services and cut costs;
- Developing the Surrey Future partnership with local businesses and the district and borough councils to stimulate economic growth.

Surrey has to find another £250m of savings in the next five years as it continues to face the challenge of falling funding and rising demand for services.

Striking better deals boosts savings drive
Better procurement of goods and services has been a major factor in achieving the county council's savings; accounting for around £100 million in efficiency savings over four years. This includes renegotiating contracts with major suppliers, such as IT businesses and building firms, and taking advantage of economies of scale through joint purchasing initiatives, for example with East Sussex County Council.

The procurement savings are the equivalent of the cost of almost a third of the 20,000 extra school places (the equivalent of 47 two-form entry primary schools) the council needs by 2019 to meet the demand of Surrey's rising birth rate.

Road flood damage bill reaches £23 million
Council Leader David Hodge has announced plans to invest £23 million to fix potholes on flood-affected roads and repair more than 30 bridges and embankments. About 2,500 Surrey roads were affected to some degree by the flooding earlier in the year. Severe storms and rivers bursting their banks – including the Mole, the Caterham Bourne, the Wey and the Thames – left a trail of fallen trees, overflowing sewers, flooded roads and damaged bridges. Council engineers estimated £800,000 alone would be needed to rebuild Flanchford Road bridge near Reigate. The council, whose contractors fixed 36,000 potholes in the first few months of 2014, has won a £3.8m share of the Department of Transport's £168 million Pothole Challenge fund, on top of an earlier contribution from the Government of £5.3m.

County pumps £388 million into local economy

Last year the council spent £388 million with 3,807 Surrey firms as part of its aim to direct 60% of its expenditure into the local economy. The figure represents 52% of council spending on goods and services. Three years ago, the council spent just over a third of its money locally.

Local building and construction firms alone have clinched deals with the council worth £10.3 million through a dedicated website, www.buildsurrey.net, launched a year ago, the equivalent of around £750,000 every month.

BuildSurrey's successful launch helped the county council win a government award for being among the top 10 authorities in the country to do business with. More than 750 firms are now registered on the site.

Cutting business costs and red-tape

Surrey trading standards officers are assisting businesses to cut the cost of complying with consumer law and safety regulations by setting up primary authority partnerships (PAPs). Under a PAP arrangement, Surrey Trading Standards acts as a single point of contact for businesses operating across different council areas nationally on environmental health, fire safety and trading standards issues.

This saves the business time and money and reduces the risk of inadvertently breaking the law. Surrey will liaise with other councils on its behalf, provide reliable advice, and assist in developing an overall inspection plan and audit procedures to ensure they comply with the legislation.

Surrey has 32 direct primary authority partnerships in place with companies such as British Gas, MRH Retail, Shell and Toyota.

Fast reliable fibre broadband in every corner of the county

The £35 million Superfast Surrey programme is on target to bring the fibre optic network to more than 80,000 households and businesses in hard-to-reach areas by the end of 2014. Under European state aid regulations, the council is only allowed to invest in providing broadband infrastructure in areas not served by the commercial market. Up to 20% of premises, largely in rural Surrey, fall into this category.

At the end of March 2014 the project had passed the half way mark, successfully completing the first three phases of its deployment. This involved installing more than 300 new green roadside cabinets and thousands of kilometres of fibre optic cabling to enable more than 51,000 households and businesses to get access to fibre broadband.

Availability of new fibre technology throughout the county is estimated to boost Surrey's economy by around £30 million annually. The latest updates, a postcode checker and reports from Surrey businesses and households already using fibre broadband services are available on the Superfast Surrey website at www.superfastsurrey.org.uk

Roadworks permit scheme could save economy millions

Drivers and businesses plagued by roadworks are benefiting from a new council permit scheme designed to reduce congestion caused by utility companies digging up the roads. Until the permit scheme came into force last November, the law allowed water, power and telecommunications companies to dig up the same roads in an uncoordinated way, disrupting trade and costing the local economy millions a year, as well as causing misery to road users.

Keenly aware of the high level of public frustration with traffic congestion, the council's Environment and Transport Select Committee set up a task group of councillors to look at how road works could be better managed. One of their key recommendations was a permit scheme, which is now being pioneered by Surrey County Council and East Sussex County Council, giving the local authorities more control over the timing, coordination and quality of street works carried out by the utilities.

Companies now need to demonstrate they have planned properly to limit their impact on traffic, or they will be refused permission. The permit scheme is estimated to reduce the number of roadworks in the county by as many as 2,400 a year, with a potential annual saving to Surrey's economy of £6.5 million. It has also been given the thumbs-up by the Surrey Federation of Small Businesses.

The scheme gives the county the power to force firms to time their works to fit with other companies' plans for the same road and follow clear rules, including times and days of work.

If workmen break a permit's conditions or dig without one, the companies can be fined or prosecuted, depending on the severity of the offence.

Survey shows businesses primed for growth

More than three-quarters of businesses in Surrey's powerhouse economy are primed for growth in the next two years, according to the biggest survey undertaken of local firms. The survey last autumn of 1,300 businesses for Surrey County Council and its economic development company, Surrey Connects, revealed that:

- 77% of firms are optimistic about their prospects for expansion;
- 70% say they had innovated over the last three years (such as connecting to faster broadband and investing in research and development); and
- six out 10 say they had sought advice on recruitment, access to finance and training.

Other key findings indicate one in four companies expect their foreign sales to rise, while 15% had increased their staffing over the past year.

The county council has launched a raft of initiatives to support businesses and build on the £30 billion Surrey generates annually for the UK economy, more than cities like Birmingham and Liverpool. These include rolling out high-speed broadband, incentivising employers to hire more than 750 apprentices in two years, the £100m road improvement programme, called Operation Horizon, and ensuring 60% of council spending is with local firms.

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Invest in Surrey
As part of the commitment to attract more inward investment, the council and Surrey Connects have created a website to provide business intelligence and highlight the advantages to global businesses of coming to Surrey. The website, investinsurrey.co.uk, promotes Surrey as a venue close to London with world-class business facilities, a well developed knowledge economy, a skilled workforce and global transport links. The presence of financial services and high-tech industries, including IT companies, pharmaceuticals and life sciences, as well as advanced manufacturing and engineering, help give Surrey a competitive edge.

Export Surrey
A new service to support businesses developing overseas markets was launched in the autumn. Export Surrey, a joint venture with Surrey Chambers of Commerce, arranges training seminars, advice sessions and a network of support for firms either exporting for the first time or expanding their existing exporting activities into additional countries.

Onslow park-and-ride launches
A new park-and-ride facility for 550 vehicles launched last November to help cut congestion and pollution, and promote Guildford town centre's regeneration. Construction costs were reduced by 50%, a saving of £2m, through better design and contract negotiation. After two months the park-and-ride was averaging about 100 users a day.

Green light for Redhill Balanced Network Scheme
In 2013 the county council worked with Reigate & Banstead Borough Council to secure more than £2.8 million of government funding for the £4m Redhill Balanced Network scheme. The project consists of a series of junction improvements, as well as improvements for walking, cycling and buses. It will reduce congestion, improve the appearance of and access to the town centre, part of a wider regeneration plan to create 1,000 jobs locally.

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Continuing push for educational excellence

Over 80% of Surrey schools are now rated by Ofsted as good or outstanding, compared to 75% last year, and nine out of 10 secondary school pupils in Surrey go to a good or outstanding school.

The performance of Surrey schoolchildren over the last year has also cemented the county's record for educational excellence. The majority of pupils in Surrey state-funded schools performed better across all key stages in tests and examination results than their peers regionally and nationally.

In 2013, over 67% of children gained five A*- C grades at GSCE or an equivalent qualification, including maths and English, compared to 64% in 2012. Surrey's secondary school results make it the best performing authority of our size in the country, ranking 15th out of 152 local authorities.

The council has also committed to investing £10 million over the next four years to continue raising school standards, performance and examination results.

Support for disadvantaged pupils pays off

Disadvantaged pupils showed improved attainment by the end of Key Stage 4 in 2013, narrowing the gap with their peers. Over 40% of pupils achieved five or more A*-C grades at GCSE, including maths and English, compared to 35% in 2012. The percentage of disadvantaged pupils making expected progress in maths rose from 75% in 2012 to 78% in 2013.

Meeting demand for more school places

Our £354 million school expansion programme is on track to provide 20,000 additional school places by 2019 to help meet the demands of Surrey's surging birth rate. An extra 2,862 places were created last year – the equivalent of seven primary schools.

Ensuring the best start in life

The early years of a child's education and development are critical to their success and wellbeing in later life. In Surrey, 84% of early years providers, such as nurseries and playgroups, were rated good or outstanding in their latest Ofsted inspections. This compares to 81% for the south-east region and 77% nationally. At the end of March 2014, 412 childcare providers and 245 childminders were registered to offer free early education for two-year-olds (FEET).

In the past year an additional 99 childcare providers have undertaken the Surrey Quality Improvement Award (total 310). Eighty-six have completed it so far with the majority improving their Ofsted inspection judgments as a result.

Focus on special needs

Some of the measures implemented by the council to support early education providers working with children with special needs include:

- The council's early language team has worked with 25 targeted childcare and early education providers to improve speech and language development in children under five;
- The early years and childcare service has provided 385 inclusion support grants – an increase of 59% from 2012-13 – to almost 20% of childcare providers in the county;
- More than 220 children with disabilities and their families benefited from the Surrey Early Support Service, with 49 attending the 'Including me' scheme, which supports children at special schools to go to mainstream after-school clubs and holiday play schemes;
- £52,000 was allocated to 58 out-of-school settings (breakfast clubs, after-school clubs and holiday play schemes) to support children with special needs.
- 66% (43,257) of Surrey children under five are now registered at Surrey children's centres (16% more than last year).

Support programme looks at whole family needs

The council has helped turn around the lives of 557 families over the last year, as part of Surrey's Family Support Programme. The programme assesses the overall needs of a family where there are multiple issues or problems affecting the quality of life of family members. Often a child's educational attainment, health and wellbeing are affected by other factors in the home, such as an unemployed parent, alcohol or drug use, caring responsibilities or problems with the law.

Under the Surrey Family Support Programme, different practitioners including health, education and housing professionals work together with the police and other agencies where appropriate as a team around the family to assess their needs in the round. There are now local family support teams based in each of the 11 districts and boroughs. So far 519 families have significantly reduced their crime and antisocial behaviour and improved their attendance and behaviour at school. A further 38 adults have been helped into work, with 31 of these adults moving into continuous employment. Since April 2012, we have brought 995 families into the Surrey Family Support Programme.

The programme is one of six workstreams that form part of the council's successful bid to join the Government's Transforming Public Services Network. In Surrey the plan is to scale up the programme to work with more than 4,000 families over three years. It has also won official recognition at a national level from the Director General for the Government's troubled families programme, Louise Casey, for its "tremendous performance".

Community connections make the difference
The positive contribution that volunteers and community groups can make to the wellbeing of individuals has become a central plank of adult social care services in Surrey. Engaging in a constructive dialogue with people who receive social care, their friends and families is now the preferred approach by council staff.

Local networks with their links to voluntary and faith groups provide local knowledge, a wide range of socially useful activities and invaluable channels for information and advice to residents. Engagement with them has led to improved financial assessments, quicker referral processes and reduced risk of people staying longer than necessary in hospital.

Keeping children safe

Overall the council supported nearly 4,700 children considered to be in need last year. They included about 800 children who were “looked after” by the council, about 80% of whom (600) were living with foster families or placed for adoption. They also included 927 children on child protection plans, 429 children leaving care and 2,576 with a range of different needs, such as physical, emotional or learning needs.

It is especially important for a looked after child to have a stable and loving home life rather than have frequent changes of foster carers. Last year the council reduced by more than a quarter the number of times looked after children had three or more placements. In total more than 90% had just one or two placements during the year.

Drop in young offenders continues

We have reduced the number of first time offenders entering the criminal justice system in Surrey to 169, a 90% reduction over the last five years.

Partnership approach cuts court time

A push by the council and its partners (including the police, courts, health professionals and the children and family court advisory and support service, CAFCASS) has reduced the number of weeks it takes to complete care proceedings for children. In January 2013, this was on average 58 weeks, but by March 2014 was 37 weeks, with some cases being completed within 26 weeks.

Bringing HOPE to young people with mental health problems

In 2013/14, HOPE, a therapeutic day programme and community outreach service for 11 to 18-year-olds with mental health issues or who are at risk of family or placement breakdown, worked with 49 young people a month on average. HOPE prevented 34 young people from requiring admission to a child psychiatric unit.

Over the last year, HOPE has been running a parent support group, working with young people and their families and carers in Epsom. A second group in Guildford is being set up.

Safe places for young homeless

We have ensured 290 homeless young people were placed in safe accommodation since November 2012.

Ready4Work programme boosts young people's job chances

The council's Ready4Work programme, sponsored by the Council Leader, has paid off over the last year, engaging with 1,330 young people to develop their job skills.

As a result, the council has more than halved the number of young people not in education, training or employment (NEET) to 429, one of the lowest rates in England. A year ago the number stood at 978. At the same time the council has helped to generate 786 apprenticeships for 16 to 19-year-olds, exceeding its target of 500.

Surrey has succeeded in increasing the number of young people starting apprenticeships. In contrast, across England there has been a 14% decrease in apprenticeships over the last three years.

Helping budding musicians hit the right note

The Surrey Arts music service has had a busy year with its 'first access to music' project. This has provided training, instruments and resources to support music in schools at Key Stage 1 to ensure every child in Surrey gets the chance to play a musical instrument early in their education. It has also helped the teaching of the Music National Curriculum. Altogether 179 of 255 (70%) of eligible schools are now engaged with the project. An additional 50 schools are providing whole-class instrumental music lessons at Key Stage 2 with teaching and instruments provided by Surrey Arts.

Surrey Arts is helping to set up, maintain and support local school networks. Each network has a designated singing champion. Since April 2013, 130 of 390 (33%) schools have been working together in local clusters to strengthen music education for young people in Surrey as part of the Surrey Music Hub initiative. This includes 25 continuing professional development courses for teachers and music practitioners to help boost standards.

More than 100 schools and around 3,000 Surrey schoolchildren have been involved in primary music festivals and a secondary school choir competition managed by Surrey Arts.

About 18,000 young people have participated each week in programmes supported by the council and its partners. The work includes instrumental/ vocal tuition and a wide range of opportunities for young people to participate in group music-making.

Boost for children with disabilities

In 2013-14, about 2,370 disabled children and young people participated in short break activities, an increase of over 300 from 2012-13. Providing support through direct payments has also increased with an additional 33% of families (over 400) now managing their own care packages.

Surrey County Council's £500,000 short breaks grant has enabled a new Disability Challengers play centre in Guildford to open. The centre offers improved play facilities and care to children and young people with disabilities in the south-west of the county.

Trading standards steps up battle against scams and cons

Surrey trading standards service has been taking part in a major national initiative known as the 'Scams Hub'. It follows a Metropolitan Police operation at Heathrow airport that intercepted a large consignment of scam mail, which identified more than 1,000 Surrey residents as potential victims.

Trading standards officers made hundreds of calls and visits to those considered at high risk of financial abuse. The most extraordinary case involved 76-year-old Sylvia Kneller of Farnham, who had been cheated out of more than £200,000 over many years as she responded to fraudulent offers and appeals for money through the post. She stopped handing over the cash once trading standards officers explained that she was the target of a criminal operation.

The story attracted considerable national media attention, heightening awareness of the problems of scam mail and encouraging victims to ask for help.

- Trading standards officers also collaborated with ITV to produce two hour-long programmes entitled ***Hunting the Doorstep Conmen***. The hard-hitting programmes, which screened last summer, drew 2.5 million viewers each.
- The flooding earlier this year prompted trading standards officers to send out messages through Twitter to warn about cowboy tradesmen offering to pump-out flooded properties or carry out repairs. Instead they directed them to reputable traders registered with Surrey's **Buy With Confidence** scheme.

Recovering cash from criminals

The council is involved in recovering cash from a number of criminal cases where Surrey people have been victims of fraud, money laundering or counterfeit sales to the tune of more than £2.8 million. In 2013, the council recovered £184,000 from a defendant convicted of selling counterfeit goods.

Preparing for care funding changes

Changes to the adult care system under the Care Act 2014 are set to have a far-reaching impact on Surrey people. Adult Social Care staff have undertaken a programme of engagement events with residents and carers to explain the forthcoming changes.

They have also been seeking the views of those who are most likely to be affected, particularly people who pay for their own care. Around eight in 10 Surrey people who receive social care are in this category.

The council commissioned a survey with leading market research company, IPSOS MORI, to find out more about the information and advice needs of self-funders. Key questions included: What do they think social care is? Do they know about the cost and how to pay for it? How prepared are they to arrange care for themselves in later life? The council is using the findings to help finalise its Information and Advice Strategy and to determine what other new arrangements it needs to put in place as a result of the Care Act.

Promoting independence

Helping people live as independently as possible continues to be at the heart of adult care services. Most people tell us they prefer to be in their own home rather than in a residential or nursing home, so the council has continued the shift towards more personalised community-based care and support to help them do that. For example, we have:

- Reduced the number of older people we support in residential and nursing homes to 2,647 in February 2014 - a 9% decrease from March 2013;
- Reduced the number of adults aged 18-64 we support in residential and nursing homes to 1,270 in February 2014 - a 6% decrease from March 2013;
- Supported 220 people with learning disabilities and 60 people with autistic spectrum disorder in paid work.

Increasing personal choice and control

The council has increased the number of people receiving a personal budget to pay for their care to over 10,000. This is a 25% increase over a year, and is part of the council's commitment to giving people more control over how they spend their money on care services.

Pick up a book and...a bus pass

Twenty-three Surrey libraries offer residents the opportunity to apply for disabled bus passes and senior bus passes when they borrow books. Library staff will check eligibility, fill out the online application and take the required photo.

The same libraries also offer a checking service for Blue Badge applicants aged 80 and over who are renewing their badges. Library staff make sure that the form has been correctly completed before it is submitted, preventing errors that can delay the issue of a Blue Badge.

Councillors study effects of welfare shake-up on residents

The most radical reforms to the welfare benefits system since World War Two have prompted county councillors to monitor the effects on vulnerable families in Surrey. The changes, intended to incentivise work and simplify the benefits system while making savings, began to be implemented last April. The council's Overview and Scrutiny Committee set up a task group of councillors to gather evidence on this complex issue from people affected by the changes, as well as partners and expert witnesses. As a result, councillors recommended a package of measures which has been adopted by the council to help mitigate the effects on deprived households. These include: ongoing monitoring; reviewing staff training so they can provide high-quality support to residents; promoting Surrey's Local Assistance Scheme, which provides emergency crisis help; and lobbying central government to improve the claims and assessment process for welfare benefits.

Welfare benefits advice

The council also launched a wider welfare advice service with a number of key voluntary sector partners to support those most affected by the welfare reforms. The service, getWIS£, handled 2,448 new referrals during 2013/14, with 4,858 issues being addressed and £1.3 million in benefits secured for Surrey people.

Surrey's Local Assistance Scheme
With the end of national funding last April to provide crisis payments to individuals and families in urgent need, the council and its partners have created the Surrey Local Assistance Scheme. In the past year the scheme has dealt with more than 3,250 applications for emergency help from Surrey residents. About 90% (2,907) of applications were successful, and the scheme has paid about £150,000 in grants and provided 4,000 essential household items (valued at £250,000).

In addition the council has provided emergency assistance to a number of families affected by the last floods, including £8,000 in emergency payments and £5,000 of household items.

Meals-on-wheels extended
The county council has supported district and borough councils to extend meals-on-wheels services across Surrey. New routes were set up in Horley, Ashtead, Leatherhead and Bookham, where the first meal was delivered by the Duchess of Cornwall as part of the 'Hairy Bikers' TV cookery programme.

Bringing people together to tackle dementia
Surrey people have responded positively to council plans to develop and improve services for people with dementia and their carers. Over the last year, we have:

- Recruited more than 130 dementia-friendly Surrey champions, which are organisations and individuals committed to helping make our communities more dementia-friendly;
- Funded 15 projects that help people with dementia and their carers to get access to services, support and therapies through an Innovation Fund. Projects include a reading group, arts therapy and peer support groups;
- Organised awareness-raising events across the county, including the week-long Dementia Friendly Guildford event;
- Opened a further five Wellbeing Centres in Spelthorne, Elmbridge, Epsom & Ewell, Mole Valley and Guildford. The centres provide a meeting place for carers, local information points for people living with dementia and telecare demonstration suites. They have been developed with over 300 partners from more than 50 organisations.

Informing and engaging about care choices
People seeking social care for themselves or family are often at a critical point in their lives. The council is keen to encourage people to think ahead about future care needs so they can plan more effectively, although this is not always possible.

Providing accurate information about what care services are available, how they are paid for and where to go for advice and support is crucial to help people make the best choices. Some of the ways the council has been working to ensure Surrey people have access to the advice and information they need are:

- **Local information hubs –** The network of hubs – drop-in information centres - has now been extended to eight, with new hubs opening in Godalming, Dorking, Walton, Addlestone and Camberley. The hubs are in High Street locations to provide a place in the heart of the community for people to get support, information, signposting and referrals to services to help make the right choices about care and support and maintain their independence. During 2013/14 the hubs, staffed by 82 volunteers, handled more than 5,100 enquiries;
- **Surrey Information Point website –** Surrey's online directory is growing in popularity as a one-stop source of information, services and activities to support adults and families to live independently. The online directory now attracts more than 11,000 visitors a month;
- **Advocacy –** Nearly 1,200 people benefited from our advocacy services last year, addressing more than 2,500 separate issues. These services are provided through a consortium of voluntary sector partners led by Surrey Disabled People's Partnership in collaboration with Age UK Surrey, Kingston Advocacy Group, Sight for Surrey, deafPlus and Surrey Supported Employment.

Public health team focuses on prevention

Since the public health team became part of the council in April 2013, it has focused on the key factors that have the biggest impact on preventing ill health.

Smoking - The team worked with partners in the Smokefree Surrey alliance to run a public awareness campaign last autumn about illegal tobacco (including counterfeit brands and smuggled cigarettes). As well as its links with organised crime, illegal tobacco undermines efforts to help reduce smoking. It is often sold at “pocket money” prices, raising the chances that young people will start smoking and decreasing the likelihood others will quit. The high profile campaign encouraged the public to report suspected trade in illicit tobacco, leading to a number of seizures of illegal products. The public health team coordinates the Smokefree Surrey alliance of partner organisations, including the county and borough and district councils, Surrey Police and HMRC.

In 2013 as part of the national “Stoptober” campaign to encourage people to break the smoking habit, Surrey ran a locally focused social media and outdoor advertising campaign, resulting in 4,498 people signing up to the national campaign. There was also a 362% increase from 2012 in the number of people signing up to the Surrey stop smoking service. Surrey had the fifth highest number of residents signing up to Stoptober of all local authority areas in England and Wales.

Alcohol in Safer Hands - This innovative advice and guidance service has been developed over the last year to assist people who want to bring their drinking under control or just want to understand the impact of drinking on their health. It includes a telephone helpline and alcohol liaison staff in Surrey’s acute hospitals to ensure people can get the right advice, as they would for other health issues, and be referred to specialist services where appropriate. Alcohol in Safer Hands is a partnership project including hospitals, GPs, pharmacists, councils, the police, probation service, charities, community organisations and businesses.

The council’s public health team ran a “sneaky drinks” public information campaign in February and March 2013. Using social media, bus advertising, posters and leaflets, the campaign attracted 14,000 visitors to the Healthy Surrey website (www.healthysurrey.org.uk) to promote safe drinking and enable people to monitor their levels of alcohol consumption with the change4life drinks tracker produced by Public Health England.

The cost to the NHS for alcohol-related hospital admissions in Surrey is estimated at £87m a year, equating to £96 per person (compared with the national average of £90 per head). Surrey Heath has the highest alcohol-related health spending in Surrey at £99 per adult, while the Guildford and Waverley area has the lowest at £85 per head.

Health and Wellbeing Board

The Surrey Health and Wellbeing Board has an important role in promoting the integration of health and social care services in the county, for example through the Better Care Fund. It has produced a strategy based on evidence from the Joint Strategic Needs Assessment, a comprehensive set of data around health needs and issues across Surrey's population, as well as the views of Surrey residents.

Over the past year it has focused on five priority areas:

- Improving children's health and wellbeing
- Developing a preventative approach
- Promoting emotional wellbeing and mental health
- Improving older adults' health and wellbeing
- Safeguarding the population

The Health and Wellbeing Board is jointly chaired by the county council's Cabinet Member for Health, Michael Gosling, and a Surrey GP, Dr Andy Brooks, from one of the six clinical commissioning groups (CCGs) in the county. Mr Gosling and Dr Brooks's predecessor, Dr Joe McGilligan, won a regional NHS leadership award for their partnership working in establishing the board. Other members of the board include representatives from the county council, borough and district councils, each of the CCGs, police and the independent public watchdog group for health issues, Healthwatch Surrey.

The Health and Wellbeing Board's website (www.healthysurrey.org.uk) has had more than 120,000 views since its launch in September 2013.

Helping people get back on their feet

The council arranged "reablement" services in the community to help more than 3,200 people last year to regain the skills necessary for daily living at home. Reablement services are provided to older and frail people who suffer a setback as a result of an illness, accident or spell in hospital that reduces their chances of returning to an independent life.

Supporting carers

The council recognises the crucial role of carers and the pressures on them. Often unpaid family members, their commitment to looking after others means their own needs and opportunities in life have to take a back seat. Carers are more likely to have health problems and lower incomes. They also need time off from their caring duties. As a result, the council and its NHS partners have commissioned a range of specialist services provided by the voluntary sector to enable carers to continue caring and have a life outside caring. More than 18,000 carers and 1,500 young carers have benefited from these services over the last year.

In addition the council has continued to work with health colleagues and carer organisations on schemes to enable more carers to access early stage support. Under these arrangements, carers support organisations approved 1,000 payments of up to £500 to support carers with their own needs, including young carers. Surrey GPs, meanwhile, agreed nearly 2,300 payments of up to £500 for residential and other breaks for carers to assist with their health needs.

Equipment assessment clinics

In partnership with the district and borough councils we have established 11 equipment clinics across the county, speeding up assessments and reducing waiting times for equipment that helps people live at home. During 2013/14, 302 people opted to have an assessment at a local equipment clinic.

Telecare and telehealth

The council has continued to expand the use of technology to develop telecare and telehealth services to help people with long-term conditions live independently. This included:

- A pilot project with a 12-week free offer to encourage the uptake of telecare equipment, including falls detectors, pill dispensers, bed sensors, exit sensors and wandering alerts;
- Support to nearly 2,000 residents through installing nearly 4,000 items of telecare and more than 2,400 community alarm units.
- A trial telecare visiting service with Surrey Fire & Rescue, supporting 44 people since autumn 2013.

Mental health support in the community

A community-based service run by the voluntary sector supported more than 630 people with mental health problems last year. The preventative service is a joint venture with Surrey's CCGs, which represent all the GP surgeries in Surrey. It aims to support people with mental health problems before they escalate into a crisis.

£14.3m investment boosts integration of social and health care

Over the last year the council's Adult Social Care budget has invested £14.3 million with health partners to transform care services and improve health outcomes for people with long-term conditions. Investment has gone into services to:

- Prevent or delay admission to hospital, such as telecare, telehealth, mental health and dementia services, carers' support and breaks;
- Maximise recovery for those discharged from hospital and in the community, such as reablement, Red Cross home-from-hospital services and occupational therapy;
- Enhance the management of long-term health conditions in the community to reduce hospital admissions.

Helping people home from hospital

Adult care staff providing weekend and evening services are now established in all five of Surrey's acute hospitals. The hospital-based social care teams operate from 8am to 8pm on weekdays and 9am to 5pm at weekends. Last year they supported 1,706 people so they could be discharged at evenings and weekends.

Progress on improving the road network

The council's biggest ever road investment programme, Project Horizon, overtook its first year target of rebuilding 100 kms (60 miles) of road four months ahead of schedule. The £100m carriageway reconstruction programme aims to replace 300 miles of the county's worst roads over five years. By March 2014, a year into the project, more than 80 miles had been completed, around the same distance as Guildford to the Channel Tunnel.

To manage the project, Surrey highways engineers and their team of contractors and specialists investigate underlying problems and then design and construct each section in turn. Major causes of potholes and other road defects include drainage problems and inadequate foundations for the weight of traffic now using the roads. So far, 150 of the worst stretches of road have been rebuilt, with 10-year warranties agreed with the contractors to guarantee the quality of the work. Savings of £20 million through better contracts, engineering solutions and programming of work will be re-invested into rebuilding more roads on the county's 5,000km (3,000 miles) network.

A recent inspection of the completed Project Horizon roads, a number of which had been flooded between December and February, were found to be undamaged by the severe weather.

In terms of the rest of the council's highways maintenance programme, the Carriageway Team has carried out more than 1,500 maintenance schemes over the last three years, costing £75 million.

The Cabinet Office has selected Surrey as a Government trial project for efficiencies and savings in highway maintenance.

Walton Bridge

The £32 million bridge across the Thames linking Walton and Shepperton opened on time and on budget in July 2013. The first road crossing to be built over the Thames this century, Walton bridge, with the realigned A244, is an important link to improve travel times for residents, commuters and businesses. The river frontage has also been landscaped and opened up for community use. The council worked closely with the contractors, Costain and Atkins, to make best use of innovative and cost-saving solutions, including recycling existing materials, new ground stabilisation techniques, the construction of a slim concrete deck and a reduced amount of steel in the arches for a more elegant design.

The construction system used by Surrey is now a model of best practice for other organisations. It has won four engineering and design awards and been nominated or shortlisted for a further three construction and major project awards. Since its opening there have been no reportable accidents.

Streetlight replacement programme a glowing success

The project to replace the county's 88,000 orange streetlights with more efficient white lights has finished a full year ahead of schedule. Over the 25-year life of the contract the new lights, which are computer-controlled and less light-polluting, are forecast to save Surrey £12 million in energy costs and cut carbon emissions by 60,000 tonnes.

Eco-schools proving a hit

The council's support for the International Eco-Schools programme is proving a hit with Surrey schools, with 365 now registered with it. About 30 schools have gained an Eco-Schools award in the last year. The programme aims to make schools more energy-efficient, adopt more sustainable modes of transport, reduce schools' energy bills and promote healthier life styles.

The council directly targets and engages with about 50 schools each year face-to-face on a number of issues, including giving expert advice on the Eco-Schools Programme. We also hold three Eco-Schools Summits a year to assist teachers in developing environmental learning at their schools.

Travel SMART Scheme promotes safer cycling

A package of measures to improve cycling facilities and safety has been at the heart of the £18m sustainable travel programme, known as Travel SMART, over the last year.

Key achievements include:

- Holding 304 cycle training sessions;
- Installing 26 cycle parking facilities, with another 10 under way;
- Creating 6.5km of new cycle tracks, with another 7.5km under construction;
- Installing Brompton Docks (secure lock-ups for hire bikes) at Guildford, Reigate and Woking railway stations;
- Distributing thousands of cycle maps;
- Creating an online journey planner.

Surrey County Council has also developed the Surrey Cycling Strategy, after extensive consultation with residents and organisations, which drew 3,700 responses. The strategy will provide a platform for bidding for funding, and a framework for the development of local cycling plans for Surrey districts and boroughs.

Energy partnership supports vulnerable

All the councils in Surrey last year agreed to join forces to support residents to improve their home energy efficiency to make them warmer at an affordable cost and with lower carbon emissions. In 12 months more than 780 measures were implemented, such as new efficient boilers and insulation, to support households. The councils offer an impartial advice service through the independent energy adviser, Action Surrey, to help residents get the most from the complex and frequently changing area of grant funding.

Charging points for electric vehicles

Two electric car charging points have been installed at the council's Bagshot and Merrow highways depots. The council also plans a trial of electric vans in its highways fleet. Further points will be installed during 2014-15, and a sponsorship deal with BMW is expected to secure additional funding to extend the network of charging points still further during the year.

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Behaviour change campaign wins industry award

The county council won the 'Best Communications Campaign' award for a campaign to promote furniture reuse at the waste industry's LARAC Celebration Awards 2013. The campaign to encourage people to buy second hand furniture and white goods led to about a 25% increase in sales by the Surrey Reuse Network (SRN), a consortium of charities working with the council's waste reduction team.

Working together cuts waste collection costs

Working together as the Surrey Waste Partnership, the county and 11 borough and district councils have developed a number of projects aimed at reducing costs and increasing recycling performance, including a joint waste collection contract which is expected to save at least £1.5m a year.

Award-winning community recycling centres

The council's community recycling centres handled about 140,000 tonnes of waste from the public last year. The newly redeveloped Witley community recycling centre won two awards: 'Lets Recycle' National Civic Amenity Site of the Year 2013 and the

'Waverley Design Awards' Community Award 2013, which is testament to the good quality of service that these sites provide to residents.

Landfill waste target met

The county and district and borough councils in Surrey have met their target for reducing the proportion of municipal waste sent to landfill, from 15% in 2011/12 to 10% in 2012/13, saving £947,000 over the year (£2,595 per day). Surrey households produce about 500,000 tonnes of waste a year.

Other highlights of 2013-14

Council website gets IT industry thumbs-up

Surrey County Council's website has been awarded the maximum four-star rating in a national report. The annual report by the Society of Information Technology Management (SOCITM) rates the performance of council websites each year, and Surrey's re-designed site was among just 31 out of more than 400 to get the top rating. It was also one of just five 'favourite sites' identified by the independent reviewers, who described the website as: "...a joy to use. Information was excellent and the paths to it easy to follow. This site makes creating a local authority website that works well look easy."

Virtual library use outstrips physical visits

Surrey has bucked the national trend of declining library membership by increasing its number of new members last year by over 69,000 (3% on 2012/13). There were nearly 7.3 million issues and renewals of books and other items, with a jump in online renewals. The library service also issued around 55,000 e-books over the year – 40% higher in March 2014 compared to April 2013.

The number of 'virtual 'visits to the online library service reached nearly 4 million, exceeding an estimated 3.3 million physical visits. Overall Surrey's library service has 336,000 current borrowers - registered active members who have used the library service in the last two years.

Registration service

Last year we registered nearly 20,000 births and more than 10,500 deaths. Surrey registrars also performed more than 3,800 marriage ceremonies and conferred British citizenship on more than 3,000 new citizens.

WW1 Surrey heritage projects scoop lottery cash

Two Surrey heritage projects commemorating the First World War have won funding from the National Heritage Lottery Fund. The first, entitled A County Remembers: *Surrey in the Great War*, has been awarded £22,000 for the first phase of an ambitious project to coordinate and publish online community-led research on the impact of the war on Surrey people and communities. The results will be made available free on a dedicated website and will also contribute to the Imperial War Museum's Lives of the First World War project.

The other project, *To Journey's End and Beyond: the Legacy of RC Sherriff*, has been awarded £56,900 to develop and promote the archive and cultural legacy of the playwright RC Sherriff. A particular focus will be on his play *Journey's End*, set in a British dugout on the eve of the great German offensive of March 1918. Sherriff served in the East Surrey Regiment during WW1 and lived the latter part of his life in Esher. He had a successful career as a scriptwriter for Hollywood films, including *The Dambusters*. His archive – including the letters he sent on an almost daily basis from the Western Front – is stored at the Surrey History Centre, Woking.

Online parish records draw millions of views
Since the council began publishing digital versions of parish and electoral registers on the family history website Ancestry.com last year, the records have been viewed more than 3 million times. Surrey residents do not have to join Ancestry to see them, however. They can be viewed free of charge at the History Centre or any of the county's libraries.

Guildford's Ice Age dig among top five finds
Thousands of flint tools and working materials from the upper Palaeolithic period (about 12,000 years ago) have been unearthed as part of the redevelopment of Guildford fire station. County archaeologists have been working with colleagues from Oxford and specialists in Palaeolithic studies, geoarchaeology and scientific dating to assess the site and its significance.

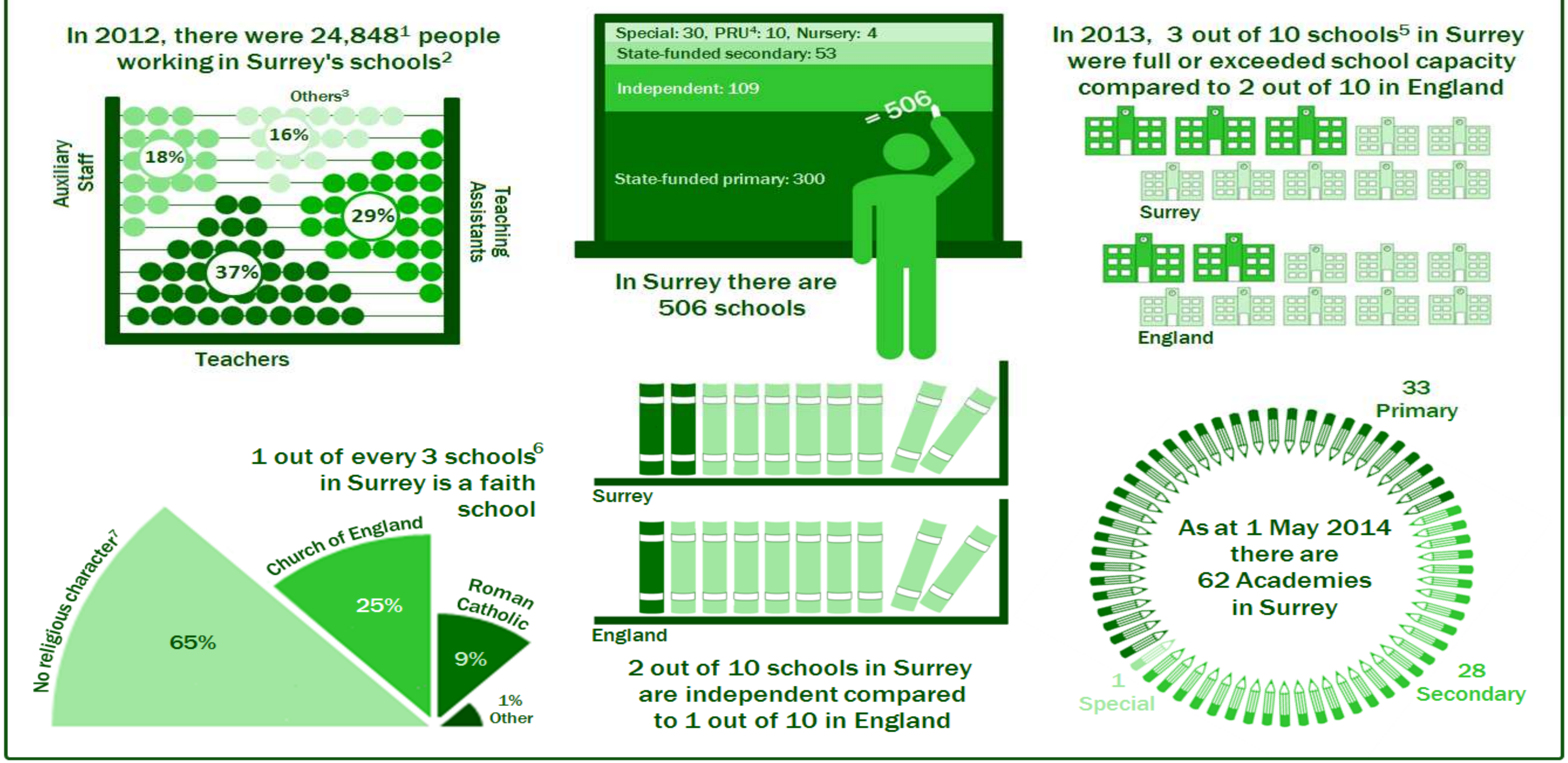
Nearly 2,500 exceptionally well preserved flints have been found at the site, which appears to be the remains of a fairly short-lived period of occupation and tool-making activity towards the end of the last Ice Age. Experts think it was probably a seasonal hunting camp for a small number of individuals. Preliminary conclusions are that the site is of national importance and possibly one of the five best in the UK.

New joint committee first of its kind
Surrey County Council and Woking Borough Council have established a Joint Committee in Woking to decide local issues in an historic policy-sharing arrangement for the county. The committee will jointly decide on functions and responsibilities delegated to it by both authorities.

Partnership with the military
A community covenant has been signed with the military by Surrey County Council and the district and borough councils, as part of their commitment to support the Armed Services at a local level. The covenant recognises the unique contribution of the military to Surrey's heritage and civilian life, and provides a platform for cementing a closer relationship. Following endorsement of grant bids by the Surrey Civilian Military Partnership Board, chaired by the Chairman of Surrey County Council, David Munro, Surrey has received over £280,000 of funding from the Ministry of Defence. This will go towards a number of projects, including £69,900 for a Peace Garden at the Muslim Burial Ground in Woking, and £195,000 towards a recreation area in Pirbright.

DAiSY launches festival of disability arts
The first disability arts festival was held in Surrey last year. It was organised by a network of groups and individuals under the banner of DAiSY (Disability Arts in Surrey), with the backing of the council's Surrey arts service. DAiSY, which was set up in 2010, provides a platform for disabled artists to create, present and perform their work. The decision to showcase Surrey's vigorous disability arts scene at a two-day festival, called DAiSYFEST, proved so successful last year that the event looks set to become an annual fixture, attracting disabled artists, poets, musicians, dancers, singers and actors locally and from all over England. About 300 of Surrey's disabled artists participate each year in events and activities organised by DAiSY.

What does school provision look like in Surrey?



Surrey-i

You can find all of the data used to create this Snapshot in the What does school provision look like in Surrey? data collection on www.surreyi.gov.uk
Data Sources: 2013 School Census, School Workforce Census, School Capacity Survey, Surrey County Council
[1] Headcount, [2] Maintained schools and Academy schools, [3] Non Classroom-based school support staff, excluding auxiliary staff
[4] Pupil referral units
[5] Includes community, foundation, voluntary, middle schools as deemed (primary or secondary) and academies (excludes special schools)
[6] Includes state-funded primary and state-funded secondary schools
[7] Schools in this category are not officially affiliated to or with an individual faith

Director of Finance review

Sheila Little BA CPFA - 31/7/2014

The Annual Report provides a general guide to the audited primary financial statements for the year ended 31 March 2014 and highlights some of the more significant matters that have determined this position. The Finance service and external auditors have worked together in achieving a quicker closing process that results in the annual accounts being audited and signed off by the end of July 2014. This is well in advance of the statutory deadline. As a direct consequence, for the first time, the 2013/14 annual report contains audited summary financial information.

There have been the following significant changes in the responsibilities of the council.

Public Health
On 1 April 2013 public health staff and services were transferred from primary care trusts (PCTs) to local authorities. To discharge their new public health responsibilities, local authorities were provided with a ring-fenced public health grant from the Department of Health.

Business Rate Retention Scheme
The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. (In the past all business rates collected where passed to central government and then distributed by them to local authorities to fund services according to a complex formula).

Academy transfers
During 2013/14, 27 schools transferred to academy status (8 in 2012/13). An academy is self-governing, directly funded by central government and independent of direct control by local government. Within the 2013/14 accounts, £104m of Property, Plant & Equipment and £5m of schools balances have been taken out of the council's balance sheet to reflect these transfers.

1. Budgeted Income & Expenditure

The council set its budget for the 2013/14 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 £68m. At the end of March 2014, services achieved £62m efficiencies. This shortfall mainly relates to in Adult Social Care's (ASC) innovative Family, Friends & Community Support (FF&C) strategy partly offset by other services efficiencies delivered earlier than planned.

For the fourth year running the council ended the financial year with a small underspend, demonstrating tight financial management. The outturn position for 2013/14 provides a clearer indication of the council's strong financial stewardship during the year than is apparent from the accounting deficit reported in the Income & Expenditure Statement (page 64).

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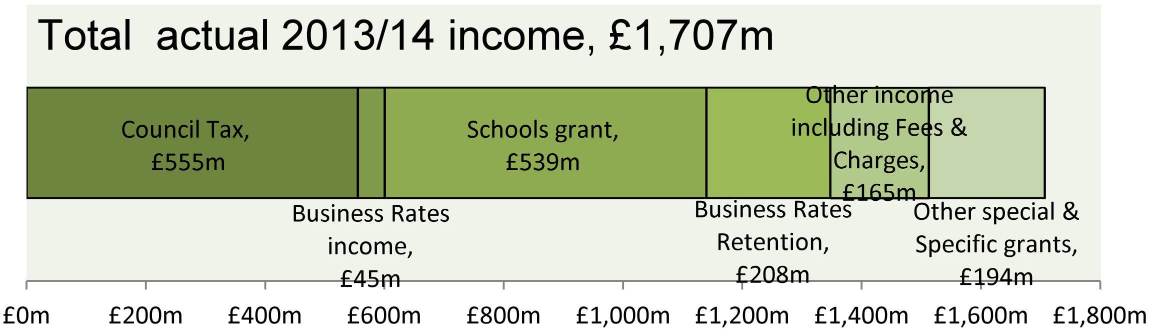
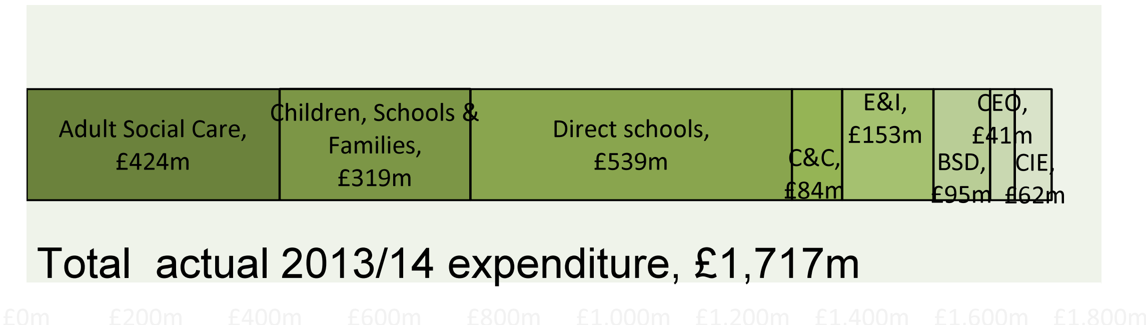
Table 1: The 2013/14 net revenue outturn

	Full Year Budget £m	Outturn Forecast £m	Forecast Variance £m
Income:			
Local taxation	599	600	1
Government grants	910	942	32
Other income	155	165	10
Income	**1,664**	**1,707**	**43**
Expenditure:			
Staffing	-312	-307	5
Service provision	-850	-866	-16
Non schools sub-total	-1,162	-1,173	-11
Schools expenditure	-514	-539	-25
Total expenditure	**-1,676**	**-1,712**	**-36**
Movement in balances	-12	-5	7
Carried forward to 2014/15		-5	-5
Revised movement	**-12**	**-10**	**2**

During the year the council spent £7m less than it had planned. The Cabinet has approved revenue carry forwards of £5m from 2013/14 to 2014/15 to ensure funding is available for schemes, projects and commitments that need to be funded in the new financial year. £2m was transferred back to General Balances. Initially £12m of general balances was planned to support the 2013/14 revenue budget. Taking the £2m transfer into account, the budgeted support by general balances was £10m.





Key: C&C – Customer & Communities, E&I – Environment & Infrastructure, BSD – Business Services, CEO – Chief Executive Office, CIE – Central Income & Expenditure

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

The council also continues to bring forward its audited accounts publication date. During the year the monthly budget monitoring year end forecasts are reported to Cabinet within 3 weeks after the end of the month. The timeliness of this reporting means variations from the budget are considered early and management action can be put in place promptly.

2. Capital Expenditure

In agreeing significant capital investment as part of the MTFP for 2013-18 in February 2013, the council demonstrated its firm long term commitment to supporting economic development in Surrey. A key element of the council’s corporate vision is to create public value by improving outcomes for Surrey’s residents. This vision is at the heart of the capital programme and MTFP 2013-18 set a £699m five year capital programme. Following Cabinet approved re-profiling of 2012/13 carry forward budgets and virements; the revised 2013/14 capital budget was £230m. Capital expenditure for 2013/14 was £224m which includes investment of £38m in long term capital investment assets as part of its strategy to reduce reliance upon government funding and the council tax payer.

Table 2: The 2013/14 Capital outturn

	Revised full year budget £m	Actual £m	Full year variance £m	Revised carry forwards £m	Full year variance £m
Adult Social Care	2	2	0	0	0
Children, Schools & Families	11	10	-1	1	0
Customer & Communities	5	2	-3	3	0
Environment & Infrastructure	71	66	-5	5	0
School Basic Need	54	42	-12	0	-12
Business Services	75	54	-21	21	0
Chief Executive Office	12	10	-2	2	0
Total service programme	**230**	**186**	**-44**	**32**	**-12**
Long term investment assets	0	38	+38		38
Total overall	230	224	-6	32	26

As part of its multi-year approach to financial management and avoiding arbitrary end of year cut offs to budgets, Cabinet has approved requests to carry forward £33m into 2014/15.

In addition to increasing school places (£42m) and road & infrastructure projects (£66m) the other major capital expenditure was as follows:

Long term assets within directorates:

- £21m - Quadrant Court, office building in Woking
- £10m - Superfast broadband infrastructure throughout the County

Long term investment assets:

- £14m – Ranger House, office building in Guildford
- £10m – Gatwick Diamond, land formerly owned by Thales in Crawley
- £10m – Parkside House, office building in Epsom

3. Balance Sheet

The Balance Sheet shows the value of the assets and liabilities as at 31 March. The balance sheet of the council shows a net liability of £242m, which is matched by reserves (as set out in the movement in reserves statement).

Table 3: Summarised 2010 – 2014 Balance Sheet

	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
Long term assets	1,324	1,266	1,296	1,364
Current assets	233	317	376	212
Current liabilities	-198	-214	-324	-276
Long term liabilities (including borrowing)	-1,222	-1,299	-1,387	-1,543
Net assets	**137**	**70**	**-39**	**-242**
Funded by:				
Usable reserves	-168	-269	-288	-279
Unusable reserves	31	199	327	521
Net reserves	**-137**	**-70**	**39**	**242**

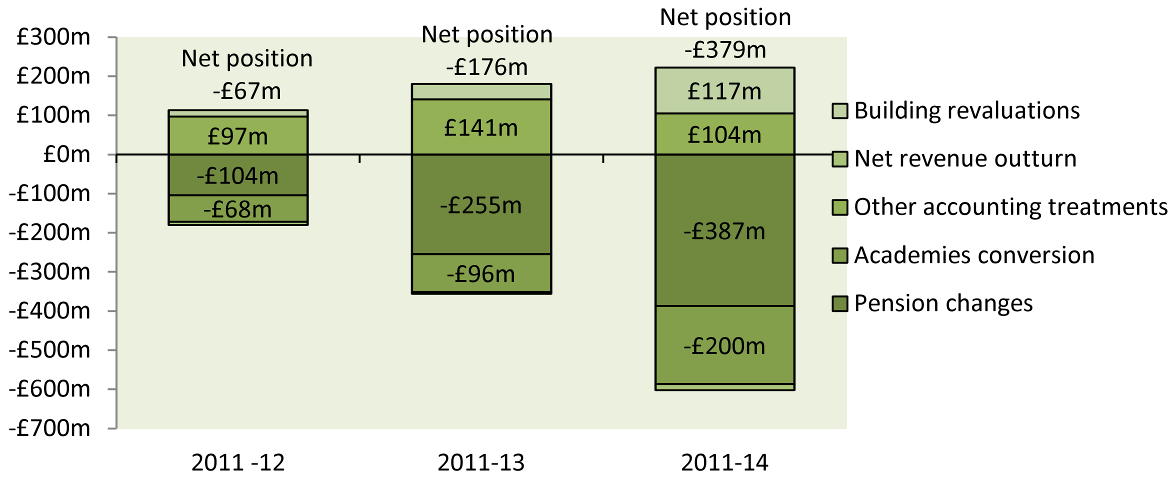
The movement from a positive to a negative balance sheet position is mainly due to the pension liability which does not need to be met within the next year, but over the lifetime of the scheme members. In 2013/14, 26 schools converted to academy status (62 academies in total: 30 academies at 31 March 2013, 26 converted 2013/14, 1 wholly new academy Sept 2013, 5 further converted 2014/15) which is offset by long term asset purchases and building revaluations.

Table 4: Reconciliation of significant Balance Sheet movements

	2011/12	2012/13	2013/14
	£m	£m	£m
Net Assets 1 April	**137**	**70**	**-39**
Pension changes (liability and adjusted contributions)	-104	-151	-132
Academies conversions	-68	-28	-104
Other technical accounting treatments (eg: depreciation and capital grants)	97	44	-37
Building revaluations and long term assets	16	23	78
Surplus/ (-) deficit net revenue outturn	-8	3	-10
Net Assets 31 March	**70**	**-39**	**-242**

The graph below highlights the significant accumulative changes within the balance sheet since 2011 to 2014.

Graph 2: Balance Sheet accumulative changes since 2010/11



4. Reserves & Balances

The movement in reserves statement shows the movement during the 2013/14 financial year on the different reserves held by a council, analysed into usable reserves and unusable reserves.

The total decrease in the council's reserves during 2013/14 is £203million (a decrease of £9m in useable reserves, and a decrease of £193m in unusable reserves). This decrease is caused by an increase in the pensions liability (explained further in Note 38 the statement of accounts) and transferring £104m of school assets to schools which have transferred to academy status (Note 7 in the Statement of Accounts).

5. 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 £238m. The short term borrowing balance represents borrowing repayable in the next 12 months and also includes the balance which the council holds on behalf of Surrey Police Authority. It stands at £51m at the 31 March 2014, which is a decrease of £32m since 31 March 2013, due mainly to the planned repayment of £68m of borrowing during the year. During March 2014 £24m of short term borrowing was undertaken to manage short term cash flow and was repaid in early April.

When undertaking long-term 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 4.4%.

During 2013/14 no additional long term external borrowing was undertaken. The council has adopted a strategy of 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. Further details of 2014/15's provision for the financing of proposed borrowing are included in the MTFP (2014-19).

6. Trading Companies

During 2013/14 two wholly owned Local Authority Trading Companies have been incorporated:

- S.E. Business Services Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the provision of business services and was incorporated on 20 June 2013.
- Surrey Choices Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until after 31 March 2014.

The council has considered all its relationships and interests in other entities and 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.

7. Looking forward to 2014/15 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 MTFP is essential in these challenging times. In 2012/13 the council achieved the highest rating for its financial resilience and is recognised in Grant Thornton's national report on all of its local authority clients (which represents 35% of all local authorities) for its high quality and robust long term financial planning.

Surrey County Council has successfully delivered significant savings over recent years and did so again in 2013/14. The achievement of continued year on year savings is becoming increasingly challenging to deliver due to the risks associated with the increased uncertainty in a number of areas:

- the achievement of efficiencies and service reductions year on year;
- the uncertainty regarding the level of funding to local authorities as a result of the local government funding changes introduced from April 2013;
- the volatility implicit in the level of service demands;
- the current economic situation and long term austerity faced by the country.

The council has in place the following to mitigate against these risks and uncertainties:

- select committee scrutiny
- robust and timely monitoring processes
- levels of general balances and reserves
- risk contingency budget

In addition, the system for monitoring progress on the implementation of efficiency savings has been sustained during 2013/14: regular review of efficiencies by the Chief Executive and senior officers before onward reporting and scrutiny by the Leader and Cabinet as well as Council Overview & Scrutiny Committee. This will continue during 2014/15 alongside an additional mechanism whereby the Chief Executive and Director of Finance will regularly review the progress of plans to deliver efficiencies across the whole MTFP period (not just 2014/15) highlighting any significant issues to the Leader and Cabinet as appropriate. This will ensure early action can be taken where necessary.

In developing the medium term financial plan for the five years to 2018/19, the council took a multi-year approach to its budget setting and, in February, the council identified £24m of earmarked reserves and £2m of unapplied government grants to support the 2014/15 budget. In addition, in March, Cabinet approved a further £14m of support after the requirement to re-profile the Adult Social Care savings. Combining the financial strategy and support from reserves enables the council to further pursue focusing on securing a greater share of Government funding for services such as adult social care and school places where demand is outside the control of the council.

The level of earmarked reserves has been increased over the past five years, largely through carry forwards across years, to provide funds for what the council knew would be a difficult financial climate, especially with the reduction in government funding. The use of the reserves to support the 2014/15 budget smoothes these pressures across years and brings the total level of reserves down towards the historic level.

Additional resilience has been assured over the long term through sustaining the earmarked reserve for long term investment and infrastructure initiatives and creation of a reserve to mitigate against potential business rate appeal successes.

8. Further Information

Additional information on the council's overall revenue and capital budget outturn position and achieved efficiencies for 2013/14 can be found in the '2013/14 Outturn report' considered by the Cabinet on 27 May 2014.

Further information on the statutory audited accounts can be found at: [**http://tinyurl.com/SOA2014**].

The Medium Term Financial Plan 2014 -2019 can also be found on our website at: [**http://tinyurl.com/MTFP2014-19**].

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) or Jonathan Evans, Principal Accountant (020 8541 8636, jonathan.evans@surreycc.gov.uk)

Sheila Little BA CPFA

Director of Finance

Environmental Sustainability Report

When striving to fulfil our most pressing duties it is critical we use resources responsibly and safeguard them for future generations. We will focus on conserving Surrey's environment and will reduce our dependency on carbon and other scarce resources. We will maintain rigorous financial and risk management so we have a sound basis for achieving current priorities and investing for future needs.

Our Focus 2014-2019 – Stewardship

The council recognises the value of natural resources and processes in providing a healthy environment for residents and businesses to prosper within and also our need to increase our resilience to environmental conditions, including future changes, such as more severe flooding. Our role in managing resilience and conserving and enhancing our environment is clear in many of our public services; from countryside management and flood risk management to sustainable travel & transport and waste management including recycling.

Our own operations and how we provide our services, are also linked to the environment and we take action to address this, such as reducing carbon emissions from our buildings and business travel, recycling waste from our premises and designing new buildings, such as schools with their long-term sustainability in mind.

Greenhouse Gas emissions from our own operations

A particular focus of environmental reporting is our energy consumption and emissions of greenhouse gases (GHGs) including carbon dioxide, that were emitted from our own estate and operations. The council is part of the national Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and we also report our emissions to the Department for Energy and Climate Change. Our reporting scope for our Greenhouse Gas emissions report includes energy consumed for heating and electricity in our buildings, street lighting, vehicle fuel, fugitive emissions from air conditioning and business travel by staff and councillors. Up to and including 2013/14, all types of schools are included in our reporting. From 2014/15 onwards we have revised this to align with our maintenance responsibilities. This means emissions from Academies and voluntary aided schools will be excluded from our reporting. We will continue to work with all Surrey schools on energy saving initiatives such as Eco-schools.

Compared to our baseline year (2009/10) our emissions have reduced, although in 2012/13 our emissions increased compared to the previous year. This was due to a number of factors; mainly because we used more fuel for heating during the exceptionally cold winter, compared to the milder than average winter in 2011/12. Our report for 2013/14 will be published in July 2014.

Please note, that the guidance for calculating emissions of greenhouse gases has been revised on a number of occasions. Therefore in order to be able to make comparisons between years, we have amended results from previously published years of reporting (known as 'rebaselining'). Therefore historic results for 2010/11 and 2011/12 in the 2012/13 report differ from previously published reports (**http://tinyurl.com/sustreport**)

Table 5: Breakdown of greenhouse gas emissions, by area for 2012/13

Reporting period 2012/13	Units	Amount consumed	Greenhouse gas emissions (tonnes CO_2e)
Scope 1			
Oil boilers	kwh	22,507,889	6,252
Gas boilers	kwh	182,533,778	33,807
Wood boilers	tonnes	96	0
Diesel	litres	387,290	95
Petrol	litres	7,227	2
Fugitive emissions[1]	kg charge	3,119	156
Purchased fuel			**40,312**
Scope 2			
Premises electricity	kwh	75,916,462	34,923
Street lighting and other highways electricity	kwh	36,963,712	17,004
Purchased electricity			**51,927**
Scope 3			
Staff and member business travel[2]	miles[3]	9,563,770	2,952
Indirect emissions			**2,952**
Total gross emissions			**95,191**
Carbon Offsets[4]	kwh	235,611	-108
Green tariff [5]	kwh	0	0
Total net emissions			**95,083**
Intensity measurements[6]			
Kilogram of CO2e per resident of Surrey			84
Tonnes of CO2e per £M of gross expenditure			56.1

Table 6 gives summary that compares several years
(re-baselined, in accordance with DECC guidance)

Emissions scopes	Greenhouse gas emissions (tonnes CO2e)		
	2012/13	**2011/12[2]**	**2010/11[1]**
Purchased fuel[1]	40,312	33,291	42,349
Purchased electricity[1]	51,927	51,190	56,221
Indirect emissions	2,952	2,907	3,132
Total gross emissions	**95,191**	**87,388**	**101,702**
Carbon offsets[4]	-108	-20	0
Green tariff	0	0	0
Total net emissions	**95,083**	**87,368**	**101,702**
Kilogram of CO2e from council operations, per resident of Surrey	84	78	90
Tonnes of CO2e from council operations, per £1m of expenditure	56.1	50.8	57.5

Notes:

1. 2011/12 consumption figures:
   - Fugitive emissions: 'kg charge' figure in 'amount consumed' is the charge of whole unit, not the amount of gas leaking out (which is typically 3% of the total charge, per year). 2011/12 emissions were amended in June 2013, to correct an historic error in application of conversion factors i.e. to calculate resulting GHG emissions from air conditioning units on basis of leakage rate, not the total charge of the air unit.
   - Scope 2 Electricity emissions for 2011/12 and 2010/11 were 're-baselined' i.e. emissions were recalculated using a new method, according to guidance from DECC to use 1 year instead of a 5 year rolling average for emissions.

2. Business travel: this is car and motorcycle journeys only. Grey fleet i.e. staff owned vehicles and pool car via a car club are both included. Train and bus travel not included. Commuting, by any mode, is not included.

3. Vehicle mileage: Emissions from vehicle mileage have been calculated at various rates depending on vehicle size and fuel type.

4. Carbon offsets: We have reported on the contribution of on-site renewable energy generation that counts as carbon offsets through the export of renewable energy to the national grid. In cases where automated sub metering is not in place, we have assumed a 50% export level of the renewable electricity generated to the grid. The council did not purchase any external carbon offsets.

5. Green tariff: Via our Laser contract we purchase a proportion of 'green electricity'. However, it has been confirmed by the energy supplier that this tariff does not meet the criteria for 'Green Tariff' for the purposes of reporting, as set out in the relevant OFGEM guidance[1].

6. Intensity measurement: We are required to define a result using an 'intensity measurement', which is a ratio of GHG impact per unit of activity or other business metric. We have selected CO2e emissions per resident and per £1m expenditure. It should be noted that our gross cost of continuing operations excludes Academy funding, but our greenhouse gas emissions reporting includes emissions from Academies.

[1] http://www.ofgem.gov.uk/sustainability/environment/policy/documents1/green%20supply%20guidelines%20final%20proposals%20open%20letter.pdf

Governance Report 2013/14

David Hodge, Leader & David McNulty, Chief Executive

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, including the arrangements for the management of risk.

The council is committed to fulfilling its responsibilities in accordance with the highest standards of good governance to support the current vision "to be delivering great value for Surrey residents" and the council has adopted a Code of Corporate Governance (the code), through which good governance is evidenced.

The annual review of governance is overseen by the Governance Panel (the panel). The review has provided a satisfactory level of assurance on the governance arrangements for the year.

Governance Panel:

Chair – Director of Legal & Democratic Services

Director of Finance

Chief Internal Auditor

Representatives from HR and Organisational Development

Representatives from Policy & Performance

Risk and Governance Manager

The governance environment during 2013/14

Purpose and Outcome

The Corporate Strategy, 'Confident in our future', provides 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, Investment Strategy and directorate strategies. The Chief Executive reports progress on delivering the Corporate Strategy to full County Council on a six-monthly basis.

The council has established a strategic framework for innovation and is developing new ideas and approaches through new models of delivery that aim to ensure that services are sustained and improved. The framework has been cited as an example of good practice within the Grant Thornton report Local Government Governance Review 2014, Working in Tandem. The council's 'Lean programme' also uses a range of concepts, principles and tools that identify and support effective service delivery from the residents and service users' perspective.

The council has established two Local Authority Trading Companies during the year and has put in place a Shareholder Board (comprising Members and the Chief Executive) that makes decisions on behalf of the council and oversees activity. Similarly, the council has progressed its Investment Strategy by investing in new assets during the year and has established a member-led Investment Advisory Board to provide strategic oversight of this strategy. Both these Boards are supported by relevant internal and external professional advisors. In addition, a high level Programme Board, including the Strategic Director for Business Services, Section 151 Officer and Monitoring Officer, monitors the overall progress of the 'New Models of Delivery Programme.' In addition, the council continues to optimise the use of physical assets.

Scorecards are used to monitor progress against the corporate strategy objectives, measured through a variety of key indicators related to staff, costs, residents, and performance. Finance, performance and risk information is reviewed by senior management and scrutinised by Select Committees and Cabinet. The Leadership risk register is regularly reviewed by the Continual Improvement Board and Audit and Governance Committee.

The council's Fairness and Respect strategy sets out priorities for improving outcomes for Surrey residents that are linked to the Corporate Strategy.

Leadership & Behaviour

The roles, responsibilities and delegated functions for member and officers are set out in the Constitution of the Council [**http://tinyurl.com/SurreyConstitution**]. The Scheme of Delegation for members and officers is regularly reviewed and updated in consultation with services and the Cabinet, before being approved by full County Council.

The Cabinet comprises the Leader, Deputy Leader and eight Cabinet Members, with each Member holding the brief for a particular portfolio of services. During 2013/14 the Cabinet has been further supported by four Associate Cabinet Members who do not have voting rights, but support the Cabinet portfolio holder in the more complex areas. Decisions can be taken by individual members of the Cabinet or collectively by the full Cabinet (excluding Associates).

The functions of the Monitoring Officer (Director of Legal and Democratic Services) and Chief Finance Officer/Section 151 Officer (Director of Finance) 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 the Continual Improvement Board, all Cabinet meetings and Audit and Governance Committee. She also has regular meetings with the Chief Executive, the Leader, Monitoring Officer, Chief Internal Auditor and External Auditor, and has direct access to the Leader and the Chief Executive at all times. Throughout 2013/14 she instigated whole Cabinet / Corporate Leadership Team budget related workshops throughout the budget planning cycle. In addition, briefings to all members are held and finance induction workshops specifically targets at members joining the council were held following May 2013 elections. Although during the year the Chief Finance Officer reported to the Strategic Director for Business Services (she now reports to the Chief Executive), this did not impact on her powers and responsibilities in respect of the financial affairs of the council.

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. The Monitoring Officer and the Member Conduct Panel deal with allegations of breaches of the Member Code of Conduct [**http://tinyurl.com/SurreyCodeofConduct**]. The register of pecuniary interests for all members can be viewed online.

The Chief Executive continues to show his commitment to engage with and support staff by providing regular updates and key messages through emails and the intranet via a blog. He also regularly visits offices across the county by himself and with the Leader to meet, listen, learn and engage with staff.

<u>Transparency and Stewardship</u>
The council 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 2013/14 full and audited Statement of Accounts are available [**http://tinyurl.com/SOA2014**]. In the past this formal approval has been in early September.

The Investment Panel continues to ensure all proposed service capital investments have robust business cases before formal approval by Cabinet or Cabinet Member as appropriate. It is chaired by the Chief Finance Officer and Deputy Director for Business Services and since 2013/14 comprises five senior managers including the Chief Property Officer, Chief Internal Auditor and Head of IMT, as well as other heads of service to ensure a broad perspective for challenge. The council has a significant schools building programme and recognises the importance of strong scrutiny of business cases ahead of commitment to each additional site as the programme rolls out.

The council is continuously improving its use of systems and technology to enhance and strengthen monitoring and reporting. New easy to use budget monitoring tools and performance systems were introduced in 2013/14 and are providing officers and members with up to date and consistent financial information.

The council's external auditors' report on financial resilience positively concluded that 'whilst the council faces some significant risks and challenges during 2013/14 and beyond, its current arrangements for achieving financial resilience are adequate, or better.'

The council's risk management policy statement and strategy are part of the Constitution and are reviewed annually. The Strategic Risk Forum was established in 2013/14 and draws together lead officers from across the council to review and challenge risks and ensure a consistent risk approach is adopted. During the year it has given particular focus on developing the council's awareness of its risk culture.

The council has six select committees who provide challenge to the Cabinet and continue to strengthen 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 County 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 (the 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.

A Pension Fund Board was established during the year to take decisions on behalf of the council as the administering body for the Local Government Pension Scheme. The formal make up of this Board is recognised as representing best practice and follows a review of governance arrangements carried out by an independent advisor.

The annual review of the effectiveness of the system of internal audit encompassed a self assessment of conformance with the Public Sector Internal Audit Standards (PSIAS) and a review of the level of member and officer focus on audit findings and recommendations. The 2013/14 review concluded that in all significant respects, the council's Internal Audit function complies with PSIAS. The review provided positive assurance that senior officers across the council have a good level of awareness of audit activity taking place and of progress in implementing audit recommendations.

The gifts and hospitality register for officers 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, information is 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).

The performance of each directorate is monitored by the production of a scorecard of performance, which is presented to management teams to highlight areas of concern and success and encourage steps taken to improve upon success and remedy failings. These scorecards are then published online on a monthly basis.

<u>People</u>

The People Strategy is annually refreshed to reflect the council's people priorities. It covers employees and the wider workforce, including volunteers, charities and members of the public who help the council to help residents.

The council continues to invest in staff and Members to ensure engagement and motivation. 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 and a pilot high performance development programme (planned for roll out in 2014/15) are in place across the organisation to support staff with career development and/or find solutions to issues and problems.

The council holds the Charter for Elected Member Development. A career pathway for members has been created to encourage all members to work on their personal development and highlight key skills and learning that is needed to help them progress through their career path.

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 develop Surrey-i, which publishes information about the council's residents and communities. It gives public service professionals, partner organisations and the public improved access to essential data, including customer needs, demand and supply side data. Information is now available in snapshots (eg on crime and health), which bring together information in a visual and user friendly way.

The council has strengthened the public participation arrangements for each of its 11 local committees that deal with local County Council decision making.

The council worked together with residents and partners to cope with the severe flooding as well as aid the recovery post flooding. This included staff relocating from the Runnymede Centre to allow it to be used as a base for the army to help to support residents.

The council is part of the Government's Public Service Transformation Programme and is working closely with partners on projects including emergency service collaboration, Supporting Families and health and social care integration. The vision is that services will shift towards prevention and earlier intervention in order to deliver better value for money.

The SE7 councils, consisting of seven South East councils, are continuing to work together to identify savings from joint working. Strong progress is being made in the waste and highways workstreams. The council is also building on successful arrangements with East Sussex County Council to develop further efficiencies.

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 2013/14 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:

- **Information Governance -** further work is required to raise awareness of the information governance risks across the organisation. Key to this is not only the need to ensure policies and procedures are clear and up to date and easily accessible to staff but to ensure local controls are in place to ensure compliance with them.
- **Social Care Debt –** improvements identified through Internal Audit and service led reviews, need to be fully embedded. This will ensure that more of the monies due to the council are received in a timely manner and appropriate action taken where credit balances exist.
- **Children in Care Health and Dental Checks –** there is a need to reduce the current delay between the time Children's Services are notified of a completed health check and the corresponding paperwork being received so that the completion of the health check can be properly validated. Further work is required to clear a backlog of health assessments for children placed outside Surrey.

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 2014/15

The council's strategic plans need to remain focussed on continuing to strengthen our relationships with residents, businesses and all partners, developing innovative solutions, and planning and managing our finances carefully and responsibly.

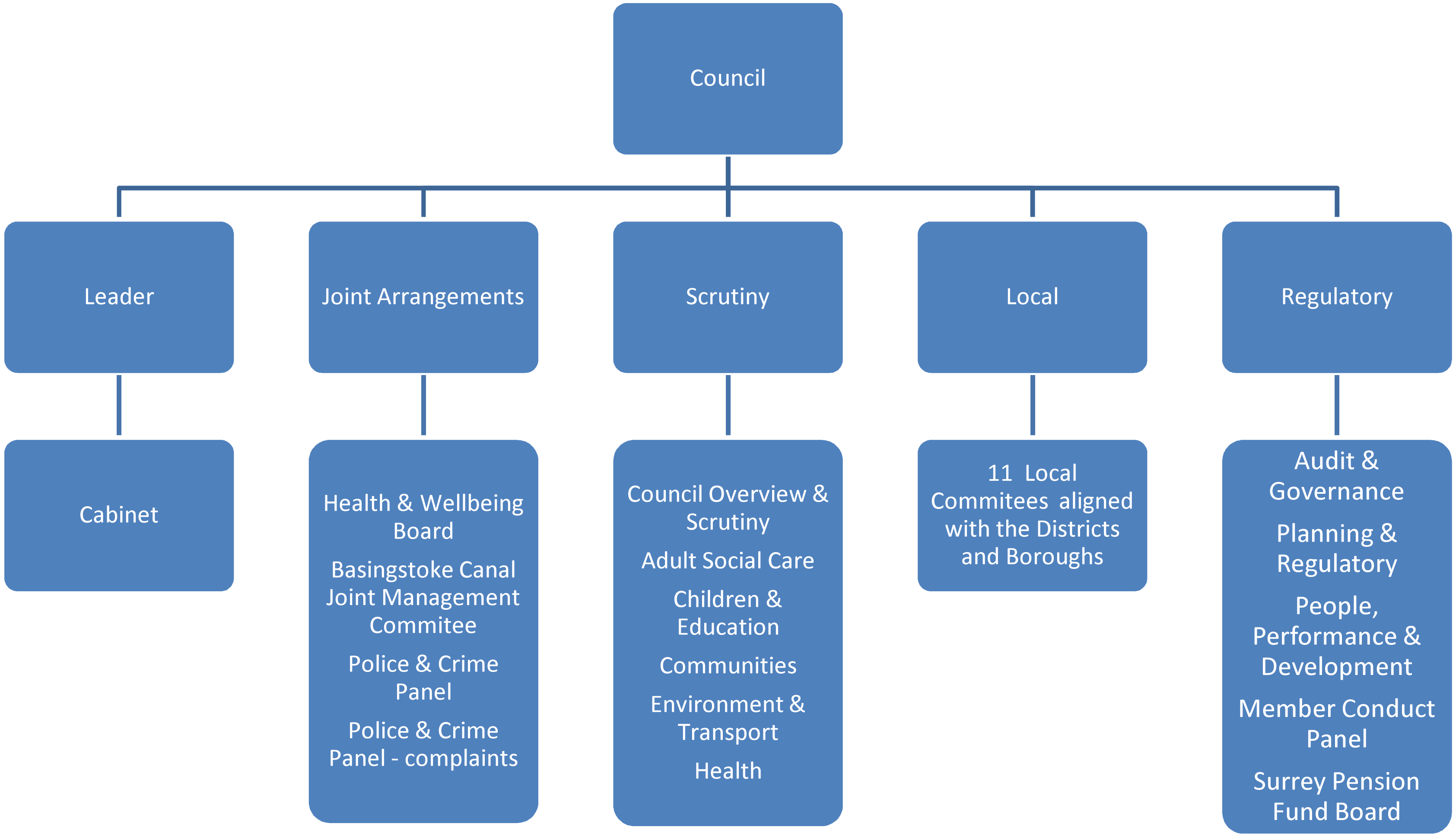
The council will continue to take a more networked approach that ensures it acts as one team in delivering strategic objectives and priorities. This will help ensure high performance in the day to day delivery of services while mobilising the resources of the whole organisation to secure the most effective new ways of working.

Effective learning remains a key part of our approach. The learning process is crucial if we are to meet our responsibilities to residents now and in the future. As part of this we have a duty to understand and address any mistakes we do make.

Developing a strong and resilient organisation that can respond effectively to whatever lies ahead is key and strong relationships will be ever more essential over the coming years. Our relationship with partners and residents will determine our ability to deal with the challenges we face and successfully transform services.

Member Governance

The Council delegates responsibility as set out below for a number of different functions through the Constitution. Cabinet also delegates some responsibilities to certain joint arrangements. [**http://tinyurl.com/SurreyConstitution**].



Council

The Council is composed of 81 councillors (or "Members") elected every four years. Councillors are democratically accountable to electors in their electoral division.

The County Council meets approximately every six weeks on a Tuesday. Every meeting is webcast. The meetings are open to the public, although the public are not able to participate in the meeting.

The Council sets the framework within which the Cabinet operates through the corporate plan, budget and major policy plans. It elects the Chairman and Vice-Chairman of the Council annually and appoints the committees of the Council. It also elects the Leader of the Council for a four year period (and may remove him/her from office).

Chairman of the Council: David Munro

Leader of the Council: David Hodge

Cabinet

The Cabinet is made up of the Leader (chairman), Deputy Leader, eight Cabinet Members and there is in addition four Cabinet Associates. Cabinet is responsible for all executive decisions, with each Member holding the brief for a portfolio of services.

The Cabinet leads the preparation of the council's policies and budget and makes recommendations to the County Council on the major policy plans and the budget and Council Tax. The Cabinet and Cabinet Members take decisions within this framework of plans and procedural rules approved by the Council, including key decisions. It is held to account by the council for its performance.

The council produces a forward plan containing notice of key decisions to be taken by the Cabinet and Cabinet Members in the next 28 days and indicative programme of proposed decisions for the following months. The Notice of Decisions also gives notice of meetings which may be held in private (in whole or part) and how residents can make representations about this.

Regulatory

The Council appoints these committees with terms of reference within the Constitution. Council appoints chairmen for each:
Audit & Governance: Nick Harrison; **Planning & Regulatory:** Keith Taylor; **People, Performance & Development:** David Hodge; **Member Conduct Panel:** David Munro; **Surrey Pension Fund Board:** Denise Le Gal

Some examples are:
Audit and Governance Committee creates an environment in which audit, governance and financial accounts matters can be considered without having to compete for priority alongside other matters. It meets six times a year and additional meetings are occasionally required for a specific purpose.

The People, Performance and Development Committee's role includes policies on staff pay & conditions, arrangements for consultation with unions, resolving disputes and promoting development and training.

Joint Arrangements

The Council and the Cabinet may establish joint arrangements with one or more local authorities and/or their executives to exercise functions which are not executive functions in any of the participating authorities, or advise the council. Such arrangements may involve the appointment of a joint committee with these other local authorities.

Scrutiny

There are six select & scrutiny committees.

Council appoints chairmen for each:
Council Overview & Scrutiny: Nick Skellett; **Adult Social Care:** Keith Witham; **Children & Education:** Zully Grant-Duff; **Communities:** Denise Saliagopoulos; **Environment & Transport:** David Harmer; **Health:** Bill Chapman

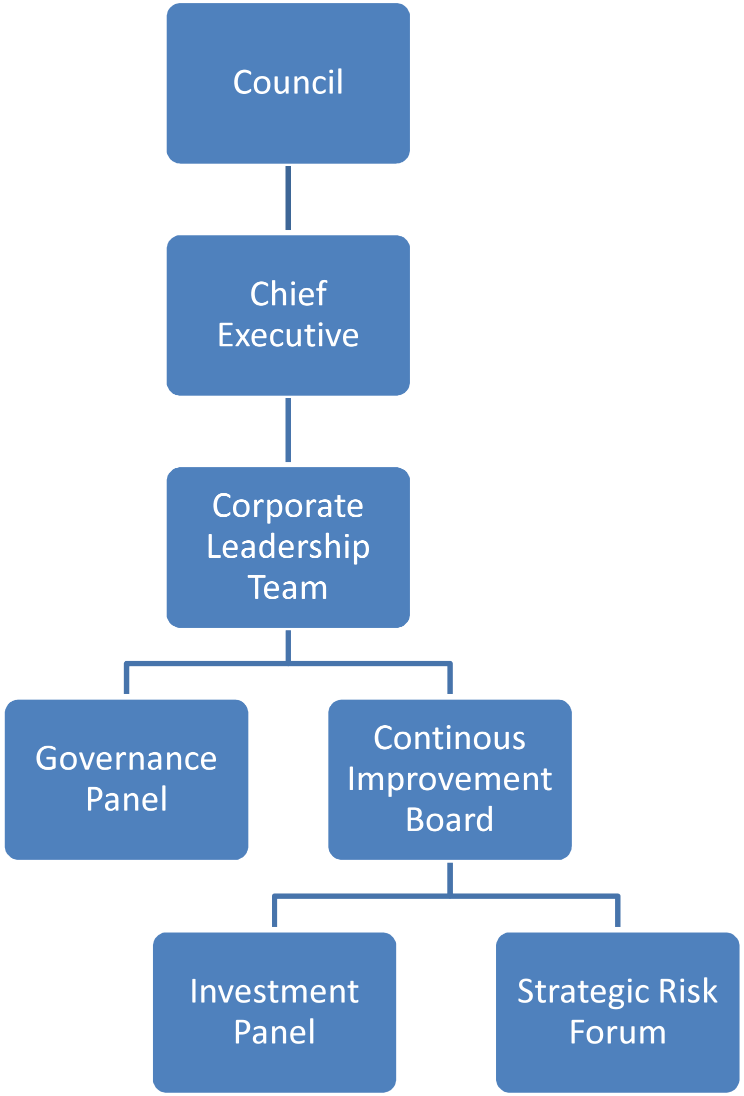
Role:
To provide challenge to the Cabinet and to strengthen their policy development and review role

Local

The Council appoints local committees to ensure improved service delivery in the context of best value and more efficient, transparent and accountable decision making. Council appoints chairmen for each:
Elmbridge: Margaret Hicks; **Epsom & Ewell:** Eber Kington; **Guildford:** Mark Brett-Warburton; **Mole Valley:** Tim Hall; **Reigate and Banstead:** Dorothy Ross-Tomlin; **Runnymede**: Chris Norman; **Spelthorne:** Richard Walsh; **Surrey Heath:** David Ivison; **Tandridge**: Michael Sydney; **Waverley:** Pat Frost; **Woking:** Liz Bowes

Officer Governance

The Council appoints the Head of the Paid Service (Chief Executive) and Monitoring Officer (Director of Legal & Democratic Services) as statutory officers. The People, Performance and Planning Committee appoints the Chief Finance Officer (Director of Finance) and other statutory officers. Constitution delegates responsibility as set out below for a number of different functions.



Corporate Leadership Team: provides corporate leadership and strategic direction to ensure that Surrey County Council becomes an outstanding community leader and delivers excellent services to the public. It comprises of the Strategic Directors of each Directorate, Assistant Chief Executive and the Directors of Finance and Legal & Democratic Services.

Governance Panel (chaired by Director of Legal and Democratic Services) and reports to the Corporate Leadership Team and the Audit and Governance Committee. The panel provides a satisfactory level of assurance on the governance arrangements for the year.

Continuous Improvement Board provides leadership, challenge, oversight and early consideration of issues relating to and underpinning the delivery of the Corporate Strategy & MTFP; and development of corporate policy. The membership includes Finance, HR, Policy & Performance and directorate leads

Investment Panel continues to ensure all proposed service capital investments have robust business cases before formally proposed to Cabinet. Since 2013/14, it comprises of four senior managers including the Director of Finance [chair], Chief Property Officer, Chief Internal Auditor and Head of IMT, as well as other heads of service to ensure a broad perspective for challenge.

Strategic Risk Forum membership includes the Director of Finance [chair] directorate risk leads and officers from internal audit, HR and emergency management. It meets on a quarterly basis and ad hoc meetings take place as matters arise.

Strategic principle risks

The principal risks are contained on the Leadership risk register. The register is owned by the Chief Executive and shows the council's key strategic risks and opportunities. It is reviewed by the Strategic Risk Forum (chaired by the Director of Finance) and then by the Continual Improvement Board on a monthly basis and regularly reviewed by Audit & Governance Committee. Further information on the strategic principlerisk are within the leadership risk register that can be found within the Audit & Governance Committee Papers on 31 July 2014 item 11. [**http://tinyurl.com/Audit-GJul2014**]

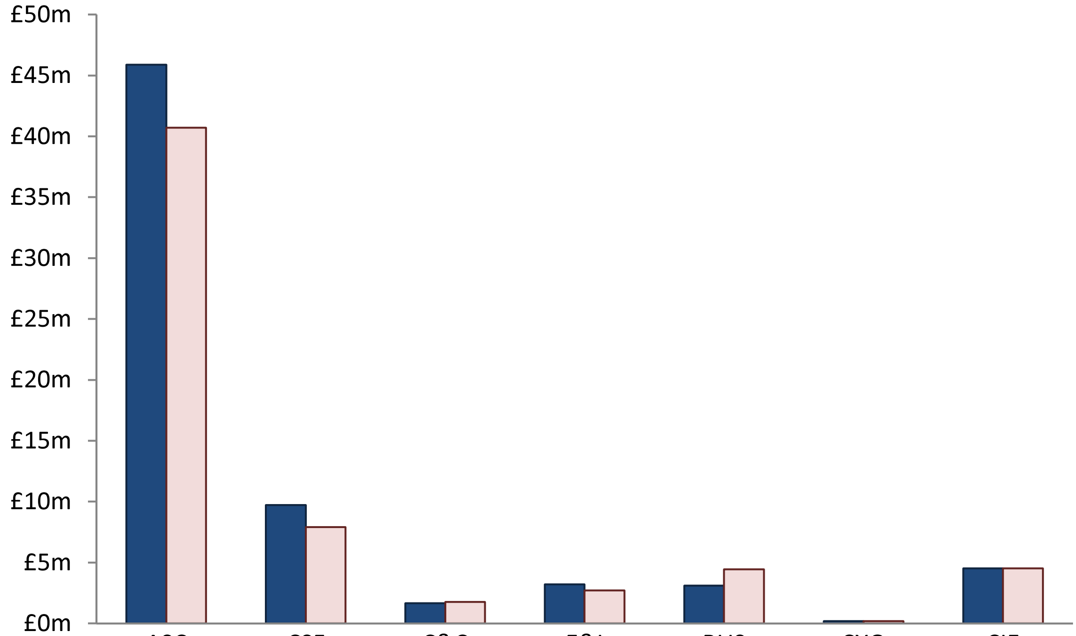
Risk	•Key controls
Future Funding -erosion of the main sources of funding ie: Council tax and government grants - failure to generate new income streams as planned	•robust quarterly monitoring •further understanding of financial implications of existing and future government policy changes •development of alternative / new sources of funding •close working with Borough and District colleagues
Medium Term Financial Plan 2014-19 (MTFP) -failure to achieve the MTFP due to additional demand, over optimistic funding levels and not achieving savings	•monthly reporting to Continual Improvement Board, Corporate Leadership Team (CLT) and Cabinet •robust efficiencies delivery plans •clear management action reported promptly •monthly tracking of actual demand •monthly formal budget reports focusing on funding levels
Waste -failure to deliver key waste targets (including key waste infrastructure)	• strong resourcing and project implementation •monitoring by the Waste Programme Delivery Board with strategic overview provided by the Strategic Waste Board. •further work with the Districts and Boroughs •contract variation signed with SITA
Central government policy development - central government policy changes including welfare reform and Care Act put additional pressure on demand for all public services	•ensure thorough understanding of intended changes •implementation of a welfare reform programme including districts and boroughs •taking opportunity to influence central government •Care Act implementation Board to support on going discussions and project programme

Risk	• key control
Partnership working -failure or breakdown of a significant partnership or partner -failing to develop a sustainable financial model across health and social care	•recognition of importance of building and sustaining good working relationships •Health and wellbeing strategy and action plan owned by partners •intelligence on partner is shared and areas of risk identified •ensure development of sustainable financial model. •Health and Wellbeing Board focusing on resources required to deliver. • strong governance and sharing of risk
Information Governance - failure to effectively act upon and embed standards and procedures	•communication campaigns encrypted laptops • Internal Audit Management Action Plans implementation • GCSx accreditation certificate • Information Governance Board in place
Information Technology - failure of IT systems due to breaches (deliberate or accidental) of security and integrity of operational IT systems	•proactive and effective security controls in place •robust IT incident response plan •training and regular communication to staff via email and snet • IT system resilience provided through Primary and Secondary Data Centres
Business Continuity, Emergency Planning - failure to plan, prepare and effectively respond to a known event or major incident	• Council Risk and Resilience Forum reviews, moderates,implements and tests operational plans. •close working with services and Emergency Management Team •continued consultation with unions and regular communication to staff. •external risks assessed through the Local Resilience Forum
Staff resilience to major change - change fatigue and lack of resilience for any future change due to the significant challenges faced over the next 4 years	•continued communication, consultation and •training courses that address various aspects of change. Over 40 trained coaches. •the smarter working framework and flexible working policy •promotion of support mechanisms for staff
Safeguarding - avoidable failure in Children's and/or Adults Care service	•appropriate and timely interventions by well recruited, trained, supervised and managed professionals, with robust quality assurance and prompt action to address any identified failings.

Other key information

Revenue efficiencies and service changes

The revenue statement provides details of the income and expenditure; however the services have absorbed a high level of demand pressures to ensure that balanced budgets are maintained. Services planned for £68m of efficiencies in 2013/14. The graph below illustrates the performance of each directorate. The overall result achieved is £62m met through one-off savings.



	ASC	CSF	C&C	E&I	BUS	CXO	CIE
Plan	£45.9m	£9.7m	£1.7m	£3.2m	£3.1m	£0.2m	£4.5m
Achieved	£40.7m	£7.9m	£1.8m	£2.7m	£4.4m	£0.2m	£4.5m

Key: ASC – Adult Social Care, CSF – Children, Schools and Families, C&C – Customer & Communities, E&I – Environment & Infrastructure, BUS – Business Services, CXO – Chief Executive Office, CIE – Central Income & Expenditure

Council travel expenses

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

Table 7: Travel expenses by directorate

	2013/14	2012/13	2011/12
Adult Social Care	£1.7m	£1.7m	£1.5m
Children, Schools & Families	£2.6m	£2.4m	£2.3m
Schools	£0.3m	£0.4m	£0.4m
Customer & Communities	£0.2m	£0.3m	£0.2m
Environment & Infrastructure	£0.4m	£0.3m	£0.3m
Business Services	£0.3m	£0.3m	£0.3m
Chief Executive Office	£0.5m	£0.4m	£0.4m
	£6.0m	**£5.8m**	**£5.4m**
Surrey CC gross expenditure	£1,717.5m	£1,692.3m	£1,670.3m
Travel expenses as a proportion of gross expenditure	0.3%	0.3%	0.3%

Council business consultancy fees

Consultancy, contractors and contractor services are used to support the organisation, often to help deliver projects. Over the past twelve months the council has assessed its definition of business consultancy to ensure the council makes the correct decision when buying these services.

Table 8: Business consultancy by directorate

	2013/14	2012/13	2011/12
Adult Social Care	£0.2m	£0.1m	£0.2m
Children, Schools & Families	£0.2m	£0.1m	£0.2m
Customer & Communities	£0.1m	£0.0m	£0.1m
Environment & infrastructure *	£1.5m	£0.5m	£0.4m
Business Services	£1.3m	£1.6m	£0.6m
Chief Executive Office	£0.1m	£0.0m	£0.0m
Total revenue expenditure	**£3.3m**	**£2.3m**	**£1.5m**
Surrey CC gross expenditure	£1,717.5m	£1,692.3m	£1,670.3m
Business consultancy as a proportion of gross expenditure	0.2%	0.1%	0.1%

* Predominantly, the business consultancy increase is due to Local Sustainability Travel Fund (LSTF) programme of initiatives and schemes (£0.5m), and Highway Maintenance Efficiency Programme (HMEP) funded by Department of Transport (£0.3m).

Salary transparency

Every year the council publishes information on salary policy and transparency on its website. This can be found at **http://tinyurl.com/Surreytransparency**.

The People, Performance and Development Committee (PPDC) acts as the Council's Remuneration Committee under delegated powers, in accordance with the Council's constitution. All Surrey Pay and terms and conditions are determined by the PPDC, including chief officers' remuneration and specific appointments to posts with salaries of £100,000 or more.

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The Council is committed to being at the forefront of openness and transparency to demonstrate to its residents and local taxpayers that it delivers value for money. As part of the national and local government transparency agenda, it already publishes information on its external website detailing Surrey Pay ranges, expenditure over £500 and contracts with a value of £50,000 or more.

To continue that progress and in line with the Code of Recommended Practice for Local Authorities on Data Transparency 2011, the council has published details of salaries paid to senior staff on–line, with effect from 30 March 2012. This information is updated on a regular basis and covers all positions with annual salaries of £58,200 and above.

This is a summary of the bandings from the information on the website. This is different to the statutory accounts bandings. The information below is a point in time (1 March 2014) of the number of officers in which band, whereas the statutory accounts band the annual salary paid for the year 2013/14 including schools and leavers. This information is also on a headcount basis i.e. what an individual is paid rather than a full time equivalent. The council had 7,357 full time equivalent posts at the end of March 2014 (7,361 - March 2013).

Table 9: Senior officers' pay by salary band

	1 March 2013	1 March 2014		
Salary (£)	**Number**	**Number**	**Male**	**Female**
55,000-59,999	13	**15**	73%	27%
60,000-64,999	62	**56**	38%	63%
65,000-69,999	36	**45**	78%	22%
70,000-74,999	6	**8**	63%	38%
75,000-79,999	39	**41**	61%	39%
80,000-84,999	6	**9**	67%	33%
85,000-89,999	9	**9**	56%	44%
90,000-94,999	6	**7**	43%	57%
95,000-99,999	4	**4**	75%	25%
100,000-104,999	5	**4**	25%	75%
105,000-109,999	3	**2**	50%	50%
110,000-114,999	1	**1**	100%	0%
115,000-119,999	1	**2**	0%	100%
120,000-124-999	0	**1**	100%	0%
125,000-129,999	1	**1**	0%	100%
130,000-134,999	1	**1**	0%	100%
135,000- 139,999	1	**0**		
140,000-144,999	2	**2**	100%	0%
210,000-214,999	1	**1**	100%	0%
Total	**197**	**209**	**58%**	**42%**

Note: Mole Valley District Council contribute 80% costs of one director.

Members' allowances and travel expenses

Members receive an allowance rather than a salary for services carried out by them on behalf of the Council. Members spend significant time on council business outside of formal committee meeting. This includes constituency business, parish council and resident groups, meetings with: other public agencies and partners and charity and community groups. Council approves a scheme of members' allowances having taken account of recommendations from the Independent Remuneration Panel. Recently at the Council meeting on 6 May 2014 the members approved an increase to the allowances for 2014/15. The new scheme allowances related to the period 21 May 2013 until 2017/18.

Under statute, if a member has not attended a meeting for a period of six consecutive months, unless the failure to attend was due to a reason approved by the authority during those six months, the member ceases to hold office. The attendance is available for any period from 20 October 2012. [**http://tinyurl.com/Surrey-Memattend**].

Table 10 summarises members' allowances and expenses. Table 11 shows members' allowances and expenses for current county councillor members as at 31 March 2014.

Table 10: Summary Member allowances and travel & subsistence expenses

Member allowances	**2013/14 Allowances £**	2012/13 Allowances £	**2013/14 Travel & subsistence expenses £**	2012/13 Travel & subsistence expenses £
Current members	1,325,267	1,021,863	87,654	75,520
Stood down members	31,251	308,815	1,679	10,112
Independent persons / Standards Committee		833	463	0
Employer NI & pension contributions	226,317	233,353		
Total expenditure	1,582,834	1,564,864	89,795	85,632
Member allowance as a proportion of gross expenditure	0.1%	0.1%		

Table 11: Members' allowances and travel & subsistence expenses

Member	District	Elected	2013/14 Allowances £	2012/13 Allowances £	2013/14 Travel & subsistence expenses £	2012/13 Travel & subsistence expenses £
Mrs Mary Angell	Runnymede	2005	28,291	28,291	1,604	2,752
Mr William Barker	Guildford	1997	14,791	14,791	1,161	835
Mrs Nikki Barton	Waverley	2013	10,618		383	
Mr Ian Beardsmore	Spelthorne	2001	11,791	11,791	130	198
Mr John Beckett	Epsom & Ewell	2013	10,618		90	
Mr Mike Bennison	Elmbridge	2005	15,202	17,791	340	552
Mrs Elizabeth Bowes	Woking	2009	18,202	20,541	289	221
Mrs Natalie Bramhall	Reigate & Banstead	2013	10,618		445	
Mr Mark Brett Warburton	Guildford	2009	18,202	20,791	1,023	563
Mr Ben Carasco	Woking	2009	14,380	11,791	88	
Mr William Chapman	Surrey Heath	2009	20,420	11,791	1,930	842
Mrs Helyn Clack	Mole Valley	2001	28,291	28,291	3,456	4,500
Mrs Carol Coleman	Spelthorne	2005	11,791	11,791	708	476
Mr Stephen Cooksey	Mole Valley	2005	11,791	11,791	673	929
Mr Stephen Cosser	Waverley	2009	18,189	21,791	2,170	1,895
Mrs Clare Curran	Mole Valley	2009	24,162	27,076	1,265	942
Mr Graham Ellwood	Guildford	2009	11,791	11,791		14
Mr Jonathan Essex	Reigate & Banstead	2013	10,618		567	
Dr. Robert Evans	Spelthorne	2013	10,618		622	
Mr Timothy Evans	Spelthorne	2013	10,618		95	
Mr Melville Few	Runnymede	2009	27,400	22,017	2,819	1,671
Mr William Forster	Woking	2009	11,791	11,791	243	303
Mrs Patricia Frost	Waverley	2005	17,791	17,791	1,137	2,043
Mr Denis Fuller	Surrey Heath	2009	14,791	14,199	1,922	1,255
Mr John Furey	Runnymede	2009	28,291	28,291	2,257	107
Mr Robert Gardner	Reigate & Banstead	2013	10,618		623	
Mr Michael Goodman	Surrey Heath	2013	12,960		1,408	
Mr David Goodwin	Guildford	2005	11,664	11,791	209	284
Mr Michael Gosling	Reigate & Banstead	2005	28,791	28,791	3,196	3,515
Dr. Zulema Grant Duff	Reigate & Banstead	2009	21,654	20,791	1,204	960
Mr Ken Gulati	Reigate & Banstead	2013	10,618		184	
Mr Timothy Hall	Mole Valley	2005	14,380	14,541		
Mrs Kay Hammond	Reigate & Banstead	1997	19,097	28,291	2,823	4,091
Mr David Harmer	Waverley	2005	20,831	14,888	3,384	2,151
Mr Nick Harrison	Reigate & Banstead	2005	20,791	20,791	527	763
Miss Marisa Heath	Runnymede	2006	15,154	21,791	1,368	1,131
Mr Peter Hickman	Elmbridge	2005	11,791	11,791	240	246
Mrs Margaret Hicks	Elmbridge	1989	19,557	11,791	1,562	1,051
Mr David Hodge	Tandridge	2005	42,291	42,291	2,880	3,502
Mr Saj Hussain	Woking	2013	10,618		0	
Mr David Ivison	Surrey Heath	2005	18,291	18,291	2,139	2,355

Member	District	Elected	2013/14 Allowances £	2012/13 Allowances £	2013/14 Travel & subsistence expenses £	2012/13 Travel & subsistence expenses £
Mr Daniel Jenkins	Spelthorne	2013	10,365			
Mr George Johnson	Guildford	2013	11,058		1,400	
Mrs Linda Kemeny	Woking	2011	28,291	25,638	1,898	2,271
Mr Colin Kemp	Woking	2013	10,618		383	
Mr Eber Kington	Epsom & Ewell	2009	19,557	12,404	340	191
Rachael I Lake	Elmbridge	2013	10,618		332	
Mrs Stella Lallement	Epsom & Ewell	2013	10,618			
Mrs Yvonna Lay	Runnymede	2005	12,210	14,199		1,645
Ms Denise Le Gal	Waverley	2009	28,291	28,291	4,558	4,078
Mrs Mary Lewis	Elmbridge	2013	10,618		644	
Mr Christian Mahne	Elmbridge	2013	10,618		112	
Mr Ernest Mallett	Elmbridge	2005	13,344	13,491	304	0
Mrs Sally Marks	Tandridge	2001	17,476	22,017	2,435	1,773
Mr Peter Martin	Waverley	2005	34,291	34,291	4,887	4,578
Mrs Janet Mason	Epsom & Ewell	2001	11,791	11,791		
Mrs Marsha Moseley	Guildford	2006	11,791	11,791		
Mrs Tina Mountain	Epsom & Ewell	2013	10,618			
Mr David Munro	Waverley	1997	25,420	16,791	4,747	4,050
Mr Christopher Norman	Runnymede	2009	20,791	20,791	1,015	1,114
Mr John Orrick	Tandridge	2009	11,791	11,791	725	696
Mr Adrian Page	Surrey Heath	2013	10,618		401	
Mr Chris Pitt	Surrey Heath	2005	11,791	11,791		
Mrs Dorothy Ross-Tomlin	Reigate & Banstead	2001	17,968	13,760	860	988
Mrs Denise Saliagopoulos	Spelthorne	2001	20,420	11,909	93	0
Mr Tony Samuels	Elmbridge	2010	28,291	28,291	2,342	2,863
Mrs Pauline Searle	Guildford	2005	11,791	11,791	60	23
Mr Stuart Selleck	Elmbridge	2013	10,618			
Mr Nicholas Skellett	Tandridge	1993	21,791	21,791	1,791	2,580
Mr Michael Sydney	Tandridge	2009	17,791	17,791	2,208	2,217
Mr Keith Taylor	Guildford	2009	20,831	14,791	1,361	1,128
Ms Barbara Thomson	Reigate & Banstead	2013	10,618		591	
Mr Christopher Townsend	Mole Valley	2009	11,791	11,791	474	657
Mr Richard Walsh	Spelthorne	2009	21,484	16,506	700	758
Mrs Hazel Watson	Mole Valley	1993	13,414	14,001	1,164	787
Mrs Fiona White	Guildford	2005	11,791	11,791	1,890	1,806
Mr Richard Wilson	Woking	2013	10,618		859	
Mrs Helena Windsor	Tandridge	2013	10,618			
Mr Keith Witham	Guildford	2012	20,420	10,745	832	574
Mr Alan Young	Waverley	2011	11,728	11,791	513	596
Mrs Victoria Young	Waverley	2013	10,523		572	
Total			**1,325,267**	**1,021,863**	**87,654**	**75,520**

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Complaints

There can be a gap between people's expectations of public services and the reality, and that one of the key measures of customer satisfaction is ability of an organisation to manage problems and handle complaints.

Different central government formalities and approaches have led to three sets of legislative frameworks and separate procedures for dealing with our complaints (depending on whether they relate to Children, Schools & Families, Adults Social Care and all other services). The procedures all have a commitment to being person-centred, fair and clear, with timely outcomes. Each procedure has its own characteristics and response standards and all three procedures come under the umbrella of the Local Government Ombudsman (LGO). This creates a consistent final point of referral.

In September, Audit & Governance Committee will review the Complaints Annual Reports. This item contains information on the different procedures for complaints and further detail on the complaints themselves, especially regarding lessons learnt. 2012/13 information can be found within the Audit & Governance committee papers – 2 September 2013 item 57/13 [**http://tinyurl.com/A-G-2013-Complaints**].

There is further information on comments, complaints and compliments on our external website:

Adult Social Care – How to complain, **http://tinyurl.com/ComplaintsASC;**

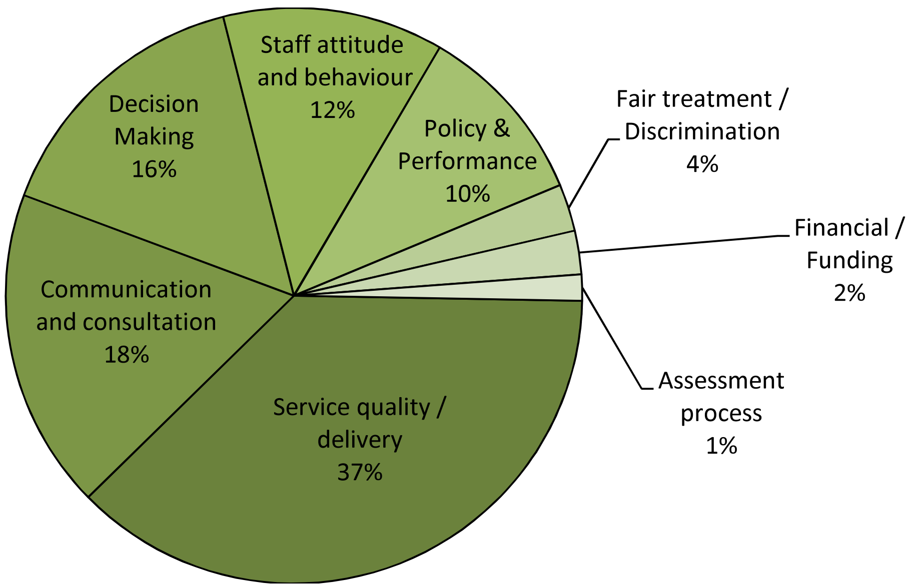
Children, Schools & Families, **http://tinyurl.com/ComplaintsCSF;**

General – Information and How to complain, **http://tinyurl.com/ComplaintsSCC .**

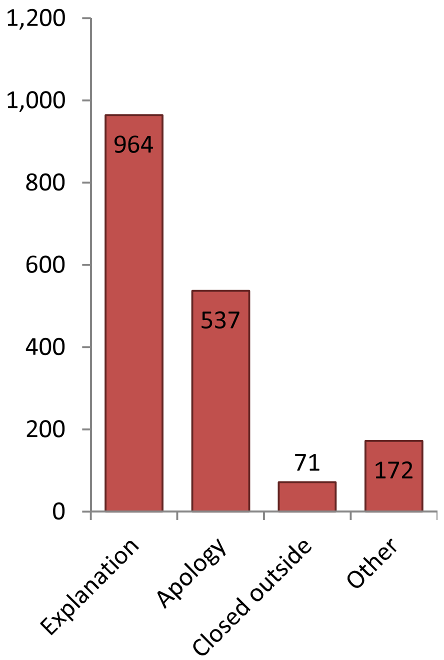
Table below shows the number of complaints received about our directorates and illustrates if these were taken forward to the Local Government Ombudsman (LGO) and the complaint decision upheld or not.

	2013/14				2012/13	
	Complaints recorded	**Complaints responded within time target**	**Complaints queries from LGO**	**LGO complaint decision upheld**	**Complaints recorded**	**Complaints queries from LGO**
Adult Social Care	179	96%	12	0	213	10
Children, Schools & Families	427	79%	32	0	328	33
Customer & Communities	181	95%	3	0	199	
Environment & Infrastructure	625	91%	18	1	463	16
Business Services	28	100%	3	0	24	3
Central support	47	72%	1	0	2	
Total	1,487	88%	69	1	1,229	62
Members	20	100%	1	0	4	0

Some complaints cover more than one issue. The 2013/14 assessed complaints concern the following issues:



Some complaints require more than one action and recommendation, so there are 1,782 actions compared to 1,507 complaints. The 2013/14 assessed complaints were resolved by the following actions and recommendations:



Other actions and recommendations:

38	Immediate resolution
28	Pending solution
22	Complaint closed - withdrawn
21	Alternative resolution
19	New decision / Case review
13	Change of practice
13	Complaint closed - without resolution
12	No action required
12	Reassessment
10	Financial (including waiver of fees)
9	Change of worker
7	Not known
5	Complaint closed – not substantiated
1	Informal resolution

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Opinion and report of Grant Thornton

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Financial Summary including the main accounting statements

Income and expenditure statement (IES)

This statement shows the true economic accounting cost in year of providing services in accordance with generally accepted accounting practices rather than the amount funded from taxation. The deficit on the provision of services for 2013/14 was -£185m (£2m surplus 2012/13). This represents the accounting deficit on the provision of services in accordance with International Financial Reporting Standards (IFRS), not a deficit in relation to what has been spent over the funding raised. The main reason for the deficit is the writing off of £104m of assets in relation to schools which have transferred to academy status. This is shown as an expense within the Education & Children's Services line of the IES.

Further information, the Statutory Statement of Accounts and explanatory notes can be found within the Audit & Governance Committee Papers on 31 July 2014. [**http://tinyurl.com/Audit-GJul2014**]

Table 13: Summarised income & expenditure statement

	2013/14 Audited £m	2012/13 Final £m
Income:		
Income from local taxation (council tax)	600	580
Formula grant	208	150
Schools & other general and specific grants	734	777
Fees, charges & other service income	165	188
Total income	**1,707**	**1,695**
Net directorate revenue expenditure:		
Staffing	-730	-750
Non staffing	-987	-942
Total net directorate revenue expenditure	-1,717	**-1,692**
Outturn deficit (-) / surplus	-10	3
Other expenditure:		
Adjustments between accounting basis and funding basis under regulations (e.g. depreciation, revaluation losses, gain on disposal of assets, transfer of academies) (further explanation in the Statement of Accounts Note 23)	-175	-1
	-175	-1
Total expenditure	**-1,892**	**1,693**
Gross deficit (-)/ surplus before accounting adjustments	**-185**	**2**
Accounting adjustments:		
Surplus (-) on revaluation of non-current assets (e.g.: buildings)	78	23
Actuarial losses on pension assets / liabilities	-96	-134
Net deficit on income and expenditure statement	**-203**	**-109**

Balance sheet as at 31 March 2014

This statement 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 £242m, 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. Further information on the pension liability can be found at Note 38 of the Statement of Accounts.

Further information, on the Statutory Statement of Accounts and explanatory notes can be found within the Audit & Governance Committee Papers on 31 July 2014. [**http://tinyurl.com/Audit-GJul2014**]

Table 14: Balance sheet as at 31 March 2014

	As At 31.03.2014 £m	**As at 31.03.2013 £m**
Property, plant & equipment	1,319	1,280
Investment property	29	
Heritage assets (historical collections and notable paintings)	1	1
Intangible assets (IT software & licences)	4	6
Long term investments	0	0
Long term debtors	11	9
Long term assets	**1,364**	1,296
Short term investments	74	104
Intangible assets (eg carbon reduction credits)	0	0
Assets held for sale	6	15
Inventories (e.g.: salt and grit store)	1	1
Short term debtors	124	142
Cash & cash equivalents	7	114
Current assets	**212**	376
Short term borrowing	-51	-82
Short term creditors	-212	-235
Short term provisions (e.g.: redundancy provision)	-5	-3
Receipts in advance (capital and revenue)	-1	-1
Other current liabilities (eg: PFI Lease, liabilities repayable within 12 months)	-6	-3
Current liabilities	**-275**	-324
Long term provisions (e.g.: insurance)	-9	-7
Long term borrowing (e.g.: capital loans to fund capital expenditure)	-238	-238
Other long term liabilities (e.g.: pension fund & PFI and lease liabilities)	-1,296	-1,142
Long term liabilities	**-1,543**	-1,387
Net liabilities	**-242**	-39
Funded by:		
Usable reserves (e.g.: general balances, earmarked reserves)	-279	-288
Unusable reserves (e.g.: pension, capital financing & revaluation reserves)	521	327
Net reserves	**242**	39

Cashflow statement

This shows the changes in cash and cash equivalents during the financial year. The total decrease in cash and cash equivalents for the council during 2013/14 was £107m (2012/13 an increase of -£4m) which is shown in the cash flow statement and note 17 Statement of Accounts (SoA). The statement shows how a 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 a council are funded by way of taxation, grant income or from recipients of services provided by a 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.
- 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.

This decrease is due mainly to a repayment of a £69m loan to the PWLB in September 2013 and in addition, increased capital expenditure alongside the council's internal borrowing strategy.

Further information on the Statutory Statement of Accounts and explanatory notes can be found within the Audit & Governance Committee Papers on 31 July 2014. [**http://tinyurl.com/Audit-GJul2014**]

Table 15: Cash flow statement for 31 March 2014

	2013/14	2012/13
	£m	£m
Net deficit (-) /surplus on the provision of services	-186	2
Adjustments to net surplus on the provision of services for non-cash movements (e.g.: Depreciation)	268	132
Adjustments for items included in the net surplus on the provision of services that are investing and financing activities (e.g.: Revenue funded capital items)	42	16
Net cash flows from operating activities	**124**	150
Investing activities (e.g.: purchasing property, plant and equipment)	-193	-141
Financing activities (e.g.: Public Financing Initiative (PFI) payments)	-38	-5
Net increase in cash & cash equivalents	**-107**	4
Cash and cash equivalents at the beginning of the reporting period	114	110
Cash and cash equivalents at the end of the reporting period	**7**	114

Movement in reserves

Movement in the reserves statement shows the movement during the 2013/14 financial year on the different reserves held by the council, analysed into usable reserves and unusable reserves.

Usable reserves are where money is set aside to fund future expenditure plans or reduce taxation whilst unusable reserves reflect the difference between the surplus or deficit made on the true economic cost of providing a 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 2013/14 is £203million (a decrease of £9m in useable reserves, and a decrease of £193m in unusable reserves). This decrease is caused by an increase in the pensions liability and transferring £104m of school assets to schools which have transferred to academy status.

Further information, the Statutory Statement of Accounts and explanatory notes can be found within the Audit & Governance Committee Papers on 31 July 2014. [**http://tinyurl.com/Audit-GJul2014**]

Table 16: Summarised movement in reserves as at 31 March 2014

	Balance 1 Apr 2013 £m	Movement £m	Balance 31 Mar 2014 £m
General fund balance	-32	11	-21
Earmarked reserves (further details in note A)	-181	-20	-201
Capital receipts reserve	-17	-3	-20
Capital grants and contributions unapplied	-58	21	-37
Total usable reserves	**-288**	**9**	**-279**
Total unusable reserves (further details in note B)	**327**	**193**	**521**
Net reserves	**39**	**203**	**242**

Note A: Earmarked usable reserves

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

- earmarked reserves - providing financing for future expenditure plans, commitments and possible liabilities;
- general balances – available balances to cushion the impact of uneven cash flow and a contingency for unexpected events;
- capital receipts - the balance of proceeds from the sale of assets not used in-year to fund new capital expenditure but set aside to fund future capital expenditure in accordance with the council's 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.

Table 17: List of earmarked usable reserves

	Opening balance 1 Apr 2013 £m	Transfers from reserves £m	Transfers into reserves £m	**Closing balance 31 March 2014 £m**
Earmarked revenue reserves				
Budget equalisation reserve	**25**	28	-19	**34**
Child protection reserve	**4**	0	-1	**3**
Economic downturn reserve	**4**	2		**6**
Eco park sinking fund	**8**	7		**15**
Equipment replacement reserve	**3**	2	-2	**3**
Financial investment reserve	**11**		-9	**2**
General capital reserve	**8**	0		**8**
Insurance reserve	**8**	1		**9**
Interest rate reserve	**3**	2		**5**
Investment reserve	**5**		-5	**0**
Investment and renewals reserve	**13**	1	-1	**13**
Revenue grants unapplied reserve	**20**	26	-20	**26**
Revolving Infrastructure fund	**0**	20		**20**
Schools balances	**53**		-7	**46**
Severe weather reserve	**5**		-5	**0**
Street Lighting PFI sinking fund	**6**	0		**6**
Vehicle replacement reserve	**5**	0	0	**5**
Waste site contingency reserve	**0**			**0**
Total earmarked reserves	**181**	89	-69	**201**

Note: Zero depict entries that are less than £1m.

Notes on the earmarked reserves

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 £27.2m approved to support the 2014/15 budget and £5.4m service budget carried forward.

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.

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.

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

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.

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). While the remaining outstanding balance in relation to Icelandic investments is expected to be repaid in full, it is exposed to foreign exchange risk and therefore an amount has been retained in this reserve to mitigate against this.

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

Insurance reserve: This reserve holds the balance resulting from a temporary surplus or deficit on the council's self insurance fund and is assessed by an actuary for the possible liabilities the council may face. It specifically holds £3.5m 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.

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.

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. In 2013/14 the balance on this reserve was transferred to the Revolving Investment & Infrastructure Fund.

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.

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.

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.

Revolving investment & infrastructure fund: The Revolving Infrastructure & Investment Fund was established in the 2013-18 Medium Term Financial Plan in order to provide the revenue costs of funding infrastructure and investment initiatives that will deliver savings and enhance income in the longer term. The net income generated by the portfolio in 2013/14 has been transferred to the reserve.

School balances: The consolidated balances of the maintained schools residual dedicated school grants. The balance includes schools overspends offset by carried forward under spends. The opening balance includes the academies that have converted this year.

Severe weather/ civil emergency reserve: This reserve enables the council to act decisively and with urgency in the event of a serious incident. The balance on this reserve was fully utilised during 2013/14.

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.

Note B: Unusable reserves.

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

Table 18: List of unusable reserves

Unusable reserves	**Balance at 1 April 2013**	Movement	**Balance at 31 March 2014**
	£m	£m	**£m**
Revaluation reserve	-252	-72	-324
Capital adjustment account	-499	136	-363
Financial instruments adjustment account	0	0	0
Pensions reserve	1071	132	1203
Collection fund adjustment account	-6	-1	-7
Accumulated absences account	14	-2	12
Total unusual reserves	328	193	521

Revaluation reserve: The revaluation reserve contains the gains made by the authority arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

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

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

Capital adjustment account: The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Income and Expenditure statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and enhancement.

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

The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

Financial instrument adjustment account: The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Pensions reserve: The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Income and Expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Collection fund adjustment account: The collection fund adjustment account manages the differences arising from the recognition of council tax income in the Income and Expenditure statement as it falls due from council taxpayers compared with the statutory arrangements for paying across amounts to the general fund from the collection fund.

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

SURREY
COUNTY COUNCIL

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Audit & Governance Committee
31 July 2014

LEADERSHIP RISK REGISTER

Purpose of the report:

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.

Recommendations:

It is recommended that the committee:

1. Review the Leadership risk register; and

2. 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:

3. 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 Director of Finance) and then by the Continual Improvement Board on a monthly basis.

4. Since the last meeting small wording changes have been made to controls:
   - Business Continuity, Emergency Planning (L3);
   - Supply chain / contractor resilience (L17).

Implications:

Financial and value for money implications

5. Effective management of risks and financial controls helps to monitor costs and enable value for money.

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Equalities and Diversity Implications

6. There are no direct equality and diversity implications.

Risk Management Implications

7. Effective risk management supports the achievement of the council's priorities and continuous improvement in service delivery.

Next steps:

The Leadership risk register will be presented to the next committee meeting.

Report contact: Verity Royle, Risk Manager,

Contact details: 020 8541 9225 or verity.royle@surreycc.gov.uk

Leadership risk register as at 12 June 2014

Owner: David McNulty

Ref	Directorate register ref	Description of the risk	Inherent risk level (no controls)	Controls	Risk owner – Officer	Risk owner – Member	Residual risk level (after existing controls)
L14	ASC5 BUS17,21, 22,23 CAC1 CSF4,16,20, 22 EAI1,13	**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, top slicing and diversion of grants to Local Enterprise Partnerships and failure to generate new income streams as planned e.g. trading lead to lack of financial resilience and failure to deliver statutory and essential services.	**High**	- Robust quarterly monitoring to Continual Improvement Board, Corporate Leadership Team 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). - Review how systems and processes can lead to greater efficiencies. 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, 29 BUS9 CAC8,19 CSF4,16,22 EAI1	**Medium Term Financial Plan (MTFP) 2014-19** - 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 Continual Improvement Board, Corporate Leadership Team (CLT) and Cabinet on the forecast outturn position is clear on the impacts on future years and enable prompt management action (that will be discussed with informal Cabinet / CLT). - As recommended in the Chief Finance Officers statutory budget report (Sec25) to full County Council on 11 February 2014, a mechanism whereby the Chief Executive and Chief Finance Officer will check the robustness of efficiencies delivery plans and report back to Cabinet as necessary. - Clear management action reported promptly detailing alternative savings / income if original plans become non deliverable or funding levels alter in year - Reduced risk contingency for 2014/15, from £8m (base) to £5m, takes pressure off services to find more efficiencies.	Corporate Leadership Team / Sheila Little	Cabinet / David Hodge	**High**

Leadership risk register as at 12 June 2014

Owner: David McNulty

				- Monthly tracking of actual demand compared to budget reported and reviewed by the Productivity and Efficiency Panel. - Monthly formal budget reports focus on funding levels comparing actuals to forecasts. Finance to sustain pro-active horizon scanning for insight into potential funding change.			
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 implementation monitored by the Waste Programme Delivery Board with strategic overview provided by the Strategic Waste Board. - Further work with the Districts and Boroughs continue, to review waste plans to achieve the objectives. - Contract variation signed with SITA to deliver the Eco-park. - 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	Mike Goodman	**High**
L15	ASC5, 24 CSF4,16	**Central Government policy development** - Central government policy changes, including welfare reform and the Care Bill, are expected to put additional pressure on demand for all public services leading to lack of financial resilience and failure to deliver statutory and essential services.	**High**	- Effective horizon scanning to ensure thorough understanding of intended policy 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 Local Government Association.	Nick Wilson and Dave Sargeant	Cabinet / Mary Angell and Mel Few	**High**

				- Care Bill Implementation Board in place and project programme set up to support ongoing discussion. Through ADASS, SCC leading best practice model in relation to financial management and working closely with Department of Health in the development of regulations that underpin the Care Bill. - Implementation of the recommendations of the Welfare Reform Task Group, approved by the Cabinet in April 2014, to mitigate the impact of reforms on Surrey Residents.			
L16	ASC9 BUS22,23, 24 CEO13 CSF8,20,23 EAI3	**Partnership working** Failure or breakdown of: (a) a significant partnership (where the council has entered into a formal partnership) or (b) a partner (other public bodies eg CCGs, Health Trusts, Districts and Boroughs, Police) leads to service failure and delivery of savings due to increased reliance on partners to deliver services. (c) A breakdown in partnership working, or the failure of a key partner, results in our inability to co-ordinate and integrate health and social care services, reducing our collective impact on improving health outcomes, failing to develop a sustainable financial model across health and social care, and damaging the reputation of all partners.	**High**	- Health and wellbeing strategy and action plan owned by partners. - Leadership and managers recognise the importance of building and sustaining good working relationships and having early discussions if these falter. - 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. (c) The council will maintain a regular ongoing dialogue with partners to ensure collective delivery of health outcomes with regular meetings. - Additional support will be provided where possible/appropriate to ensure development of sustainable financial model. - Regular discussions at Health and Wellbeing Board around priorities focusing on resources required to deliver. - Assistant Chief Executive chairs the SCC-wide Better Care Board.	Corporate Leadership Team / Susie Kemp	Cabinet	**High**
L11	ASC12 BUS26 CEO7 CSF18	**Information Governance** - Failure to effectively act upon and embed standards and procedures by the council leads to financial	**High**	- Encrypted laptops - Secure environment through the Egress encrypted email system - Internal Audit Management Action Plans in place	Corporate Leadership Team	Denise Le Gal	**High**

		penalties, reputational damage and loss of public trust. - Cabinet Office zero tolerance policy in relation to accessing data, will impede progress towards smarter working across the organisation and may limit improvements to service delivery		that are monitored by Audit & Governance Committee and Select Committees - Twice-yearly communications campaign linked to known peaks for breaches, and a refreshed and re-launched information security e-learning package. - SCC has received GCSx accreditation certificate - introduction of the Information Governance Board and the launch of the data classification project, both of which will start in the first quarter of 2014/15, will help to manage this risk. Despite the actions above, there is a continued risk of human error that is out of the council's control.			
L4	BUS20,26	**IT risk** - Failure of IT systems due to: • Deliberate and unauthorised breaches of security • Unintentional or accidental breaches of security and/or • Operational IT systems integrity leads to financial loss, disruption or damage to reputation.	**High**	- Proactive and effective security controls in place - Robust IT incident response plan - Training and regular communication to staff via email and snet - IT system resilience provided through Primary and Secondary Data Centres - Ongoing shift to digital platform will enable and support the necessary culture change.	Julie Fisher	Denise Le Gal	**High**
L3	ASC18 CAC8,18,19,22 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. - Combined Environment & Infrastructure and Communities Select Committees Task Group agreed to identify improvement and best practices during the recent flooding.	Corporate Leadership Team	Denise le Gal / Helyn Clack	**Medium**

L2	ASC9,20 BUS2 CEO8 CSF4,20 EAI2,3,10	**Staff resilience to major change** Preparing for and managing the significant challenges faced over the next 4 years may result in change fatigue and lack of resilience for any future change.	**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 - Currently eight training courses available that address various aspects of change. Trained coaches who are available in all services to support staff. New High Performance Development Programme to be commissioned for roll-out across the organisation. - Questions in the Staff Survey provide a measure of the staff satisfaction with the council and its management of change. - The smarter working framework and flexible working policy are in place to support managers and their teams to work differently. - Promotion of support mechanisms for staff (eg. employee assistance). - Staff are encouraged to get involved in finding innovative solutions to redesign services.	Corporate Leadership Team	Cabinet	**Medium**
L5	ASC18 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.	Caroline Budden/ Dave Sargeant	Mel Few/ Mary Angell	**Medium**
L17	ASC28 BUS27	**Supply chain / contractor resilience** - Poor understanding, monitoring or management of the councils supply chain leads to service failure.	**High**	- Supply chain business continuity plans for strategic/critical contracts to meet required standards. - Consistent management of supply chain risks across all key suppliers through common reporting. - Regular supplier intelligence reporting in place to track industry and supplier news. - Risk management training provided to contract managers to enable a consistent approach.	Corporate Leadership Team	Cabinet	**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	Staff resilience to major change	May 10	High	Jan 12	⇩	Medium
L3	Business Continuity, Emergency Planning	May 10	Medium	Aug 12	⇩	Medium
L4	IT risk	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	Central Government policy development	Feb 13	High	-	-	High
L16	Partnership working	June 13	High	-	-	High
L17	Supply chain / contractor resilience	Jan 14	High	-	-	Medium

* Removed from the risk register

Movement of risks

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Leadership level risk assessment criteria

Due to their significance, the risks on the Leadership risk register are assessed on their residual risk level ie. the level of risk after existing controls have been taken into account, by high, medium or low.

Risk level	Financial impact	Reputational impact	Performance impact	Likelihood
	(% of council budget)	*(Stakeholder interest)*	*(Impact on priorities)*	
Low	< 1%	Loss of confidence and trust in the council felt by a small group or within a small geographical area	Minor impact or disruption to the achievement of one or more strategic / directorate priorities	Remote / low probability
Medium	1 – 10%	A sustained general loss of confidence and trust in the council within the local community	Moderate impact or disruption to the achievement of one or more strategic / directorate priorities	Possible / medium probability
High	10 – 20%	A major loss of confidence and trust in the council within the local community and wider with national interest	Major impact or disruption to the achievement of one or more strategic / directorate priorities	Almost certain / highly probable

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