Notice of Meeting

Audit & Governance Committee

Date & time	Place	Contact	Chief Executive
Monday, 27 July 2015 at **10.00 am**	Committee Room B - County Hall	Cheryl Hardman Room 122, County Hall Tel 020 8541 9075 cherylh@surreycc.gov.uk	David McNulty

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9122, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email cherylh@surreycc.gov.uk.

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

Members

Mr Stuart Selleck (Chairman), Mr Denis Fuller (Vice-Chairman), Mr W D Barker OBE, Mr Will Forster, Mr Tim Hall and Mr Saj Hussain

Ex Officio:

Mr David Hodge (Leader of the Council), Mr Peter Martin (Deputy Leader and Cabinet Member for Economic Prosperity), Mrs Sally Ann B Marks (Chairman of the County Council) and Mr Nick Skellett CBE (Vice-Chairman of the County Council)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 28 MAY 2015 (Pages 1 - 12)

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 (*21 July 2015)*.
2. The deadline for public questions is seven days before the meeting (*20 July 2015)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER (Pages 13 - 26)

To review the Committee's recommendations tracker.

6 SURREY COUNTY COUNCIL: STATEMENT OF ACCOUNTS 2014/15 AND GRANT THORNTON AUDIT FINDINGS REPORT (Pages 27 - 256)

To inform the Committee of the result of the external audit of the council's 2014/15 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.

7 SURREY PENSION FUND: LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2014/15 AND GRANT THORNTON AUDIT FINDINGS REPORT (Pages 257 - 330)

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2015, in light of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

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

8 2015/16 EXTERNAL AUDIT FEE LETTER (Pages 331 - 336)

This report provides the Audit & Governance Committee with details of the planned fee for the 2015/16 external audit of the Council.

9 TREASURY MANAGEMENT OUTTURN REPORT 2014/15 (Pages 337 - 350)

This report summarises the council's treasury management activity during 2014/15, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential Indicators for 2014/15, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities.

10 ANNUAL REPORT OF SURREY COUNTY COUNCIL (Pages 351 - 410)

To formally consider the Annual Report for the authority.

11 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 28 September 2015.

David McNulty
Chief Executive
Published: 17 July 2015

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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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 28 May 2015 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 Stuart Selleck (Chairman)
Mr Denis Fuller (Vice-Chairman)
Mr W D Barker OBE
Mr Will Forster
Mr Tim Hall

Apologies:

Mr Saj Hussain

In Attendance

Cath Edwards, Risk & Governance Manager
Cheryl Hardman, Regulatory Committee Manager
Kevin Kilburn, Deputy Chief Finance Officer (Section 151 Officer representative)
Sue Lewry-Jones, Chief Internal Auditor

36/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Saj Hussain.

37/15 MINUTES OF THE PREVIOUS MEETING: 9 APRIL 2015 [Item 2]

The Minutes were approved as an accurate record of the meeting.

38/15 DECLARATIONS OF INTEREST [Item 3]

There were none.

39/15 QUESTIONS AND PETITIONS [Item 4]

There were none.

40/15 RECOMMENDATIONS TRACKER [Item 5]

Declarations of interest:
None

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

Key points raised during the discussion:

1. In relation to A49/25 (Teacher's Pension Return), the Deputy Chief Finance Officer informed the committee that there was still no response from the Teacher's Pensions Agency and that certification of the Teacher's Pensions Return would again be an issue for External Audit's Findings Report on the Surrey County Council Accounts. The committee suggested that the Deputy Chief Finance Officer write again to the Teacher's Pensions Agency, copying in the MP for East Surrey (who is also Parliamentary Under Secretary of State for Childcare and Education), the Leader of the Council and the Chairman of the Council.
2. In relation to A51/14 (sustainable transport schemes), it was agreed that the notes of the Local Committee Chairman's Group would be circulated to members of the committee. A member of the committee had attended the meeting and informed the meeting that a promise had been made by the Strategic Director for Environment and Infrastructure that communications would be addressed.
3. In relation to A53/14 (treasury management), the committee requested that the training be arranged in the autumn on the same day as the committee meeting.
4. In relation to A12/15 (trading company directorships), the Deputy Finance Officer confirmed that the Shareholder Board is advised by Finance and that a finance officer attends all meetings. However, a finance officer was not a director of SE Business Services Ltd.

Actions/Further information to note:
None.

RESOLVED:
That the committee NOTES the report.

Committee next steps:
None.

The agenda was reordered to ensure that the Annual Governance Statement could be considered at 11.30am. Item 6 ‘Whistle Blowing Update’ and item 7 ‘Overview of IMT Projects’ were moved to the end of the agenda.

41/15 COMPLETED INTERNAL AUDIT REPORTS [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 the report and highlighted that key financial systems and important change initiatives such as Care Act Preparedness had been found to be effective.
2. **Direct Payments (Children):** Members queried what the message would be from team managers regarding the recording of reviews on ICS and how this would be conveyed. The Chief Internal Auditor explained that while formal reviews may not have happened, informal meetings and changes to care packages are happening although there is no formal record. This is what needs to be addressed through training.
3. **Social Care Debt – Credit Balances:** There was concern at the amount of money being held by the Council which did not belong to us. The Chief Internal Auditor confirmed that while most recommendations had been implemented, this had not yet had an impact on credit balances. She confirmed that letters are sent to executors of estates and that the service was looking to work with a genealogy company to identify relatives. Members suggested that financial record keeping should be moved from Adult Social Care to Business Services as they had the expertise. In response to Member concerns that record keeping had long been an issue for Adult Social Care, the Cabinet Member for Business Services and Resident Experience said that she was open-minded about proposals that this function be moved to Business Services. It was agreed that the Chairman would write to the Leader of the Council and relevant Cabinet Members with this recommendation **(Recommendations tracker ref: A20/15)**. It was also suggested that Members could arrange to shadow front line staff to understand the challenges.
4. **Waste management and minimisation:** The Deputy Chief Finance Officer confirmed that work was constantly ongoing to determine the additional costs of the Eco Park contract. This would be fed into the refreshed Medium Term Financial Plan and the 2016/17 budget. The work won’t stop until the plant is operational. Members suggested that if costs significantly increase, this could fundamentally change the business case. Officers were asked when the additional cost would be known and at what point the council would say that the contract was not value for money. The Deputy Chief Finance Officer informed the committee that the most recent costs and value for money assessment

2

had gone to Cabinet in April. The council was not close to a point at which the contract would not be the best value for money option.

Actions/Further information to note:
The Chairman to write to the Leader of the Council and relevant Cabinet Members recommending that the function of record keeping for accounts relating to individuals' care charges be moved from Adult Social Care to Business Services.

RESOLVED:
That the committee NOTES the report.

Committee next steps:
None.

42/15 INTERNAL AUDIT ANNUAL REPORT 2014/15 [Item 9]

Declarations of interest:
None

Witnesses:
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report which summarises the work of Internal Audit over the previous year.
2. In relation to the audit findings for Highways, Members gave examples of poor communication and an article from the 28 May 2015 edition of the Camberley & Sandhurst News & Mail entitled 'Hospital Roadworks Delay' was tabled which exemplified some of the problems. It highlighted a series of issues which had delayed roadworks after cones and fencing was set up and a lack of communication with councillors. The Chief Internal Auditor stated that she would feed any examples into an ongoing audit of the permit scheme.
3. The Chairman asked if deferred or cancelled audits would be automatically prioritised for the coming year. The Chief Internal Auditor informed the committee that this was not automatic. However, Pension Administration and Deputyship would be happening in the first quarter of the new year. The Chairman requested that the deferred Foster Care audit be prioritised as it was an area of particular interest to the public. Members also highlighted performance issues regarding foster care placements **(Recommendations Tracker ref: A21/15)**.
4. In response to a question about whether an investigation into whether an automated solution to recover discounts from Kier MG had been completed, the Chief Internal Auditor agreed to find out and circulate the answer **(Recommendations Tracker ref: A22/15)**.
5. The Chief Internal Auditor confirmed that the Agency Staff Contract is owned and managed by HR. The service had been assisted by procurement specialists. A follow-up audit is being undertaken.

Actions/Further information to note:

i. The Foster Care audit to be prioritised for commencement in the new financial year.

ii. The Chief Internal Auditor to find out if an investigation into whether an automated solution to recover discounts from Kier MG had been completed and circulate the answer.

RESOLVED:
That the committee NOTES the work undertaken and the performance of Internal Audit in 2014/15.

Committee next steps:
None.

43/15 FULL-YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS AND COUNTER FRAUD MEASURES: APRIL 2014 - MARCH 2015 [Item 10]

Declarations of interest:
None

Witnesses:
Reem Burton, Lead Auditor
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:
1. The Lead Auditor introduced the report and suggested that a second fraud seminar be scheduled for the committee given the new membership and the upcoming in-depth review of the Strategy against Fraud and Corruption.
2. Members asked why only seven borough and district councils were involved in the counter fraud partnership. The Lead Auditor explained that when Internal Audit applied for funding from the Counter Fraud Fund, they had approached all borough and district councils. Seven had said that they wanted to participate in a partnership. The service was sharing its work with the four remaining authorities and they could then choose to participate in the partnership.
3. It was confirmed that the relevant authority that the procurement case was referred to was Trading Standards who would share with Surrey Police.
4. The Lead Auditor explained that Internal Audit records how much time it spends on different activities and so could identify the amount spent on the investigation of fraud and irregularity. The figure of £15,270 is the direct salary costs and the £42,103 figure includes on-costs. However, the latter figure is slightly over-inflated as it assumes that staff are on the mid-point of their grades whereas most of the staff are closer to the bottom of their grades. The cost of the 35 day case is included in these figures.
5. In response to a query about the fuel cards issue raised in the previous report, the Lead Auditor informed the committee that there had been some reasonable explanations for discrepancies although a small number were being followed up. A follow-up audit is being undertaken and early signs are that controls are improved.
6. The Chairman asked if any efforts were underway to reduce the use of cash in transactions. The Lead Officer stated that this was being worked on where possible. However this needed to be balanced with

the personalisation agenda. Controls on how cash is handled have improved and there are fewer instances of stealing from petty cash.

7. The Lead Officer informed the committee that in 2014 none of the cases of proven fraud have so far gone to court. However the procurement case may go to court. The Crown Prosecution Service is likely to judge that it would not be a good use of taxpayers' money to take low value cases of fraud to court. In these cases, action is limited to disciplinary action or dismissal. Cases that go to court tend to be higher value frauds.

Actions/Further information to note:
To schedule a seminar on counter fraud **(Recommendation Tracker ref: A23/15)**.

RESOLVED:

i. That the committee NOTES the report; and
ii. That the committee APPROVES the updated Strategy against Fraud and Corruption and ENDORSES it to Council for inclusion in the Constitution **(Recommendation Tracker ref: 24/15)**.

Committee next steps:
None.

44/15 RISK MANAGEMENT ANNUAL REPORT [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 work on risk culture at Surrey.
2. The Deputy Chief Finance Officer explained that 'casualty claims' was not referring to deaths but was the word for liability for mental, physical and financial injury.
3. Members suggested that future reports include the percentage of attendance at risk forums.
4. The Risk and Governance Manager confirmed that the risk management framework is in place to get some consistency in the approach to risk across the council. However, some flexibility is needed. She held regular meetings with strategic risk representatives to monitor how the risk framework is working for them and to tailor support.
5. The Chief Internal Auditor confirmed that procurement has risk-assessed critical contracts and some contracts had been included in the Internal Audit Annual Plan on that basis.
6. It was suggested that a presentation on legal implications of risk be provided to senior managers.
7. In response to a query about the risk of not finding a replacement quickly if a supplier is lost, the Chief Internal Auditor informed Members about an upcoming audit of supply chain resilience.

Actions/Further information to note:
None.

RESOLVED:

i. That the committee was satisfied with the risk management arrangements;
ii. That the Risk Management Strategy be ENDORSED to Council for inclusion in the Constitution **(Recommendations tracker ref: A25/15)**; and
iii. That the committee NOTES the Leadership Risk Register.

Committee next steps:
None.

45/15 ANNUAL GOVERNANCE STATEMENT [Item 13]

As the Leader of the Council and the Chief Executive had arrived, it was agreed to bring **Item 13 Annual Governance Statement** forward on the agenda.

Declarations of interest:
None

Witnesses:
David Hodge, Leader of the Council
David McNulty, Chief Executive

Key points raised during the discussion:

1. The Chief Executive proposed some additional wording to be included in the Annual Governance Statement regarding concerns about performance in Children' Services and the establishment of an Improvement Board chaired by the Deputy Leader and comprising the Lead Member for Children and representatives from the Liberal Democrats, Independents and UKIP.
2. Members agreed that the presentation of the Annual Governance Statement was much improved and commented on the useful discussion at an informal consultative meeting.
3. Members felt that the programme of finance briefings for Members could be improved as there were not many briefings held and very little information was provided. It was suggested that a briefing should be held after the budget envelope has been set to give oversight of what was happening across the council. Also, very few Members attended the briefings. The Chief Executive agreed that the finance briefings could be improved on but stressed that Council had signed off on a planning cycle which included quarterly finance briefings. Information is as full and accurate as can be provided at the time of the briefings. Information may also seem repetitive because the same issues continue to challenge the council, eg Adult Social Care and school places. The Chief Executive agreed that larger groups of Members attending would be welcome as knowledge develops over time. Those attending do have robust conversations.

2

4. Members suggested that communications with councillors was not as good as it could be. The Chief Executive understood the frustration of Members when they are not informed about local issues. The Think Resident Think Member initiative was intended to improve communications. The Leader informed the committee that People Performance and Development Committee was driving forward a repeat of the Think Resident Think Member programme. The Chairman suggested that the 81 county councillors were a useful communications tool for the council.
5. There was concern that budget cuts could begin to damage the council's services. The Leader assured the committee that conversations were being held with key people to develop an understanding about the costs of running services. The Chief Executive reminded the committee that in February the Council had recognised the need to revisit the Medium Term Financial Plan in summer once uncertainties such as the general election and the budget statement were out of the way. A Cabinet Away Day as been arranged to look at implications and give direction to officers. A plan will also be developed to apprise all Members of the implications.
6. Members queried the additional wording concerning performance in Children's Services. The Chief Executive explained that a pilot Ofsted inspection had taken place in Autumn 2014. The council had volunteered for this due to complex changes to Children's Services, volume pressures and other constraints. There was a desire to understand how this had affected performance. Oral feedback led the leadership to believe that an Improvement Board would help the situation.
7. In response to concerns raised about the Highways Services, the Leader of the Council accepted that highways engineers were not renowned for customer service skills. However, in the past year the service had met a national standard for customer service.

Actions/Further information to note:
None.

RESOLVED:

i. That the Committee is satisfied that the governance arrangements are represented correctly in the AGS; and
ii. That the Committee COMMENDS the draft AGS to the Cabinet, subject to additional amendments, for publication with the council's Statement of Accounts and Annual Report **(Recommendation tracker ref: A26/15)**.

Committee next steps:
None.

46/15 CODE OF CORPORATE GOVERNANCE [Item 12]

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 confirmed that amendments were minor.

Actions/Further information to note:
None.

RESOLVED:
The Committee APPROVED the updated Code of Corporate Governance and RECOMMENDED it to the County Council for inclusion into the Constitution **(Recommendations tracker ref: A27/15)**.

Committee next steps:
None.

47/15 WHISTLE BLOWING UPDATE [Item 6]

Declarations of interest:
None

Witnesses:
Abid Dar, Senior Equality, Inclusion and Wellbeing Manager

Key points raised during the discussion:

1. The Senior Equality, Inclusion and Wellbeing Manager introduced the report, highlighting that the total number of calls had decreased but that the number of investigations in proportion to the number of calls had increased.

Tim Hall left the meeting at 12.03pm.

2. The Senior Equality, Inclusion and Wellbeing Manager confirmed that he had investigated whistleblowing personally in other organisations and that he has undertaken exploratory investigations within teams at the council on wider issues.

Tim Hall returned at 12.05pm.

3. In response to questions about whistle blowing in schools, officers informed the committee that Babcock was becoming more involved and was responsible for circulating information about whistle blowing procedures. However, culture change was difficult and every school has its own policies.
4. It was confirmed that the Whistle blowing policy (formerly known as Speaking Out) stresses confidentiality and anonymity. These provisions are reinforced to managers.
5. It was explained that there were three receiving officers within the council dependent on the types of case. They were the first point of contact for Expolink and would distribute allegations as appropriate. For example, if the whistle blowing was about an irregularity, the Chief Internal Auditor would be forwarded the allegation for investigation as appropriate.

Denis Fuller left the meeting at 12.13pm.

Actions/Further information to note:
None.

RESOLVED:

i. That the committee NOTED the progress outlined in the report;
ii. That the committee APPROVED the promotional activities and preventative measures; and
iii. That the committee APPROVED reporting on whistle blowing to Audit & Governance Committee each April on an annual basis.

Committee next steps:
None.

48/15 OVERVIEW OF IMT PROJECTS [Item 7]

Declarations of interest:
None

Witnesses:
Lorraine Juniper, Programmes Manager, Information Management and Technology Service

Key points raised during the discussion:

1. The Programmes Manager introduced the report.

Denis Fuller returned to the meeting at 12.15pm.

2. It was confirmed that for six weeks following implementation of a system, issues are reviewed with the service and the technical team is available to address them.
3. In response to a query about the Device replacement project, it was explained that there had been a variety of technical and user issues arising during the trial. These were being addressed.
4. Members felt that the SEND transport project was a priority. IMT was working with the Children, Schools and Families directorate to understand the requirements of a software system.
5. It was explained that users of technology within the organisation ranged from 19 year old tech-savvy employees to those with no knowledge or interest in technology. When BlackBerries were being rolled out, IMT sat with a variety of users and developed a series of user guides aimed at different groups of people. Training needs to be personalised but there were resource implications.
6. The Chairman queried what controls there are against projects missing their deadlines. The Programmes Manager explained that the Programme Board meets monthly and discusses scope creep. There is also an overarching budget within which projects must remain. Further to this, larger projects have weekly project meetings.
7. The Deputy Chief Finance Officer explained that each service has its own risk register, which is regularly monitored. Each project manager has a budget and if it is likely that this will be exceeded there is a hierarchy of what they should do dependant on the seriousness of the project.

Actions/Further information to note:
None.

RESOLVED:
The committee was satisfied with the adequacy of the control systems and governance arrangements for large IMT projects.

Committee next steps:
None.

49/15 DATE OF NEXT MEETING [Item 14]

The date of the next meeting was noted.

Meeting ended at: 12.35 pm

Chairman

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SURREY
COUNTY COUNCIL

Audit & Governance Committee
27 July 2015

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, circulated by email on 8 July 2015, 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 (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A28/14	25/09/14	Ethical Standards Annual Review	That refresher training on the Code of Conduct be provided in 2015 and a reminder be given about Gifts and Hospitality.	Director of Legal and Democratic Services	The DCLG has recently issued supplementary guidance which suggests that the Members' Code of Conduct be amended to require disclosure of "non-pecuniary interests". Refresher training on the Code of Conduct and on Gifts & Hospitality may need to be combined with training on non-pecuniary interests. Training to be scheduled.
A49/14	1/12/14	Annual Audit Letter 2013/14	Officers to report back to the February meeting of Audit & Governance Committee on progress with the certification of the Teachers' Pension Return.	Deputy Chief Finance Officer	The Director of Finance reported that progress had not been made because of a lack of response from Teachers' Pensions. On 28 May 2015, the committee suggested that the Deputy Chief Finance Officer write again to the Teacher's Pensions Agency, copying in the MP for East Surrey (who is also Parliamentary Under Secretary of State for Childcare and Education), the Leader of the Council and the Chairman of the Council.
A12/15	09/04/15	SE Business Services Ltd 2013/14 Accounts	The Chairman to recommend to the Leader and Chief Finance Officer that a finance officer be included as a director of the company.	Chairman	The Chairman has discussed this with the Deputy Chief Finance Officer and raised with the Leader of the Council and the Chief Finance Officer. On 28 May 2015, the Deputy Finance Officer confirmed that that the Shareholder Board is advised by Finance and that a finance officer attends all meetings. However, a finance officer was not a director of SE Business Services Ltd. A further discussion will be scheduled.

Annex A

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A14/15	09/04/15	Completed Internal Audit Reports	Committee to discuss governing bodies' adoption and awareness of whistleblowing policies with Babcock 4S.	Committee	An informal meeting with Babcock 4S is arranged for 12 October 2015.
A18/15	09/04/15	SEND Strategy	Assistant Director for Schools and Learning to share a summary work programme for developing the SEND Strategy with the committee.	Assistant Director for Schools and Learning	This is being pursued with officers.
A20/15	28/05/15	Completed Internal Audit Reports	The Chairman to write to the Leader of the Council and relevant Cabinet Members recommending that the function of record keeping for accounts relating to individuals' care charges be moved from Adult Social Care to Business Services.	Chairman	A letter was sent to the Leader of the Council and relevant Cabinet Members on 12 June 2015.
A21/15	28/05/15	Internal Audit Annual Report 2014/15	The Foster Care audit to be prioritised for commencement in the new financial year.	Chief Internal Auditor	Chief Internal Auditor to update the committee.

Annex A

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A26/15	28/05/15	2014/15 Annual Governance Statement	That the Committee COMMENDS the draft AGS to the Cabinet, subject to additional amendments, for publication with the council's Statement of Accounts and Annual Report.	Cabinet	On 23 June 2015, 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.

Annex A

Audit & Governance Committee Recommendations Tracking

Completed Recommendations/Referrals/Actions – to be deleted

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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. A half year governance update is scheduled for the meeting on 1 December 2014. On 25 September 2014, the Chairman reported that progress was being made on health and dental checks for looked after children. A copy of a confidential report on progress has been circulated to committee Members for information. The half-year update was on the agenda for 1 December 2014. The draft Annual Governance Statement 2014/15 was considered by the committee on 28 May 2015.
A51/14	1/12/14	Completed Internal Audit Reports	Chairman to discuss value for money concerns about sustainable transport schemes with Members and raise the issues with the Local Committees' Chairmen's' meeting.	Chairman	An email was sent to the Chairman of Local Committees' Chairman's Group on 24 February following discussions with the relevant Members and sharing a draft with all Members of the Committee. The issue has been reviewed by the Local Committees' Chairmen's Group and the notes of the meeting circulated to members of the committee on 29 May 2015.

Annex A

Audit & Governance Committee Recommendations Tracking

A53/14	1/12/14	Treasury Management Half-Year Report	Training on the treasury management function to be arranged.	Strategic Finance Manager – Pensions and Treasury	Scheduled for 28 September 2015.
A7/15	16/02/15	Completed Internal Audit Reports	A briefing on the implementation of PAMS and the updated MAP to be brought to a future meeting of the committee	Performance Manager, Property	Scheduled for the September meeting, following an update through the bulletin in May.
A15/15	09/04/15	Completed Internal Audit Reports	A report on progress against the management action plan for the absence management audit be brought to committee. The report to include information on absence rates in different departments.	Chief Internal Auditor	This is scheduled for 28 September 2015.
A22/15	28/05/15	Internal Audit Annual Report 2014/15	The Chief Internal Auditor to find out if an investigation into whether an automated solution to recover discounts from Kier MG had been completed and circulate the answer.	Chief Internal Auditor	A response was included in the committee bulletin.

Annex A

Audit & Governance Committee Recommendations Tracking

A23/15	28/05/15	Full Year Summary of Internal Audit Irregularity Investigations and Counter Fraud Measures April 2014-March 2015	To schedule a seminar on counter fraud.	Lead Auditor/ Regulatory Committee Manager	Scheduled for 22 February 2016.
A24/15	28/05/15	Full Year Summary of Internal Audit Irregularity Investigations and Counter Fraud Measures April 2014-March 2015	The committee endorses the Strategy against Fraud and Corruption to Council for inclusion in the Constitution.	Regulatory Committee Manager	The Strategy against Fraud and Corruption is on the Council's agenda for 14 July 2015.
A25/15	28/05/15	Risk Management Annual Report	That the Risk Management Strategy be ENDORSED to Council for inclusion in the Constitution	Regulatory Committee Manager	The Risk Management Strategy is on the Council's agenda for 14 July 2015.
A27/15	28/05/15	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 Code of Corporate Governance is on the Council's agenda for 14 July 2015.

Audit & Governance Committee

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

	Contents	**Page No.**
1.	Update from previous Audit & Governance Committee meetings	1
2.	Internal Audit update	2
3.	Finance Update - Orbis	2
4.	Further information	3
5.	Updates from other committees	4
6.	Upcoming	5
7.	Committee Contact Details	5

Update from previous Audit & Governance Committee meetings

Adult Social Care: financial record keeping	On 28 May 2015, Audit & Governance Committee considered the findings of the Social Care Debt – Credit Balances follow up audit report. The Chairman agreed to write to the Leader of the Council and relevant Cabinet Members recommending that the function of record keeping for accounts relating to individuals' care charges be moved from Adult Social Care to Business Services. The letter was circulated on 12 June 2015 and is attached for information.
Kier MG discounts	At the last committee meeting, the Chief Internal Auditor agreed to find out if an investigation into whether an automated solution to recover discounts from Kier MG had been completed and circulate the answer. The following response has been provided: The final balance for 2014/15 has been agreed and will be settled in the July batch payment to Kier. With regards to the future settlement, it has not been possible to implement an automatic process due to the limitations of Maximo. However, a monthly process has been agreed for the verification of discounts and amounts will be deducted by Finance on a quarterly basis from the bill batch payment to ensure that balances do not become overdue.

5

Internal Audit update

Current Audits	The following audits are currently in progress or at the planning stage: Community Partnered Libraries Street Works Permit Scheme Highways Savings Highways Schemes Schools Audits Nursery Education Babcock 4S School Support Contract Children's Improvement Plan HIV Service Foster Care Surrey Choices Contract Families Friends and Communities Strategic Adult Social Care Contracts Information Governance Pensions Administration Please advise the Chief Internal Auditor (Sue.Lewry-Jones@surreycc.gov.uk) if you have concerns regarding any of the above areas of work which we may consider as part of our audit review.
Staffing News	A new agency member of staff, Tasneem Ali has joined the team. Tasneem is an experienced auditor, who has worked for us previously. She is currently working on audits of the HIV Service and Foster Care.

Finance update

15 April 2015 marked the official start of an exciting partnership between East Sussex and Surrey County Councils to provide business support services to the public sector. The Partnership brings together two highly skilled professional workforces, combining the joint expertise of both authorities in Finance, Human Resources, IT, Property and Procurement, payroll and pensions services.

The new partnership, known as Orbis, is managed through a Joint Committee and it will enable even stronger, more agile services to be provided to the customers for both authorities. Orbis represents a partnership arrangement to share expertise and resources between councils; all contractual and legal relationships will remain with the respective local authority.

Delivering excellence for less by thinking differently is what drives the business support teams in East Sussex and Surrey County Councils. Our vision is for Orbis to be “a trusted partnership, delivering value to customers and residents through our expertise, innovation and passion.” As such, we intend to be the compelling alternative to other business service providers.

The first formal Joint Committee was held on 29th June where Members agreed the Terms of Reference and received an update on the development of the partnership to date. A link to the papers is given under Updates from other Committees.

Further information

5

Health and Social Care Integration **April 2015**	A CIPFA briefing has been published which sets out the three conditions that will need to be met if the best is to be made of health and social care integration. The briefing also emphasises the importance of getting governance right from the start.
Study warns of life expectancy time bomb **30 April 2015**	People will live longer than official estimates suggest, leading to a future funding gap in health and social care provision, a new study is warning.
The strategic importance of risk managing the supply chain **30 April 2015**	The corporate risks posed by a potential supply chain failure are leading more risk managers to keep a close handle on their supplier relationships and they are finding, in some instances, that significant gains can be made in the process.
Section 151 officers could sue as DIP protections are scrapped **1 May 2015**	Councils could face breach of contract claims from Section 151 officers after last-minute government changes to the rules on dismissal from top posts, an employment lawyer has warned.
Norfolk County Council staff suspended over fraud **2 May 2015**	Nineteen children's services workers have been suspended for offences including fraud and breach of trust.
Claimant guilty of contempt of court over pothole accident compensation bid **5 May 2015**	A borough council has established contempt of court against a claimant who said he fallen off his moped as a result of a pothole in the road. Ed Dawson, Operational Director for Finance at Halton Borough Council, said: “The council has a zero tolerance approach to fraud.”
Internal audit under pressure **12 May 2015**	Article by Andrew Chambers: ‘One of the most challenging issues chief audit executives (CAEs) face probably isn’t what you’d imagine. That’s because it is one we seldom discuss: political pressure from our own executive management teams.’
Council recovers £100,000 lost to scam **14 May 2015**	A city council was almost scammed out of £100,000 earlier this year after paying out into the wrong bank account, it has been revealed.
Westminster closes accounts in record time **27 May 2015**	Westminster City Council has set a new record for approval of local authority accounts after they were signed-off on May 18 – one day quicker than traditional frontrunners Oldham. The authority has been confirmed as the quickest local government body to close its accounts for 70 years following approval of its audited 2014/15 report.
FRC provides aid to Audit Committees in evaluating audit quality **29 May 2015**	The Financial Reporting Council (FRC) has issued a practice aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process. The UK Corporate Governance Code (for companies) requires the audit committee report should include an explanation as to how it has assessed the effectiveness of the external audit process.

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Council ordered to pay £80k+ over failure to tackle asbestos in town hall **1 June 2015**	A London borough has been ordered to pay more than £80,000 in fines and costs after exposing staff and contractors to asbestos in the basement of its town hall.
Borough proposes plan to allow voters to "kick out" bad councillors **2 June 2015**	Kingston Council has unveiled plans to give voters the chance to remove their councillor if they fail to meet a set of defined standards. Under the Royal Borough's proposals, a number of scenarios could trigger a petition calling for a by-election.
New local audit regime in England **24 June 2015**	A briefing paper has been published by the House of Commons Library explaining the new procedures for audit of local authorities and related bodies brought in by the Local Audit and Accountability Act 2014.

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 26 May 2015, the Cabinet considered the following reports: • Approval to purchase additional Microsoft licences for Office 365 and associated implementation • Provision of a new system for Adult Social Care At its meeting on 23 June 2015, the Cabinet considered the following reports: • Annual Governance Statement 2014/15 • Finance and Budget Monitoring Report for May 2015
Orbis Joint Committee	At its meeting on 29 June 2015, the Orbis Joint Committee considered the following reports: • Joint Committee Terms of Reference • Initial Business Plan Update Report
Surrey Pension Fund Board	At its meeting on 22 May 2015, the Surrey Pension Fund Board considered the following reports: • Freedom and Choice • Employer Body Admission/Termination Advice • Manager Issues and Investment Performance • Pension Fund Business Plan 2014/15: Outturn Report • Revised Statement of Investment Principles • Governance Compliance Statement • Local Pension Board • Corporate Governance Share Voting • Key Performance Indicators • Multi Asset Credit • Private Equity Investment Performance Review • Portfolio Transition: LGIM to Majedie • Pension Fund Risk Register

Council Overview Board	At its meeting on 3 June 2015, the Council Overview Board considered the following report: • Appraisal Completion Update Report for Appraisals Completed in 2014/15 At its meeting on 1 July 2015, the Council Overview Board considered the following report: • Chief Executive's 6 month report • Budget Monitoring Report • Establishment of the Transformation Sub-Group
Economic Prosperity, Environment and Highways Board	At its meeting on 11 June 2015, the Economic Prosperity, Environment and Highways Board considered the following reports: • Internal Audit Review of Bus Operating Contracts
Social Care Services Board	At its meeting on 25 June 2015, the Social Care Services Board considered the following reports: • Ofsted Briefing and Update

Upcoming

The next meeting of the Audit & Governance Committee is on 27 July 2015. The following items are on the agenda:

- 2014/15 Surrey County Council Accounts and External Audit's Audit Findings Report
- Surrey Pension Fund Local Government Pension Scheme Accounts 2014/15 and External Audit's Audit Findings Report
- External Audit Fee Letter
- Annual Report of Surrey County Council
- Treasury Management Annual Report

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SURREY
COUNTY COUNCIL

Audit & Governance Committee
27 July 2015

SURREY COUNTY COUNCIL: STATEMENT OF ACCOUNTS 2014/15 AND GRANT THORNTON AUDIT FINDINGS REPORT

Purpose of the report:
To inform the Committee of the result of the external audit of the council's 2014/15 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 2014/15 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 2014/15 Audit Findings Report in Annex B;
3. Agree the officer response to recommendations of the external auditor;
4. Note the Director of Finance'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 2014/15 as presenting a true and fair view of the county council's financial position as at the 31 March 2015 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).

6

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 2014/15

9. The Local Audit and Accountability Act 2014 require the statement of accounts for 2014/15 to be published by 30 September, and that they are approved, prior to this date, by a non-executive committee of the local authority.

10. The presentation of these audited accounted 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 second year in a row the accounts have been presented by the end of July.

11. Under the Act it will be a requirement for local authorities to produce audited accounts by the end of July from 2017/18 onwards. This demonstrates that the council is well prepared to meet the new statutory requirements. 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 2014/15 for the second year in a row.

12. 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 2014/15 (the Code).

13. 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.

14. 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.

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

16. Annex A presents the 2014/15 Statement of Accounts. Draft accounts were produced and presented for audit by the end of May 2015. Since then two 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 - 2014/15. There was a delay in figures being provided to the council from some borough and districts councils. 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 auctioned until after the accounts had been submitted for audit.
- Following guidance from CIPFA on schools accounting, the council determined that foundation schools should be recognised as an asset on the balance sheet for the first time in 2014/15. Accounting requirements mean that comparator figures for 2013/14 have to be reproduced on the same basis as the new accounting policy. In the initial restatement for 2013/14 it become apparent that three schools that were foundation schools in 2013/14 that had converted to academy status in 2014/15 were not included. Valuations for these schools were then included in the 2013/14 comparators and the schools were incorporated into the academy write off during 2014/15.
- The three foundation schools had been brought on balance sheet by virtue of the council's control of the entities rather than legal ownership. Under current guidance, the statutory adjustment to apply the impairment charge to the capital adjustment account is not permitted for these assets and as a result should be charged to the general fund. The council has not applied this charge to the general fund in the statement of accounts as it would result in a double charge to the taxpayer in relation to these assets.

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

2014/15 Audit Findings

18. The Audit Findings Report summarises the findings of the 2014/15 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 2014/15 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.
20. At the beginning of the audit the auditors produce an audit plan, which was reported to this Committee in March 2015. 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.

6

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. For the Value for Money opinion, the auditor states the council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015, but based on the Ofsted inspection report of Children's Services has to include a qualification on an 'except for' basis to this option. There are a small number of items still to be signed off by the auditors before the final opinion can be issued.

Conclusions:

23. 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

24. 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 2014/2015 budget has been considered in the outturn report to the Cabinet.

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

27. 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.

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Sources/background papers:

Financial Outturn 2014/15 – Report to Cabinet 28 April 2015.

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 CIPFA

Service Expenditure Reporting Code of Practice 2014/15 - CIPFA

SURREY COUNTY COUNCIL

STATEMENT OF ACCOUNTS

2014-15

Independent Auditor's Report i
Explanatory Foreword by the Director of Finance 3
Statement of Responsibilities 18
Movement in Reserves Statement 19
Comprehensive Income & Expenditure Statement 21
Balance Sheet 22
Balance Sheet 22
Cash Flow Statement 23
Note 1. Summary of significant accounting policies 24
Note 2: Accounting standards issued not adopted 32
Note 3: Critical judgements in applying accounting policies 32
Note 4: Assumptions made about the future and other major sources of estimation uncertainty 34
Note 5: Material items of income and expenditure 35
Note 6: Events after the balance sheet date 36
Note 7: Adjustments between accounting basis and funding basis under regulations .. 36
Note 8: Transfers to / from earmarked reserves 39
Note 9: Other operating income and expenditure 41
Note 10: Financing and investment income and expenditure 41
Note 11: Council tax and general grants & contributions 42
Note 12: Property, plant & equipment - movements during 2014/15 43
Note 13: Investment properties 46
Note 14: Foundation, voluntary aided and voluntary controlled schools and academies 46
Note 15: Financial instruments 48
Note 16: Short term debtors 54
Note 17: Cash and cash equivalents 54
Note 18: Assets held for sale 55
Note 19: Creditors 55
Note 20: Provisions 56
Note 21: Usable reserves 58
Note 22: Unusable reserves 58
Note 23: Amounts reported for resource allocation decisions 62
Note 24: Trading operations 65

Note 25: Pooled budgets 65
Note 26: Member allowances 67
Note 27: Officer remuneration – senior officers 67
Note 28: Officers' remuneration - bands falling within the scale of £50,000 or more classified in of multiples of £5,000): 70
Note 29: Exit packages 71
Note 30: External audit costs 72
Note 31: Dedicated Schools Grant 72
Note 32: Grants and contributions 74
Credited to services 75
Note 33: Related parties 75
Note 34: Capital expenditure and capital financing 77
Note 35: Leases 78
Note 36: Other short-term and long-term liabilities 79
Note 37: Private finance initiatives and similar contracts 79
Note 38: Pension schemes accounted for as defined contribution schemes 82
Note 39: Defined benefit pension schemes 83
Note 40: Contingent liabilities 91
Note 41: Cash flow statement- adjustments for non-cash movements 92
Note 42: Cash flow statement - purchase of property, plant & equipment 92
Note 43: Prior period adjustments 93
Group Accounts 96
Group Movement in Reserve Statement 97
Group Comprehensive Income & Expenditure Statement 99
Group Balance Sheet 100
Group Cash Flow Statement 101
Notes to the Group Accounts 102
Annual Governance Statement 103
Firefighters' pension fund accounts 109
Surrey Pension Fund Account 112
Annex 1. Accounting policies 156
Annex 2: Glossary of terms 175

6

DRAFT INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL

We have audited the financial statements of Surrey County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the annex containing the accounting policies, 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 2014/15.

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

Respective responsibilities of the Director of Finance and auditor
As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, 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 also 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 and Group’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.

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

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 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 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 2014/15 and applicable law.

Opinion on other matters
In our opinion, the information given in the explanatory foreword and 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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.

Basis of qualified conclusion

In seeking to satisfy ourselves that the Authority has made proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. An Ofsted inspection report published in June 2015 concluded that the overall arrangements for Children's Services in the Surrey County Council area were judged to be 'inadequate'. This judgement is evidence of weaknesses in the Authority's arrangements for promoting and demonstrating the principles and values of good governance within the Council's Children's Services directorate.

Qualified conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Surrey County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of Surrey County Council included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2015. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the 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
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
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DRAFT July 2015

Explanatory Foreword by the Director of Finance

1. Introduction

Welcome to Surrey County Council's Statement of Accounts for 2014/15. 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 2014/15 Surrey County Council have again delivered the finance service vision of producing audited financial statements by the end of July 2015. The Accounts & Audit Regulations 2015 make it compulsory for all local authorities to have audited financial statements by the end of July from 2017/18 therefore the council is well ahead in compliance with this requirement. The annual report for 2014/15 will again 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 2015.

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 18) shows the movement during the 2014/15 financial year on the different reserves held by the council, analysed into usable 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 2014/15 is £101.5million (a decrease of £10.6m in usable reserves, and a decrease of £90.9m in unusable reserves). This decrease is caused by an increase in the revaluation reserve £298.1m & decrease in the Capital Adjustment Account £102.7m offset by an increase in the pensions liability of £293.1m (explained further in section 5) and the writing out of £56.8m of school assets in relation to schools which have transferred to academy status.

Comprehensive Income & Expenditure Statement (CIES) (page 20) 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 2014/15 was £162.7m which is shown in the movement in reserves statement (in 2013/14 there was a deficit of £189.3m). 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 reasons for the deficit are:

- the writing off of £56.8m 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.
- £49.6m adjustment for the current service cost of pensions required under International Accounting Standard 19 compared to actual employer pension contributions paid

Balance Sheet (page 21) 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 -£207.0m, 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 22) shows the changes in cash and cash equivalents during the financial year. The total increase in cash and cash equivalents for the council during 2014/15 was £9.2m which is shown in the cash flow statement and note 17.

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 2014/15 financial year in the context of the government's austerity programme, reduction in public sector budgets and expenditure, and rising demand for its services. It developed plans for efficiencies and reductions in expenditure totalling £72.3m, and services actually achieved £74.1m of efficiencies.

For the fifth year in succession, the council ended 2014/15 with an underspend, demonstrating its tight grip on financial management. The outturn position for 2014/15 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 different 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

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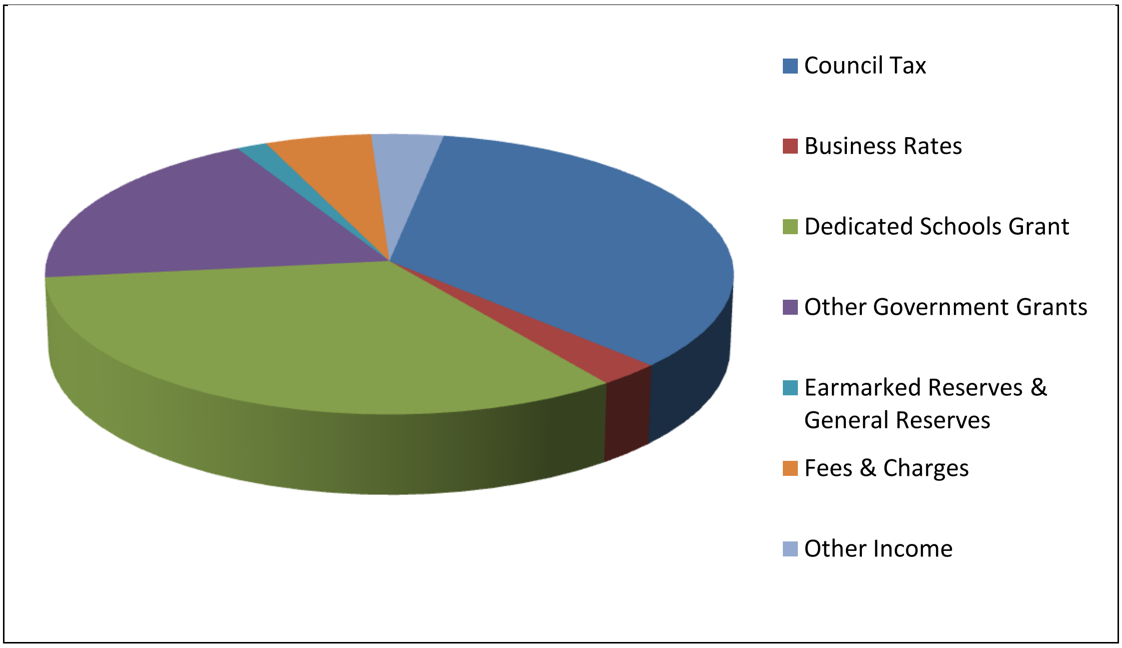
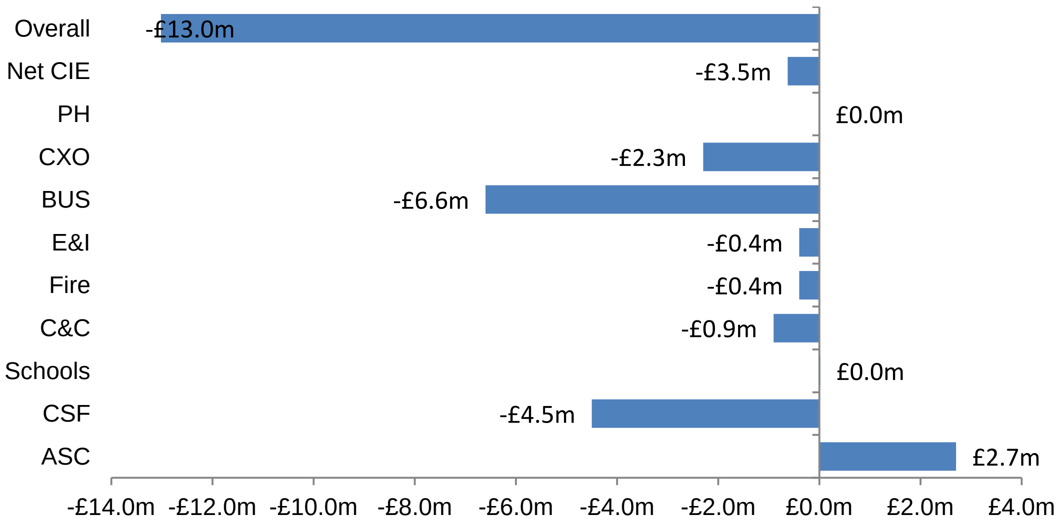
the General Fund expenditure analysis. The movement in reserves statement and supporting note (note 7) show how these items are removed from the General Fund position. The 2014/15 revenue budget approved in February 2014 was to be funded as follows:



In line with the council's multiyear approach to financial management, which aims to smooth resource fluctuations over five years, the revenue budget for the 2014/15 financial year, with schools, included the use of £20.1m from the Budget Equalisation Reserve (including £13m contribution from 2013/14's unused risk contingency) plus £5.8m from other reserves to fund 2014/15 committed expenditure.

The outturn position for services' net revenue budget is -£12.6m underspent and -£13.0m for the council overall, including -£0.4m on local taxation (business rates).

The graph below shows services' gross expenditure variances at outturn



The Cabinet has approved £8.0m revenue carry forwards from 2014/15 to 2015/16 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 -£5.0m, which has been transferred to the budget equalisation reserve.

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 in the public interest to aid transparency and ease comparisons with private sector entities. The council has for a second year running worked to an accelerated closing timetable which allows audited financial statements to be produced by the end of July.

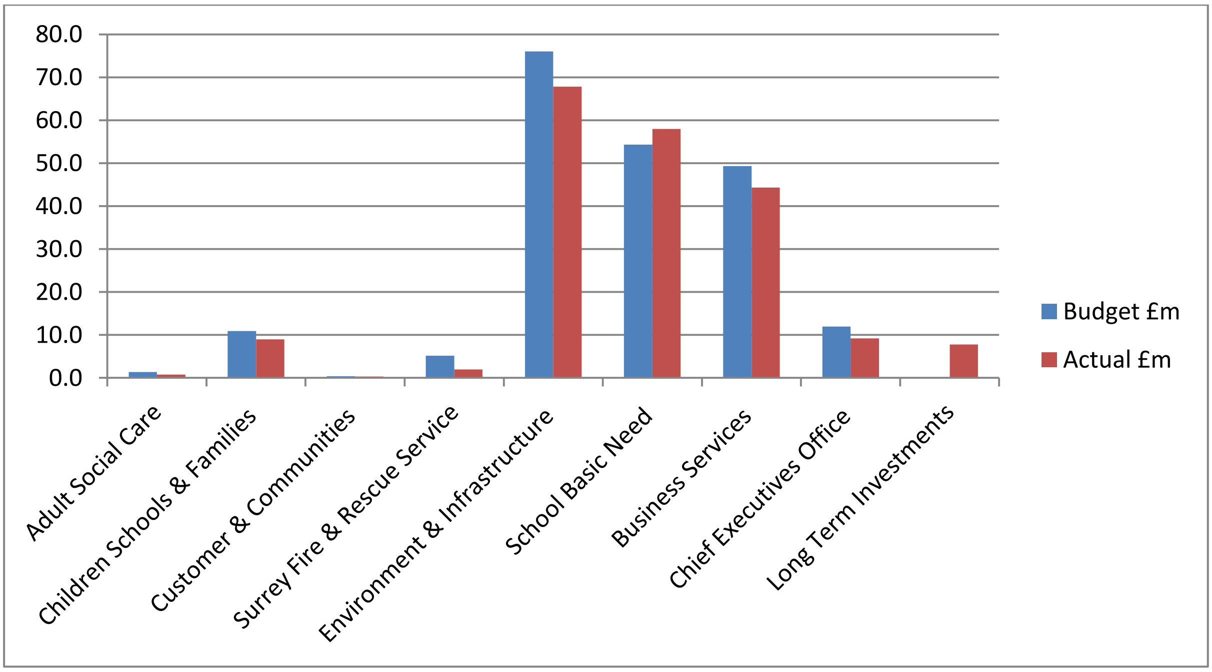
During the year the monthly budget monitoring year end forecasts are reported to Cabinet within 3 weeks after the end of the month. The timeliness of this reporting means variations from the budget are considered early and management action can be put in place promptly.

The council has also significantly increased the quality of its monitoring information by improving the timeliness to report outturn a month earlier than for 2013/14. Using consistent reporting schedules and processes and continuous monitoring and regular reporting combined with an efficient and effective closing programme has enabled this improvement

4. Capital expenditure

In agreeing significant capital investment as part of the Medium Term Financial Plan (MTFP) for 2014-19, the council demonstrated its firm long term commitment to supporting Surrey's economy. 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. In July 2014, Cabinet reprofiled the 2014-19 capital programme to increase it to £780m. The council also wants to reduce its reliance on the council tax payer. To this end, it invested £40.2m in long term capital investment assets in 2013/14 and a further £7.8m in 2014/15.

Following Cabinet approved re-profiling of 2013/14 carry forward budgets and virements; the revised 2014/15 capital budget was £209.5m. Actual capital expenditure for 2014/15 was 199.3m, including the investment of £7.8m in long term capital investment assets



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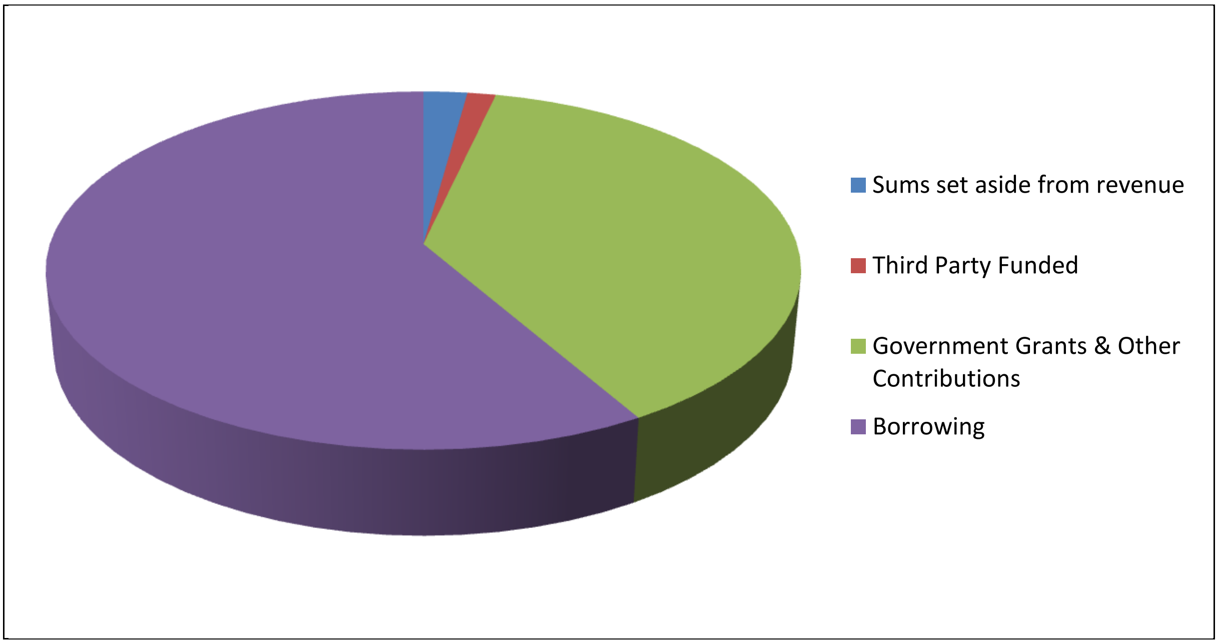
There is £17.5m net movements of both carry forward and brought forward requests for the capital continuing programme and £0.3m of programme extensions required to rectify flood damage and to make timely highway improvements

The 2014/15 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.

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 37.

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

There were no material items of capital expenditure incurred during 2014/15.

During 2014/15, 19 schools transferred to academy status (27 in 2013/14). An academy is self-governing, directly funded by central government and independent of direct control by local government. Included in the Education and Children's Services line of the comprehensive income and expenditure statement is an impairment charge of £56.8m related to the derecognition of academy schools (£105m in 2013/14). 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.

The ***pension liability*** recognised on the council's balance sheet at the 31 March 2015, has a significant impact on the net worth of the council. The council contributes to four pensions schemes on behalf of current employees:

- the Local Government Pension Scheme (LGPS)
- the Firefighters' Pension Scheme, although under current arrangements, firefighters' pensions are funded by the government department for Communities and Local Government (DCLG)
- the Teachers Pension Scheme, which is administered by the Department for Education, in respect of teachers who are employed by the council
- the NHS pension scheme in respect of employees who transferred to SCC as part of public health in 2013/14

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 £915.1m at the balance sheet date, an increase of £201.1m on the previous year. The DCLG firefighters' pension liability included within the council's accounts is estimated to be £581.3m an increase of £92m 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 £1,496m 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.

In the 2014/15 accounts there has been a change in the accounting policy for foundation schools. The Chartered Institute of Public Finance & Accounting recently undertook a comprehensive review of schools accounting and determined that under accounting definitions local authority maintained schools (community, foundation, voluntary aided and voluntary controlled, but not academies or free schools) are separate entities under the control of local authorities for financial reporting purposes and meet the criteria for producing group accounts. However, in order to simplify the consolidation process and to avoid consolidating a considerable number of smaller entities the Code for 2014/15 confirms that the definition of the single entity financial statements includes all transactions of local authority schools (income, expenditure, assets, liabilities, reserves and cash flows) so instead of being consolidated in group accounts they are consolidated in the main county council accounts.

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

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In the SCC 2013/14 accounts foundation schools were not included on the balance sheet, therefore an analysis was undertaken during 2014/15 to consider whether the SCC has control over the resources inherent in a foundation school as a result of substantive and enforceable rights. The review determined the following points:

- The trust or governing body of the school owns and manages the provision of service, and the school receives revenue and capital funding through SCC. Although SCC does not have freehold ownership of the school, it does have an obligation for the provision of education service under the Education Act 1996. For foundation schools, SCC has control over the revenue and capital grant funding from the Department of Education. SCC receives both the revenue and capital grant for foundation schools, in the same manner as community schools, and SCC is the controlling entity. In contrast to having no control over the capital funding arrangements for voluntary aided schools, where the capital grant funding goes direct to the Diocese. The governing body running the foundation school will deliver an education service that otherwise SCC must provide under its duty in the Education Act 1996. Therefore, the economic benefit and service potential flows to the local authority.

- The foundation schools have limited rights of disposal because they must consult with the council and the DfE on their proposals and obtain consent from the secretary of state for education. Therefore, to a certain extent, the enforceable rights lie with SCC via the secretary state. Although the capital receipt does not accrue directly to SCC, there is substantial control over what the capital receipt can be used for (ie. provision of education). Should the trust/governing body be dissolved, then the LA would make representation and have substantive rights over the capital receipt.

- The DfE guidance for the appointment of governors for the school governing body states that there must be at minimum seven governors, made up of at least two parents, one headteacher, one other member of school staff and one local authority officer. The criteria to have minimum of one LA governor applies to all foundation schools. Therefore SCC will always have representation on the governing body and have some extent on control over the resources inherent in a foundation school.

Overall it was determined that SCC has significant control over the foundation schools through funding arrangements, representation on the governing body of the school and legal rights around the disposal of assets. SCC has significant control over the resources inherent in an asset as a result of substantive and enforceable rights therefore SCC has recognised foundation school assets on the balance sheet in 2014/15.

There have been no other significant changes to the accounting policies adopted in 2013/14.

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 £397.8m.

During 2014/15 geo-political events led interest rates to fall to an all time low and to take advantage of this the Director of Finance authorised the borrowing of £90m in advance of the anticipated borrowing dates, as the borrowing of these monies early will lead to significant savings over the long term for the Council in future interest payments. Long term borrowing of £70m was taken out as planned.

In 2014/15 the council continued to use a strategy of temporarily using its internal cash resources to finance capital expenditure rather than borrowing externally to do so. This strategy has resulted in the council being ‘under-borrowed’ against its borrowing limits and capital financing requirement. This continues to be the case.

During the course of 2014/15 the council raised a series of fixed rate loans from the Public Works Loan Board equalling £160m. 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. Below is a summary of all new loans, with a weighted average interest rate of 3.29%.

Start Date	Duration - Years	Amount £m	Interest Rates
02 September 2014	50	30	3.72%
15 December 2014	50	20	3.36%
20 January 2015	50	20	2.99%
16 February 2015	49	30	3.23%
27 February 2015	47	30	3.19%
19 March 2015	46	30	3.19%
		160	**3.29%**

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 which stands at £31.5m as at 31 March 2015. The balance was £50.5m as at 31 March 2014 and included £24m of short term borrowing that was drawn in March 2014 for short-term cash flow purposes. The £24m was repaid in April 2014. No additional short term borrowing has been drawn throughout 2014/15.

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 2015 the council has the following material provisions:

- Insurance of £5.7m. 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.
- Firefighters pension fund £8.9m. This provision was created against the potential requirement to repay some of the firefighters top up grant received by the council between 2006 and 2013. This is in respect of an element of firefighters’ pensions relating to injury awards which should have been borne by the council under the terms of the scheme.

Further details on provisions can be found in Note 20.

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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 the following broad categories;

- earmarked reserves - providing financing for future expenditure plans, commitments and possible liabilities; also includes schools balances

- 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 2020 (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 £0.9m of earmarked reserves to support the 2015/16 budget.

	Balance at 31/03/14	Transfers In	Transfers Out	Balance at 31/03/15	Support for 2015/16 Budget	2015/16 Carry-forwards	Balance at 01/04/15
	£m	£m	£m	£m	£m	£m	£m
Revolving Infrastructure & Investment Fund	20.2	0.4		20.6			20.6
Eco Park Sinking Fund	14.6	6.4	-5.0	16.0			16.0
Investment Renewals Reserve	13.0		-3.0	10.0			10.0
Insurance Reserve	8.8	1.8		10.6			10.6
General Capital Reserve	7.7	0.4	-0.2	7.9			7.9
Budget Equalisation Reserve	33.6	15.7	-32.7	16.6	-3.7	-8.0	4.9
Street lighting PFI Reserve	6.2		-0.4	5.8			5.8
Economic Downturn Reserve	6.0	2.5	-4.3	4.2	4.6		8.8
Vehicle Replacement Reserve	5.5	0.7	-0.6	5.6			5.6
Child Protection Reserve	3.1		-1.2	1.9			1.9
Equipment Replacement Reserve	3.4	1.8	-3.3	1.9			1.9
Business Rate Appeals Reserve	0.0	1.3		1.3			1.3
Pensions Stabilisation Reserve	0.0	1.1		1.1			1.1
Interest Rate Reserve	4.7		-3.7	1.0			1.0
Financial Investment Reserve	1.6		-1.6	0.0			0.0
Waste Site Contingency Reserve	0.3		-0.3	0.0			0.0
Economic Prosperity Reserve	0.0	2.5		2.5			2.5
Earmarked Reserves	**128.7**	**34.6**	**-56.3**	**107.0**	**0.9**	**-8.0**	**99.9**

The level of earmarked reserves increased from 2009 to 2014 to provide funds for what the council knew would be a difficult financial climate, especially with the reduction in government funding. During 2014/15 earmarked reserves fell £21.7m and moves the total level of reserves down towards the historic level.

Unusable reserves
Certain reserves are recognised to offset 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). During 2013/14, the council sold its outstanding claim in relation to Landsbanki through a competitive auction.

In February 2015, the Central Bank of Iceland held a further competitive auction in which UK local authorities were invited to partake with their Glitnir deposits. The council sold its outstanding claim in relation to Glitnir through the competitive auction.

In April 2015 the council also settled a claim from the Glitnir winding up board that the initial distribution from the bank was paid at the incorrect exchange rates.

These actions mean that all claims in relation to the Iceland deposits have now been settled

11. 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 2015, under the code of practice they are classed as investment properties.

During 2014/15 the value of the investment property portfolio increased by £1.7m to £30.9m during the year. This was owing to the purchase of one new property for £3.8m offset by fair value adjustment losses on the properties currently in the portfolio of £2.1m.

12. Trading companies

The council wholly owns two Local Authority Trading Companies which were incorporated in 2013/14:

- 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 August 2014.

13. 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 Trust - the council does exercise control over the Henrietta Parker Trust, the income of which supports adult learning. However, the economic activity of this trust fund is not deemed material and therefore the council has not been incorporated into the 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 2014/15 the economic activity of this company has been incorporated into the group accounts.

- Surrey Choices Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until August 2014. For 2014/15 the economic activity of this company has been incorporated into the group accounts.

It should be noted that when looking at the group accounts comparator information that income and expenditure relating to S.E Business services has been included in the 2013/14 figures.

14. 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 2015 is £5.2m. Further information on these trusts can be obtained via the contact details provided on page 17.

15. Looking forward to 2015/16 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.

Surrey County Council has successfully delivered significant savings over recent years and did so again in 2014/15. 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;
- 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.
- potential future funding changes owing to the May 2015 general election and the lack of a provisional Local Government Finance Settlement for 2016/17
- uncertainties about the policies of a new government after the May 2015 General Election.

Owing to the final bullet point above, the council has approved a review of the MTFP in the summer of 2015. This review will consider the policies of the new government and the impact of other external changes on the council's finances for 2016 onwards. In addition, this will be an opportunity to review the progress of savings in the first quarter of the year.

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 2014/15: 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 2015/16 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 2015/16) 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 2015/16.

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

16. Business rate pool

Under the business rates retention system (BRRS) the Department of Communities and Local Government (DCLG) permits geographically linked authorities to apply to pool their business rates. By combining tariffs and top ups among pooled authorities this can reduce the composite levy rate paid by the pool. This allows the maximisation of the retention of locally generated business rates as well as further incentivising business rates growth through collaborative effort.

Surrey Treasurers investigated business rate pooling and for 2015/16 Surrey County Council has entered into a business rates pool with Elmbridge Borough Council, Mole Valley District Council, Spelthorne Borough Council and Woking Borough Council.

The main aim of the pool is to maximise the retention of locally generated business rates and to ensure that it further supports the economic regeneration of the wider County of Surrey. All pooling groups are seeking to reduce a forecast levy payment (due to DCLG). This levy payment can then be retained locally and shared amongst the pooling group.

The pool's financial modelling projects retaining up to £3m additional income to the Surrey county area, which would otherwise be lost as levy payments. The pool agreement is for the county council to receive half.

17. Care Act

The Care Act 2014 is the biggest change to adult social care law in over 60 years. It consolidates over 30 different pieces of legislation into one new law. The majority of Care Act changes come into force from April 2015, with major reforms to the way adult social care is funded due to come into law from April 2016.

Key areas of change for April 2015 include:

- General responsibilities on local authorities including promoting people's wellbeing, focusing on prevention, and providing information and advice,
- The introduction of a consistent, national eligibility criteria,
- New rights to support for carers, on an equivalent basis to the people they care for,
- Legal right to a personal budget and direct payment,
- The extension of local authority adult social care responsibility to include prisons, and
- New responsibilities around transition, provider failure, supporting people who move between local authority areas and safeguarding.
- Universal deferred payment scheme

Major reforms to the way that social care is funded will be effective from April 2016, including:

- A lifetime 'cap' of no more than £72,000 for individuals on reasonable care costs to meet their eligible needs,
- An increase in the capital threshold for people in residential care who own their own home, and
- New legislation around appeals.

18. Better Care Fund

The £5.3bn Better Care Fund (formerly the Integration Transformation Fund) was announced by the Government in the June 2013 spending round, to ensure a transformation in integrated health and social care. The Better Care Fund (BCF) is one of the most ambitious ever programmes across the NHS and Local Government. It creates a local single pooled budget to incentivise the NHS and local government to work more closely together around people, placing their well-being as the focus of health and care services.

The Better Care Fund in Surrey is £71.4m of both revenue and capital resources, pooled across Surrey. Surrey County Council is acting as the Better Care Fund pooled fund holder on behalf of the 7 Clinical Commissioning Groups and 11 District & Boroughs who cover the Surrey County area.

19. Shared service partnership

As councils face increasing financial challenges it is becoming increasingly important that councils look at new ways of working and new models of delivery in order to drive efficiencies and sustain services to residents.

On 15 September 2014, East Sussex and Surrey County Council in partnership communicated their ambition to create a shared business advisory, professional and transactional service supported through a shared business model. In April 2015 Orbis, a fully integrated business services organisation was launched.

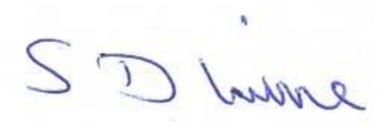
The ambition for Orbis is to create efficient, modern, agile and digitally enabled business services that will support Surrey and East Sussex County Councils, and partner organisations, through an unprecedented period of change and financial challenge in the public sector. Customer service and delivering public value will be at the core of the new partnership.

Through bringing together Surrey and East Sussex Business Services we will create sufficient scale that will allow us to recruit and retain the best staff, drive shared efficiencies and invest in new technology that might otherwise be prohibitively expensive for our organisations alone. The new partnership will also allow expertise and money to be retained within the public sector.

The aim is to grow Orbis, with it becoming the provider of choice for other public sector bodies, and there is already active engagement with other potential partners. Business growth will in turn give increased commercial leverage and will increase the volume of activity enabling Orbis to drive down the costs of service delivery, whilst increasing sustainability and resilience.

20. Further information

Additional information on the council's overall revenue and capital budget outturn position and achieved efficiencies for 2014/15 can be found in the '2014/15 Outturn report' considered by the Cabinet on 28 April 2015. 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 Jonathan Evans, Principal Accountant (020 8541 8636, jonathan.evans@surreycc.gov.uk)



Sheila Little BA CPFA
Director of Finance
31 July 2015

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).

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 19 to 102 and Annex 1 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 2015; that the firefighter pension fund accounting statements on pages 109 to 111 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2015; that the statement of accounts on pages 112-155 presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2015 and its income and expenditure for the year then ended.

Sheila Little BA CPFA	Stuart Selleck
Director of Finance	Chairman of Audit & Governance Committee
27 July 2015	27 July 2015

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2014	-21,331	-200,213	-20,280	-36,754	**-278,578**	376,398	**97,820**
(Surplus) or deficit on provision of services (accounting basis)	162,699				**162,699**		**162,699**
Other comprehensive income & expenditure					**0**	-61,205	**-61,205**
Total comprehensive income & expenditure	**162,699**	**0**	**0**	**0**	**162,699**	**-61,205**	**101,494**
Adjustments between accounting basis & funding basis under regulations (note 7)	-136,343	0	-10,195	-5,566	**-152,104**	152,104	**0**
Net increase/decrease before transfers to earmarked reserves	**26,356**	**0**	**-10,195**	**-5,566**	**10,595**	**90,899**	**101,494**
Transfers to/from earmarked reserves (note 8)	-26,351	26,351	0	0	**0**	0	**0**
Increase/decrease in year	**5**	**26,351**	**-10,195**	**-5,566**	**10,595**	**90,899**	**101,494**
Balance at 31 March 2015	**-21,326**	**-173,862**	**-30,475**	**-42,320**	**-267,983**	**467,297**	**199,314**

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Restated balance at 31 March 2013	-31,826	-181,031	-17,347	-58,241	**-288,445**	186,089	**-102,356**
(Surplus) or deficit on provision of services (accounting basis)	189,261				**189,261**		**189,261**
Other comprehensive income & expenditure					**0**	10,915	**10,915**
Total comprehensive income & expenditure	**189,261**	**0**	**0**	**0**	**189,261**	**10,915**	**200,176**
Adjustments between accounting basis & funding basis under regulations (note 7)	-197,948	0	-2,933	21,487	**-179,394**	179,394	**0**
Net increase/decrease before transfers to earmarked reserves	**-8,687**	**0**	**-2,933**	**21,487**	**9,867**	**190,309**	**200,176**
Transfers to/from earmarked reserves (note 8)	19,182	-19,182	0	0	**0**	0	**0**
Increase/decrease in year	**10,495**	**-19,182**	**-2,933**	**21,487**	**9,867**	**190,309**	**200,176**
Restated Balance at 31 March 2014	**-21,331**	**-200,213**	**-20,280**	**-36,754**	**-278,578**	**376,398**	**97,820**

Comprehensive Income & Expenditure Statement

6

Statement

Restated year ended 31 March 2014 Gross Expenditure £000	Income £000	Net Expenditure £000		Year ended 31 March 2015 Gross Expenditure £000	Income £000	**Net Expenditure £000**
444,116	-82,577	361,539	Adult Social Care	452,655	-76,702	**375,953**
1,110,517	-676,028	434,489	Education & Children's Services	1,010,844	-640,973	**369,871**
120,658	-20,595	100,063	Highways & Transport Services	141,649	-20,841	**120,808**
34,699	-4,836	29,863	Cultural and Related Services	32,599	-3,582	**29,017**
60,511	-2,146	58,365	Environmental & Regulatory Services	64,657	-1,852	**62,805**
13,723	-420	13,303	Planning Services	16,288	-1,672	**14,616**
13,015	-260	12,755	Housing General Fund	15,333	-66	**15,267**
45,069	-2,120	42,949	Fire Services	43,944	-1,365	**42,579**
23,252	-17,014	6,238	Corporate and Democratic Core	27,424	-19,475	**7,949**
7,353	-3,819	3,534	Central Services to the Public	6,782	-3,948	**2,834**
1,538	0	1,538	Court Services	1,947	0	**1,947**
23,894	-23,620	274	Public Health	27,106	-29,152	**-2,046**
6,055	-18,305	-12,250	Non Distributed Costs	11,250	-9,827	**1,423**
1,904,400	**-851,740**	**1,052,660**	**Cost of Services - continuing operations**	**1,852,478**	**-809,455**	**1,043,023**
28,960	-25,755	3,205	Other Operating Income & Expenditure (note 9)	31,435	-31,815	**-380**
123,706	-59,484	64,222	Financing & Investment Income & Expenditure (note 10)	131,349	-62,032	**69,317**
0	-601,480	-601,480	Local Taxation (note 11)	0	-620,640	**-620,640**
0	-329,346	-329,346	General grants & contributions (note 11)	0	-328,621	**-328,621**
2,057,066	**-1,867,806**	**189,261**	**Surplus(-) or Deficit on Provision of Services**	**2,015,262**	**-1,852,563**	**162,699**
		-85,444	(Surplus) or deficit on revaluation of non-current assets			**-304,719**
		96,359	Remeasurement of the net defined benefit liability			**243,514**
		10,915	**Other Comprehensive Income & Expenditure**			**-61,205**
		200,176	**Total Comprehensive Income & Expenditure**			**101,494**

Balance Sheet

6

Restated As at 01.04.2013 £000	Restated As at 31.03.2014 £000		Note:	As at 31.03.2015 £000
1,421,502	1,463,249	Property, plant & equipment	12	1,725,604
665	665	Heritage assets		665
0	29,186	Investment property	13	30,850
5,893	4,307	Intangible assets		4,534
216	332	Long term investments	15	363
8,833	10,635	Long term debtors	15	15,205
1,437,109	**1,508,374**	**LONG TERM ASSETS**		**1,777,221**
		Short Term:		
104,112	73,971	Investments	15	107,999
108	44	Intangible assets		860
15,279	6,050	Assets held for sale	18	33,975
1,264	1,123	Inventories		1,110
141,521	123,696	Short term debtors	16	119,210
114,119	7,429	Cash & cash equivalents	17	16,593
376,403	**212,313**	**CURRENT ASSETS**		**279,747**
		Short Term:		
-82,089	-51,316	Borrowing	15	-32,563
-234,271	-212,385	Creditors	19	-187,303
-3,300	-4,685	Provisions	20	-2,626
-205	-132	Revenue grants receipts in advance		-171
-587	-1,036	Capital grants receipts in advance		-249
-3,221	-6,088	Other current liabilities	36	-7,014
-323,673	**-275,642**	**CURRENT LIABILITIES**		**-231,977**
-7,202	-9,391	Provisions	20	-22,831
-238,109	-237,918	Long term borrowing	15	-397,815
-1,142,172	-1,295,556	Other long term liabilities	36	-1,605,710
-1,387,483	**-1,542,865**	**LONG TERM LIABILITIES**		**-2,026,356**
102,356	**-97,820**	**NET ASSETS/LIABILITIES(-)**		**-199,314**
-288,445	-278,578	Usable reserves	8,21	-267,983
186,089	376,398	Unusable reserves	22	467,297
-102,356	**97,820**			**199,314**

Cash Flow Statement

6

Restated 2013/14 £000		Note	2014/15 £000
189,261	Net surplus (-) / deficit on the provision of services		**162,699**
-263,541	Adjustments to net surplus / deficit on the provision of services for non-cash movements	41	**-227,415**
-42,427	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities		**-32,240**
-116,707	**Net cash flows from operating activities**		**-96,956**
216,876	Purchase of property, plant & equipment, and investment property	42	**194,171**
-2,934	Proceeds from the sale of property, plant & equipment		**-10,195**
-30,025	Movement in short-term and long-term investments		**34,161**
1,802	Other receipts & expenditure from investing activities		**5,386**
185,719	**Net cash flows from investing activities**		**223,523**
5,906	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		**5,412**
73,851	Repayment of short-term and long-term borrowing		**24,104**
-42,079	Receipts of short-term and long-term borrowing		**-165,247**
37,678	**Net cash flows from financing activities**		**-135,731**
106,690	**Net increase (-) / decrease in cash & cash equivalents**		**-9,164**
-114,119	Cash & cash equivalents at the beginning of the reporting period		**-7,429**
-7,429	Cash & cash equivalents at the end of the reporting period	17	**-16,593**

The cash flows from operating activities in 2014/15 include interest received of £3.933m (2013/14, £5.038m) and interest paid of £19.774m (2013/14, £21.624m).

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 138.

Significant changes in accounting policies

In the 2014/15 accounts there has been a change in the accounting policy for foundation schools. Prevouisly foundation schools were held off balance sheet but they have been moved on balance sheet following a review the accounting treatment for schools.The council has determined that it has significant control over the foundation schools through funding arrangements, representation on the governing body of the school and legal rights around the disposal of assets. The council has significant control over the resources inherent in the foundation school assets as a result of substantive and enforceable rights therefore they have been recognised on the balance sheet in 2014/15.

For more information on the review see Note 14 on page 46.

i. General principles
The statement of accounts summarises the council's transactions for the 2014/15 financial year and its position at the year end 31 March 2015. 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 2014/15 and the Service Reporting Code of Practice 2014/15 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 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.

iv. Property, plant and equipment
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 are not 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.

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.

6 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 are 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 the asset register are 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.

v. 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 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.

vi. 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

vii. 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.

viii. 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 2014/15 (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.

ix. Employee benefits

<u>Benefits payable during employment</u>

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.

<u>Termination benefits</u>

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

<u>Post-employment benefits</u>

Employees of the council may be members of four separate pension schemes depending on their role:

- 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 Firefighters' 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 firefighter scheme is unfunded meaning that liabilities are recognised when awards are made and hence there are no investment assets; cash has to be built up to meet actual pension payments as they fall due (net of contributions from active members and government grant). Deficits on the firefighters' pension scheme are covered by a government grant received each year from the 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

6

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.

x. 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.

xi. 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.

Note 2: Accounting standards issued not adopted

The Council is required to disclose information on accounting changes that have been issued but not yet adopted. The requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (ie on or before 1 January 2015 for 2015/16) The following changes will be introduced by CIPFA into the 2015/16 Code of Practice on Local Authority Accounting.

- IFRS 13 – Fair value measurement
- IFRIC 21 – Levies
- *Annual Improvements to IFRSs (2011 – 2013 Cycle)*
    - IFRS 1 – Meaning of effective IFRSs
    - IFRS 3 – Scope exceptions for joint ventures
    - IFRS 13 – Scope of paragraph 52 (portfolio exception)
    - IAS 40 – Clarifying the interrelationship of IFRS 3 Business Combination and IAS 40 Investment Property when classifying as investment property or owner-occupied property.

It is anticipated that IFRS 13, which is applied prospectively, the Annual Improvements to IFRS 2011 – 2013, and IFRIC 21 will not have a material impact on the financial statements.

It is anticipated that IFRS 13 will only affect the value of surplus assets on the balance sheet and these will need to be held at market value from 2015/16. IFRS 13 is only applied prospectively so will not lead to a restatement of 2014/15 figures.

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 usable reserves (either earmarked revenue or capital un-applied) to be drawn down at a future date. Should circumstances change whereby the council decides that money can no longer be deployed as specified it would be transferred to receipts in advance prior to being refunded.

- The Chartered Institute of Public Finance & Accounting recently undertook a comprehensive review of schools accounting and determined that under accounting definitions local authority maintained schools (community, foundation, voluntary aided and voluntary controlled, but not academies or free schools) are separate entities under the control of local authorities for financial reporting purposes and meet the criteria for producing group accounts. However, in order to simplify the consolidation process and to avoid consolidating a considerable number of smaller entities the Code for 2014/15 confirms that the definition of the single entity financial statements includes all transactions of local authority schools (income, expenditure, assets, liabilities, reserves and cash flows) so instead of being consolidated in group accounts they are consolidated in the main county council accounts.

6

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

In line with guidance produced by CIPFA for recognising school non-current assets, the council has determined that all foundation schools meet the recognition requirements in the code for Property, Plant and Equipment and has recognised these assets on the balance sheet in the 2014/15 accounts. This is a change in accounting policy as previously these assets were not included on the county council's balance sheet due to previous guidance published by the Audit Commission. This change in accounting policy has lead to the restatement of the balance sheet for 2013/14 in order to ensure the accounts presented here are produced on a consistent basis between financial years.

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

Three foundation schools have converted to academy status in 2014/15 and the council has impaired these assets to nil and an impairment charge has been made against the 'Children's and Education Services' line in the income & expenditure statement. The impairment charge has then been reserved out of the general fund and applied against the capital adjustment account (CAA) through the movement in reserves statement.

The three schools were brought on balance sheet from 1 April 2013 by a non-cash entry that credited the CAA. The taxpayer and community have incurred the cost of these assets either through government grants, the minimum revenue provision (which is a charge for borrowing costs) or third party contributions such as from parent-teacher assocations. In removing these non-current assets from the balance sheet on their conversion to academy status, the council has reversed the impairment charge against the CAA. This ensures that the taxpayer is not double charged for the same asset and is within the spirit of the statutory accounting regulations for charges against the general fund.

- The council is deemed to control the services provided under outsourcing agreements, and has an interest in the assets at the end of the agreement, for four contracts:
  - In 1998 the council entered into a long-term contract with Anchor Trust for the purchase of residential and day care for the elderly in 17 homes previously operated by the council.
  - In 2002 the council entered into a further long-term contract for the provision of 7 residential and day care homes with Care UK.
  - In 1999 the council entered into a 25-year contract for waste disposal with Surrey Waste Management.
  - In 2010 the council entered into a long term contract with Skanska John Laing for street lighting services, the contracts includes the replacement or refurbishment of all street lights in Surrey and continued maintenance of the lights for the duration of the contract.

The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the assets are recognised as property, plant and equipment on the council's Balance Sheet (see note 36 for additional details).

The waste disposal PFI includes investment in a number of waste disposal assets. These have all been recognised on the council's balance sheet including an asset under construction of £6.9m for the Eco Park as at 31 March 2015.

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

    - Henrietta Parker Trust - the council does exercise control over the Henrietta Parker Trust, the income of which supports adult learning. However, the economic activity of this trust fund is not deemed material and therefore the council has not been incorporated into the 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 2014/15 the economic activity of this company has been incorporated into the group accounts.

    - Surrey Choices Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until August 2014. For 2014/15 the economic activity of this company has been incorporated into the group accounts.

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 any material items are disclosed in note 39.

The items in the council's Balance Sheet at 31 March 2015 for which significant assumptions have been made are set out in the table that follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain whether authorities will be able to sustain spending on repairs and maintenance, bringing into question the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by around £1.4m for every year that useful lives had to be reduced.
Pensions Liability	The council's actuary advises on the sensitivity analysis to be applied to the calculation for estimating the net pension liability. The calculation is dependent upon a number of complex judgements relating to: the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a decrease of 0.5% in the real discount rate would result in an increase in the pension liability of £249m for the LGPS and £58m for the firefighters' pension fund. A 1 year increase in member life expectancy would result in an increase in the pension liability of £72.9m for the LGPS and £11.6m for the firefighters' pension fund.
Debtors	At 31 March 2015, the council had a balance of £126.9m on short term debtors (including government grants, receipts in advance and the council's share of Council Tax and Business Rates debtors). A credit risk review suggested that an impairment level of £12.8m for doubtful debts was sufficient.	Debtors are monitored regularly and should general debtors rise in 2015/16 the council may consider raising its provision for bad and doubtful debt. This provision is reviewed quarterly.

Note 5: Material items of income and expenditure

Included in the Education and Children's Services line of the comprehensive income and expenditure statement is an impairment charge of £33.9m related to the derecognition of academy schools (£105m in 2013/14). 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 2014/15, 19 schools transferred to academy status (27 in 2013/14).

Note 6: Events after the balance sheet date

The statement of accounts will be authorised for issue by the chief finance officer in July 2015. The statement of accounts is adjusted to reflect events after the Balance Sheet date, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair view of the council's assets and liabilities.

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

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

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

The statutory general fund is the revenue account into which all the receipts of the council are paid and out of which all payments are made. All unused receipts, including capital receipts and capital grant unapplied, available for use in future years are accounted for as usable 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 2014/15 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.

2014/15	General Fund Balance £000	Capital grant & contributions unapplied reserve £000	Capital Receipts Reserve £000	Unusable Reserves £000
	Usable Reserves			
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement				
Charges for depreciation & impairment of non-current assets	-98,648			98,648
Revaluation losses on property, plant & equipment	-35,661			35,661
Movement on fair value on investment property	-2,096			2,096
Amortisation of intangible assets	-612			612
Impairment of academies	-55,643			55,643
Revenue expenditure funded from capital under statute	-32,240			32,240
Net gain/loss on sale disposal of non-current assets	3,059		-10,195	7,136
Deferred Income in respect of PFI schemes	175			-175
Reversal of donated asset adjustment	32			-32
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	95,169	-95,169		
Application of grants to capital financing transferred to the Capital Adjustment Account		89,603		-89,603
Use of Capital Receipts Reserve to finance new capital expenditure				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	-125,811			125,811
Employer's pensions contributions and direct payments to pensioners payable in the year	76,171			-76,171
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	4,424			-4,424
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	2,402			-2,402
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment (MRP)	26,714			-26,714
Capital expenditure charged against the general fund balance	6,222			-6,222
TOTAL ADJUSTMENTS	**-136,343**	**-5,566**	**-10,195**	**152,104**

Comparator information relating to the 2013/14 adjustments between accounting basis and funding basis under regulations is provided in the table below:

Restated 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	-81,022			81,022
Revaluation losses on property, plant & equipment	-42,164			42,164
Amortisation of intangible assets	-2,331			2,331
Impairment 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	**-197,948**	**21,487**	**-2,933**	**179,394**

6

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, commitments and possible liabilities and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

	Balance at 31/03/13	Transfers In	Transfers Out	**Balance at 31/03/14**	Transfers In	Transfers Out	**Balance at 31/03/15**
	£000	£000	£000	**£000**	£000	£000	**£000**
Schools Balances	**45,447**		-1,857	**43,590**	9,963	-7,439	**46,114**
Transfer of Schools Balances to Academies	**7,334**		-5,330	**2,014**		-2,014	
Investment Renewals	**13,308**	591	-939	**12,960**	37	-3,014	**9,983**
Equipment Replacement	**3,057**	2,564	-2,238	**3,383**	1,840	-3,296	**1,927**
Vehicle Replacement	**5,055**	474	-81	**5,448**	720	-596	**5,572**
Waste Site Contingency	**299**			**299**		-299	
Budget Equalisation	**25,031**	27,402	-18,870	**33,563**	15,739	-32,729	**16,573**
Financial Investment	**11,077**		-9,513	**1,564**		-1,564	
Private Finance Initiative	**5,784**	385		**6,169**		-415	**5,754**
Insurance	**7,487**	1,343		**8,830**	1,767		**10,597**
Severe Weather	**5,000**		-5,000				
Eco Park Sinking Fund	**8,000**	6,616		**14,616**	6,372	-5,000	**15,988**
Investment	**4,987**		-4,987				
Child Protection	**3,566**	514	-940	**3,140**		-1,250	**1,890**
Revenue Grants Unapplied	**20,371**	25,976	-20,371	**25,976**	18,267	-25,976	**18,267**
General Capital	**7,608**	63		**7,671**	470	-202	**7,938**
Interest Rate	**3,210**	1,521		**4,731**		-3,731	**1,000**
Economic Downturn	**4,400**	2,100	-456	**6,044**	2,495	-4,300	**4,239**
Revolving Investment & Infrastructure Fund		20,215		**20,215**	390		**20,605**
Public Health					2,512		**2,512**
Pension Stabilisation					1,139		**1,139**
Business Rate Appeals					1,258		**1,258**
Economic Prosperity					2,505		**2,505**
	181,031	89,764	-70,582	**200,213**	65,474	-91,825	**173,862**

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 £8m service budget carry forwards into 2015/16.

Financial investment reserve: The Financial Investment Reserve was set up in 2008/09 to mitigate against any potential future losses due to the failure of banks and financial institutions with which the council has deposits (specifically Icelandic Banks). During 2014/15 the council sold the remaining Icelandic debt at auction and the balance on the reserve was utilised in year.

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 2014/15 has been transferred to the reserve.

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

6

Business rate appeals reserve: As part of the localisation of business rates the council is liable to refund businesses for its share of business rates if it is determined that a business has been overcharged rates. This reserve will be used to fund any successful appeals.

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

Note 9: Other operating income and expenditure

Net Expenditure 2013/14 £000		Gross Expenditure 2014/15 £000	Income 2014/15 £000	**Net Expenditure 2014/15 £000**
1,071	Land Drainage Precept	1,057		**1,057**
-328	Miscellaneous Income	634	-688	**-54**
-146	Contributions from Trading Services (note 24)	27,325	-27,173	**152**
3,180	Change in Provisions	2,419	-863	**1,556**
-44	Donated Assets		-32	**-32**
-528	Gain on disposal of non current assets		-3,059	**-3,059**
3,205		31,435	-31,815	**-380**

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.

2013/14 £000		**2014/15 £000**
21,624	Interest payable and similar charges	**19,774**
47,636	Net interest on the net defined benefit liability (Note 38)	**51,378**
-3,427	Interest receivable and similar income	**-1,629**
-1,611	Income & expenditure in relation to investment properties	**-208**
64,222		**69,317**

Note 11: Council tax and general grants & contributions

2013/14 £000			2014/15 £000
	Local taxation:		
557,917	- Council tax income	577,226	
43,563	- Business rate income	43,413	**620,639**
	Grants and contributions:		
207,874	- Formula grant	191,275	
42,552	- Non-ringfenced government grants	42,177	
78,920	- Capital grants and contributions	95,169	**328,621**
930,826			**949,260**

The formula grant figure for 2014/15 includes Revenue Support Grant and also top-up funding received through the Business Rate Retention Scheme.

Note 12: Property, plant & equipment - movements during 2014/15

	Land and Buildings	Vehicle, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost (revalued)							
Restated Balance at 1 April 2014	1,424,601	64,377	750,775	4,575	50,567	29,284	2,324,179
Additions*	45,554	5,302	81,366	1,122		34,907	168,251
Donations		32					32
Revaluations recognised in the Revaluation Reserve	279,908	44					279,952
Disposals	-4,484	-1,001					-5,485
Impairment - academies	-67,043						-67,043
Assets reclassified to Assets Held for Sale	-3,863						-3,863
Other Movements in assets and valuation						-41	-41
At 31 March 2015	**1,674,673**	**68,754**	**832,141**	**5,697**	**50,567**	**64,150**	**2,695,982**
Accumulated Depreciation and Impairment							
Restated at 1 April 2014	-390,192	-40,335	-430,287		-116		-860,930
Depreciation charge	-39,818	-6,240	-52,590				-98,648
Impairment losses recognised in the Revaluation Reserve	-3,689						-3,689
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-20,367	-10	-1,112				-21,489
Disposals	1,379	955					2,334
Impairment - academies	11,400						11,400
Assets reclassified to Assets Held for Sale	644						644
At 31 March 2015	**-440,643**	**-45,630**	**-483,989**	**0**	**-116**	**0**	**-970,378**
Net Book Value							
at 31 March 2014	**1,034,409**	**24,042**	**320,488**	**4,575**	**50,451**	**29,284**	**1,463,249**
at 31 March 2015	**1,234,030**	**23,124**	**348,152**	**5,697**	**50,451**	**64,150**	**1,725,604**

* These amounts include assets acquired under PFI schemes (see note 37 for additional details) and excludes £14.2m de-minimis capital expenditure and £34.6m revenue expenditure funded from capital under statute.

	Land and Buildings	Vehicle, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost (revalued)							
Restated Balance at 1 April 2013	**1,414,179**	**67,234**	**645,886**	**4,575**	**32,379**	**53,661**	**2,217,914**
Additions*	64,088	4,044	80,577		10,301		159,010
Donations		44					44
Revaluations recognised in the Revaluation Reserve	96,911	30					96,941
Disposals		-6,592					-6,592
Impairment academies	-148,441	-383					-148,824
Reclassifications	-1,138						-1,138
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 March 2014	**1,424,601**	**64,377**	**750,775**	**4,575**	**50,567**	**29,284**	**2,324,179**
Accumulated Depreciation and Impairment							
Restated at 1 April 2013	-361,241	-40,928	-394,127	0	-116	0	-796,412
Depreciation charge	-39,793	-6,181	-35,048	0	0	0	-81,022
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
Disposals		6,518					6,518
Impairment - academies	44,042	256					44,298
Reclassifications							0
At 31 March 2014	**-390,192**	**-40,335**	**-430,287**	**0**	**-116**	**0**	**-860,930**
Net Book Value							
at 31 March 2013	**1,052,938**	**26,306**	**251,759**	**4,575**	**32,263**	**53,661**	**1,421,502**
at 31 March 2014	**1,034,409**	**24,042**	**320,488**	**4,575**	**50,451**	**29,284**	**1,463,249**

* These amounts include assets acquired or replaced under PFI schemes (see note 37 for additional details) and excludes £19.3m de minimis capital expenditure and £50.0m revenue expenditure funded from capital under statute.

6

Capital commitments

At 31 March 2015, the council has entered into a contract for the acquisition/enhancement of Property, Plant & Equipment in 2015/16 and future years, budgeted to cost £21.5m. (£10.1m as at 31 March 2014). The major commitments as at 31 March 2015 are:

Schools Basic Need Capital Projects,

- Cranmere Primary £7m
- Hurst Park Primary £2.9m
- St Albans Catholic Primary £1.1m
- St Peters Roman Catholic Primary £1m
- Lime Tree Primary Academy £7m
- Ashford Park Primary £2.5m

Revaluations

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

		Land and Buildings £'000
Carried at historical cost		1,219
Carried at fair value		8,807
Change in fair value as at:		
31 March 2011		116,566
31 March 2012		70,093
31 March 2013		53,272
31 March 2014		276,286
31 March 2015		707,787
	Total	**1,234,030**

Impairment losses

During 2014/15 the council has recognised an impairment loss of £97.2m in total. The land and building assets are re-valued based on existing use value, as part of the five year rolling programme by external valuers. The result was an impairment loss of £22.5m charged to the Comprehensive Income and Expenditure Statement and £2.6m offset from the balance in the revaluation reserve in relation to these assets. £14.2m 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 £56.8m impairment relates to academy school conversions and £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 2015, 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:

2013/14 £000		**2014/15 £000**
1,870	Rental income from investment property	**2,935**
-259	Direct operating expenses arising from investment property	**-631**
1,611	**Net gain**	**2,304**

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

2013/14 £000		**2014/15 £000**
-	Balance at start of the year	**29,186**
28,047	Purchases	**3,755**
1,139	Reclassification from Property, plant and equipment	
	Subsequent expenditure	**5**
	Net loss from fair value adjustments*	**-2,096**
29,186	**Balance at end of the year**	**30,850**

*the valuation of Investment Properties is based on prevailing market conditions and calculated on existing lease agreements as at 31 March 2015. All investment properties have increased in value since purchase, with one exception where the value has reduced as a result of the expiry of the current tenant's lease in December 2016. For that reason, the fair value adjustment is £-2.096m, however the value will increase once new tenants have been secured.

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

In the 2014/15 accounts there has been a change in the accounting policy for foundation schools. The Chartered Institute of Public Finance & Accounting recently undertook a comprehensive review of schools accounting and determined that under accounting definitions local authority maintained schools (community, foundation, voluntary aided and voluntary controlled, but not academies or free schools) are separate entities under the control of local authorities for financial reporting purposes and meet the criteria for producing group accounts. However, in order to simplify the consolidation process and to avoid

6

consolidating a considerable number of smaller entities the Code for 2014/15 confirms that the definition of the single entity financial statements includes all transactions of local authority schools (income, expenditure, assets, liabilities, reserves and cash flows) so instead of being consolidated in group accounts they are consolidated in the main county council accounts.

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

In the SCC 2013/14 accounts foundation schools were not included on the balance sheet, therefore an analysis was undertaken during 2014/15 to consider whether the SCC has control over the resources inherent in a foundation school as a result of substantive and enforceable rights. The review determined the following points:

- The trust or governing body of the school owns and manages the provision of service, and the school receives revenue and capital funding through SCC. Although SCC does not have freehold ownership of the school, it does have an obligation for the provision of education service under the Education Act 1996. For foundation schools, SCC has control over the revenue and capital grant funding from the Department of Education. SCC receives both the revenue and capital grant for foundation schools, in the same manner as community schools, and SCC is the controlling entity. In contrast to having no control over the capital funding arrangements for voluntary aided schools, where the capital grant funding goes direct to the Diocese. The governing body running the foundation school will deliver an education service that otherwise SCC must provide under its duty in the Education Act 1996. Therefore, the economic benefit and service potential flows to the local authority.

- The foundation schools have limited rights of disposal because they must consult with the council and the DfE on their proposals and obtain consent from the secretary of state for education. Therefore, to a certain extent, the enforceable rights lie with SCC via the secretary state. Although the capital receipt does not accrue directly to SCC, there is substantial control over what the capital receipt can be used for (ie. provision of education). Should the trust/governing body be dissolved, then the LA would make representation and have substantive rights over the capital receipt.

- The DfE guidance for the appointment of governors for the school governing body states that there must be at minimum seven governors, made up of at least two parents, one headteacher, one other member of school staff and one local authority officer. The criteria to have minimum of one LA governor applies to all foundation schools. Therefore SCC will always have representation on the governing body and have some extent on control over the resources inherent in a foundation school.

Overall it was determined that SCC has significant control over the foundation schools through funding arrangements, representation on the governing body of the school and legal rights around the disposal of assets. SCC has significant control over the resources inherent in an asset as a result of substantive and enforceable rights therefore SCC has recognised foundation school assets on the balance sheet in 2014/15.

This change in accounting policy has lead to the restatement of the balance sheet for 2013/14, so the accounts presented here are produced on a consistent basis between financial years. A third balance sheet showing the opening position of 2013/14 based on the new policy is also provided.

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 2014/15, 19 schools had transferred to academy status (11 Community Schools, 5 Voluntary Aided School and 3 Foundation Schools). Academy schools are owned and managed completely independently of the local authority and therefore the non-current assets have been excluded from this balance sheet.

Note 15: Financial instruments

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

	Long-Term		Short-Term	
	31/03/2014 £000	**31/03/2015 £000**	31/03/2014 £000	**31/03/2015 £000**
Investments				
Loans & receivables	69	**62**	81,400	**124,592**
Available for sale financial assets	263	**301**		
Total Investments	332	**363**	81,400	**124,592**
Debtors				
Financial assets carried at contract amounts*	10,635	**15,205**	101,197	**96,342**
Borrowings				
Financial liabilities at amortised cost	237,918	**397,815**	51,316	**32,563**
Other Long-term Liabilities				
PFI, finance lease liabilities and third party balances	79,933	**97,107**	6,088	**7,014**
Creditors				
Financial liabilities carried at contract amounts			157,201	**138,370**

* adjusted for provision for bad debt

6

Income, expense, gains & losses

	2013/14 Financial Liabilities Measured at amortised cost £000	2013/14 Financial Assets Loans & receivables £000	2013/14 TOTAL £000	**2014/15 Financial Liabilities Measured at amortised cost £000**	**2014/15 Financial Assets Loans & receivables £000**	**2014/15 TOTAL £000**
Interest expense	21,264		21,264	**19,774**		**19,774**
Net impairment on financial asset				**120**		**120**
Total expense in Surplus or Deficit on the Provision of Services	21,264		21,264	19,894		**19,894**
Interest Income		-3,333	-3,333		-1,629	**-1,629**
Interest Income accrued on impaired financial assets		-94	-94			
Total income in Surplus or Deficit on the Provision of Services		-3,427	-3,427		-1,629	**-1,629**

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:

	31/03/14 Carrying Amount £000	31/03/14 Fair Value £000	**31/03/15 Carrying Amount £000**	**31/03/15 Fair Value £000**
Financial Liabilities	289,118	348,799	**430,378**	**627,471**

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 2015) arising from a commitment to pay interest to lenders above current market rates.

	Restated 31/03/14		**31/03/15**	
	Carrying Amount £000	Fair Value £000	**Carrying Amount £000**	**Fair Value £000**
Loans & receivables	81,732	81,732	**124,955**	**124,955**
Long-Term debtors	10,635	10,635	**15,205**	**15,205**

All the investments held by the council at the 31 March 2015 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.

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.

6
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with government guidance.

These indices are required to be reported and approved at or before the annual council tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy, which outlines the detailed approach to managing risk in relation to the council's financial instrument exposure. Actual performance is also reported at least semi annually to the Audit & Governance Committee.

These policies are implemented by the pension fund and treasury team. The council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through treasury management practices. These practices are a requirement of the Code of Practice and are reviewed periodically.

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

This risk is minimised through the annual investment strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Rating Services. The investment strategy imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria; credit ratings of short term of F1, long term A, support C and Individual 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria. 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**
31/03/14		31/03/15	31/03/15	31/03/15	**31/03/15**
	Deposits with banks and financial institutions	(a)	(b)	(c)	**(a x c)**
	Local Authorities	88,000	0.00%	0.00%	
	AAA rated counterparties	43,600	0.00%	0.00%	
	AA rated counterparties	0	0.03%	0.03%	
33	A rated counterparties	20,000	0.08%	0.08%	**16**
	Other counterparties	0			
9,588	Trade debtors*	114,023			**6,868**
9,621	Total	265,623			**6,884**

* 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 £18.7m of the £126.9m balance (see note 16) is past its due date for payment. The past due amount can be analysed by age as follows:

31/03/14 £000		**31/03/15 £000**
22,613	Less than six months	**6,637**
807	Six months to one year	**2,678**
425	More than one year	**9,391**
23,845	Total	**18,706**

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:

31/03/14 £000		**31/03/15 £000**
-42,130	Less than one year	**-11,834**
9,149	Between one and two years	**-26,422**
30,556	Between two and five years	**38,961**
119,268	Between five and 15 years	**119,593**
258,412	More than 15 years	**414,202**
375,255		**534,499**

6

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

31/03/14		**31/03/15**
£000		**£000**
182,597	Less than one year	**220,934**
182,597		**220,934**

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 £362,636 in seven 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 does not have any financial assets or liabilities denominated in foreign currencies, and therefore has no other exposure to the risk of 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. The Landsbanki holding was then sold to a private bidder in January 2014.

In February 2015, the Central Bank of Iceland held a further competitive auction in which UK local authorities were invited to partake with their Glitnir deposits. The council sold its outstanding claim in relation to Glitnir through the competitive auction. This was to avoid the increased currency risk inherent in the length of time full recovery could have taken and to avoid any potential payment of a proposed 'exit tax' in the future for converting Icelandic Kroner into Sterling.

In April 2015 the council also settled a claim from the Glitnir winding up board that the initial distribution from the bank was paid at the incorrect exchange rates.

These actions mean that all claims in relation to the Iceland deposits have now been settled.

Note 16: Short term debtors

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

31/03/2014 £000		**31/03/2015 £000**
23,632	Central government bodies	**21,782**
44,536	Other local authorities	**42,398**
21,086	NHS bodies	**3,317**
318	Public corporations and trading funds	
49,739	Bodies external to general government (i.e. All other bodies)	**65,686**
139,311	**Total**	**133,183**
	Less:	
	Provision for bad debts	
-8,879	- Social services and health services	**-6,146**
-709	- Other services	**-722**
-6,027	- Local taxation arrears	**-7,105**
123,696		**119,210**

Note 17: Cash and cash equivalents

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

31/03/14 £000		**31/03/15 £000**
-23,521	General account	**-27,007**
30,950	Call accounts	
	Money market funds	**43,600**
7,429	**Total cash and cash equivalents**	**16,593**

6

Note 18: Assets held for sale

Assets held for sale (current) 31/03/2014 £000		**Assets held for sale (current) 31/03/2015 £000**
15,279	**Balance outstanding at 1 April**	**6,050**
	Assets newly classified as held for sale:	
-6,824	- Property, plant and equipment	**3,219**
	Revaluation gains	**28,456**
-2,405	Assets sold*	**-3,750**
6,050	**Balance outstanding at 31 March**	**33,975**

***** Of the total assets sold (i.e. £3.750m) in 2014/15, all relates to land and property included in the opening balance.

Note 19: Creditors

31/03/14 £000		**31/03/15 £000**
-23,833	Central government bodies	**-41,725**
-62,377	Other local authorities	**-39,450**
-11,722	NHS bodies	**-18,016**
-399	Public corporations and trading funds	**-371**
-114,054	Bodies external to general government (i.e. All other bodies)	**-87,741**
-212,385	**Total**	**-187,303**

Note 20: Provisions

	Business Rates Appeals Provision	Insurance liabilities	Equal pay	Fire fighters Pensions Fund	Redundancy	Carbon reduction commitment	Closed landfill sites	Other short-term provisions	**Total provisions**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**
Balance at 1 April 2014	2,167	5,643	1,581		1,286	1,019	700	1,680	**14,076**
Additional provisions made in 2014/15	2,051	21	2,419	8,949	290			333	**14,063**
Amounts used in 2014/15					-934	-819		-710	**-2,463**
Unused amounts reversed in 2014/15					-219				**-219**
Balance at 31 March 2015	4,218	5,664	4,000	8,949	423	200	700	1,303	**25,457**
Current Provisions					423	200	700	1,303	**2,626**
Non-Current Provisions	4,218	5,664	4,000	8,949					**22,831**
	4,218	5,664	4,000	8,949	423	200	700	1,303	**25,457**

Comparator information relating to 2013/14 provisions are provided in the following table:

	Business rates appeals provision	Insurance liabilities	Landfill usage liability	Equal pay	Redundancy	Carbon reduction commitment	Closed landfill sites	Other short-term provisions	**Total provisions**
	£000	£000	£000	£000	£000	£000	£000	£000	**£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**

6

Business rates

Since the introduction of Business Rates Retention Scheme effective from 1st April 2013, local authorities have been liable for successful appeals against business rates charged to businesses since 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 2015. 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 2015 is £4.218m (£2.168m 2013/14).

Insurance

The provision for insurance liabilities represents the assessed future claims on the county council's self-insurance fund. The fund was established to enable the county council to move towards self-insurance and is now considered to fully cover service risks. The fund and its liabilities are subject to review by the council's actuaries. The last review occurred during 2012. The council has an earmarked reserve to cover any unknown future liabilities.

Fire fighters Pensions

The council has been receiving a firefighters top up grant since 2006. In May 2014 it became apparent that between 2006 and 2013 the council had received funding under this grant for an element of firefighters' pensions relating to injury awards that should have been borne by the council under the terms of the scheme. 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. A provision for total potential liability was created during the year totalling £8.949m.

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. The period for claims has now expired without any claims being made. During 2014/15 the council became aware of two other cases related to pay and conditions with a potential liability of up to £4m and has therefore used the residual balance of £1.6m on the provision plus made an additional £2.4m contribution to meet this potential liability for a potential breach of national minimum wage requirements for 'on call ' payments to sleepover carers and holiday pay entitlements for peripatetic tutors.

Redundancy costs

As at 31 March there is a provision of £0.423m to cover the cost of redundancies agreed during 2014/15 but for which the expenditure will not be incurred until 2015/16. During the year £0.219m in respect of the provision relating to 2013/14 was reversed due to an over provision. This was 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

Under the scheme the council is required to purchase and surrender carbon reduction commitment allowances, on the basis of emissions (i.e. carbon dioxide produced as energy is used). The introductory phase of the scheme ran from 2011/12 until 2013/14. During this phase, as carbon dioxide was emitted (i.e. as energy is used) a liability and an expense were recognised and the liability was discharged by surrendering allowances. During 2014/15 outstanding balances related to the introductory phase were written off however the balance remaining at 31 March 2015 is a provision for potential fines faced by the council from activity during the introductory phase.

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 2014/15, new short term provisions have been made to cover a potential claim from an energy supplier invoicing the incorrect rate and for potential liabilities from two employment tribunals. This is in addition to existing provisions for Property Dilapidations and a VAT fine, of which £0.710m.was used in year.

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 at 31/03/14	Transfers In	Transfers Out	**Balance at 31/03/15**
Revenue				
General Fund Balance	21,331		-5	**21,326**
Earmarked Reserves	200,213	65,474	-91,825	**173,862**
Total revenue reserves	221,544	65,474	-91,830	**195,188**
Capital				
Capital Grant Unapplied	36,754	95,169	-89,603	**42,320**
Capital Receipts Reserve	20,280	10,195		**30,475**
Total capital reserves	57,034	105,364	-89,603	**72,795**
Total usable reserves	278,578	170,838	-181,433	**267,983**

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.

31/03/14 £000		**31/03/15 £000**
-331,198	Revaluation Reserve	-629,277
-500,727	Capital Adjustment Account	-398,077
37	Financial Instruments Adjustment Account	37
1,203,284	Pensions Reserve	1,496,438
-7,145	Collection Fund Adjustment Account	-11,569
12,147	Accumulated Absences Account	9,745
376,398		**467,297**

6

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.

31/03/14 £000		**31/03/15 £000**	**31/03/15 £000**
-251,579	**Restated Balance at 1 April**		-331,198
-96,942	Upward revaluation of assets	-308,408	
11,498	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services	3,689	
	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the Provision of Services		-304,719
5,825	Difference between fair value depreciation and historical cost depreciation	6,640	
	Amount written off to the Capital Adjustment Account		6,640
-331,198	**Balance at 31 March**		**-629,277**

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.

31/03/14 £000		**31/03/15 £000**	**31/03/15 £000**
-640,453	**Restated Balance at 1 April**		**-500,727**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
81,021	Charges for depreciation and impairment of non-current assets	98,648	
146,692	Revaluation losses on Property, Plant and Equipment	91,304	
	Revaluation losses on Investment Property	2,096	
2,331	Amortisation of intangible assets	612	
42,427	Revenue expenditure funded from capital under statute	32,240	
-166	Deferred Income	-175	
-44	Donated Assets credited to the Comprehensive Income and Expenditure Statement	-32	
2,405	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	7,136	
274,666			231,829
-5,825	Adjusting amounts written out of the Revaluation Reserve		-6,640
268,841	Net written out amount of the cost of non-current assets consumed in the year		225,189
	Capital financing applied in the year:		
	Use of the Capital Receipts Reserve to finance new capital expenditure		
-100,407	Application of grants to capital financing from the Capital Grants Unapplied Account		-89,603
-24,877	Statutory provision for the financing of capital investment charged against the General Fund		-26,714
-3,830	Capital expenditure charged against the General Fund		-6,222
-500,727	Balance at 31 March		**-398,077**

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 2015 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 2014/15 (No movements 2013/14).

6

Pensions Reserve

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

31/03/14 £000		**31/03/15** **£000**
1,070,712	Balance at 1 April	**1,203,285**
96,359	Actuarial gains or losses on pensions assets and liabilities	**243,514**
109,088	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	**125,811**
-72,874	Employer's pensions contributions and direct payments to pensioners payable in the year	**-76,171**
1,203,285	**Balance at 31 March**	**1,496,438**

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.

31/03/14 £000		**31/03/14** **£000**
-6,240	Balance at 1 April	**-7,145**
-905	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	**-4,424**
-7,145	**Balance at 31 March**	**-11,569**

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.

31/03/14 £000		31/03/15 £000	**31/03/15 £000**
13,613	Balance at 1 April		**12,147**
-13,613	Settlement or cancellation of accrual made at the end of the preceding year	-12,147	
12,147	Amounts accrued at the end of the current year	9,745	
-1,466	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		**-2,402**
12,147	**Balance at 31 March**		**9,745**

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.

6

2014/15	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:	**342.1**	**186.9**	**47.7**	**127.0**	**-680.1**	**23.6**
Income						
- Local taxation					-616.2	**-616.2**
- Government grants & contributions	-0.6	-632.5	-8.6	-8.1	-264.9	**-914.7**
- Fees, charges & other service income	-75.4	-32.5	-4.8	-17.7	-33.2	**-163.6**
- Interest & investment income					-0.9	**-0.9**
Expenditure						
- Employee expenses	65.0	504.8	36.3	22.5	72.6	**701.2**
- other service expenditure	355.8	342.6	23.5	129.9	139.0	**990.8**
- Interest payments					12.9	**12.9**
- Precepts & levies					1.1	**1.1**
Actual income & expenditure	**344.8**	**182.4**	**46.4**	**126.6**	**-689.6**	**10.6**
Full year variance	2.7	-4.5	-1.3	-0.4	-9.5	**-13.0**
Contribution to reserves (carry-forward)		3.4	0.9	0.4	3.3	**8.0**
Net revenue expenditure	2.7	-1.1	-0.4	0.0	-6.2	**-5.0**
Transfer of revenue underspend to budget equalisation reserve						**5.0**
Movement on the General Fund						**0.0**
Accounting adjustments to CIES (not reported for budget purposes)						
- Depreciation, amortisations & impairment						**224.7**
- Adjustments in relation to pension contributions						**49.6**
- Recognition of capital grants & contributions						**-95.2**
- Other accounting adjustments						**-6.8**
- Gain or loss on disposal of non-current assets						**-3.1**
Items reported for budget purposes but not charged to the CIES						
- Statutory provision for financing of capital						**-26.7**
- Capital expenditure financed from revenue						**-6.2**
Contributions to/from reserves						**26.4**
Surplus on Provision of Services						**162.7**
Surplus on revaluation of non-current assets						**-304.7**
Actuarial losses on pension assets / liabilities						**243.5**
Total Comprehensive Income & Expenditure						**-101.5**

Restated comparator for 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						**270.1**
- Adjustments in relation to pension contributions						**36.2**
- Recognition of capital grants & contributions						**-78.9**
- Other accounting adjustments						**-0.2**
- 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						**189.3**
Surplus on revaluation of non-current assets						**-85.4**
Actuarial losses on pension assets / liabilities						**96.3**
Total Comprehensive Income & Expenditure						**200.2**

6

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 2014/15

2013/14 £000		**2014/15 £000**
-23,619	Turnover	**-27,173**
21,906	Expenditure	**25,824**
-1,713	Surplus(-)	**-1,348**
1,567	Support services recharged to Expenditure of Continuing Operations	**1,499**
-146	Net surplus (-) / deficit credited or debited to other Operating Expenditure (note 9)	**152**

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 seven Clinical Commission Groups (CCG) in Surrey. During 2014/15 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

2013/14 £000		**2014/15 £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
4,200	Expenditure met from the pooled budget	4,200
0	Surplus(-) or deficit	0
0	Surrey County Council share	0

*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

2013/14 £000		**2014/15 £000**
	Funding provided to the pooled budget	
-1,195	- Surrey County Council	-1,220
-1,036	- Guildford & Waverley CCG	-1,061
-2,231		-2,281
2,158	Expenditure met from the pooled budget	1,938
-73	Surplus(-) or deficit	-343
-39	Surrey County Council share	-183

HOPE services

2013/14 £000		**2014/15 £000**
	Funding provided to the pooled budget	
-763	- Surrey County Council	-717
-843	- Guildford & Waverley CCG	-808
-1606		-1,525
1603	Expenditure met from the pooled budget	1,525
-3	Surplus or (deficit)	0
-1	Surrey County Council share	0

Surrey safeguarding children board

2013/14 £000		**2014/15 £000**
	Funding provided to the pooled budget	
-353	- Surrey County Council	-309
-52	- Police	-45
-14	- Probation	-12
-20	- Surrey boroughs & districts	-17
-245	- Guildford & Waverley CCG	-214
-27	- Other partners	-24
-710		-621
446	Expenditure met from the pooled budget	357
-264	Surplus or (deficit)	-264
-131	Surrey County Council share	-131

Note 26: Member allowances

2013/14 £000		**2014/15 £000**
1,583	Member Allowances*	**2,139**
90	Member Expenses	**54**
1,673		**2,193**

*Includes the employer's contributions for national insurance and superannuation £334k (2013/14, £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:

Post	Year	Salary £	Expense allowances £	Total remuneration excluding pension contributions £	Pension contributions £	Total remuneration including pension contributions £
Chief Executive - D McNulty	2014/15	211,600	4,053	215,653	31,317	246,970
	2013/14	210,850	4,053	214,903	31,206	246,109
Strategic Director of Children, Schools & Families - N Wilson	2014/15	145,450		145,450	21,527	166,977
	2013/14	144,700		144,700	21,416	166,116
Strategic Director of Adult Social Care (1) Dave Sargeant	2014/15	127,895		127,895	18,956	146,851
Strategic Director of Adult Social Care (2) - S Mitchell	2013/14	197,853		197,853	16,062	213,915
Interim Strategic Director of Adult Social Care	2013/14	50,000		50,000	7,400	57,400
Strategic Director of Business Services	2014/15	128,363		128,363	19,557	147,920
	2013/14	126,367		126,367	19,446	145,813
Strategic Director of Environment & Infrastructure - T Pugh	2014/15	142,000		142,000	20,957	162,957
	2013/14	140,850		140,850	12,160	153,010
Strategic Director of Customers & Communities (3)	2014/15	130,438		130,438	19,245	149,683
	2013/14	130,779		130,779	19,134	149,913
Assistant Chief Executive	2014/15	116,181		116,181	17,506	133,687
	2013/14	115,493		115,493	17,395	132,888
Director of Finance (4)	2014/15	117,535		117,535	17,395	134,930
	2013/14	105,850		105,850	15,666	121,516
Director of Legal Services (5)	2014/15	101,600		101,600	15,037	116,637
	2013/14	100,850		100,850	14,926	115,776
Head of Fire & Rescue	2014/15	118,076		118,076	13,826	131,902
	2013/14	113,032		113,032	13,163	126,195
Director of Public Health (6)	2014/15	102,384		102,384	14,165	116,549
	2013/14	85,620		85,620	11,987	97,607
Total	2014/15	1,441,522	4,053	1,445,575	209,488	1,655,063
	2013/14	1,522,245	4,053	1,526,298	199,960	1,726,258

6

Notes to the Accounts

1. On 1 August 2014 the interim position holder was appointed to the role of Strategic Director of Adult Social Care, the annualised salary for 2014/15 is £131,000 (excluding pension contributions)

2. The Interim Strategic Director of Adult Social Care was appointed on the 1 November 2013. The annualised salary for 2013/14 was £120,000 (excluding pension contributions). Sarah Mitchell left her post as Strategic Director of Adult Social Care 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.

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. Position title changed to ‘Director of Legal Services’ in June 2015

6. The Director of Public Health started on 1 May 2013. The annualised salary for 2014/15 was £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):

2013/14				**2014/15**		
Non school numbers	Schools numbers	Total numbers	Remuneration (£)	**Non-schools numbers**	**Schools numbers**	**Total numbers**
139	133	272	50,000 - 54,999	**123**	**116**	**239**
120	92	212	55,000 - 59,999	**117**	**95**	**212**
47	72	119	60,000 - 64,999	**59**	**49**	**108**
48	53	101	65,000 - 69,999	**49**	**58**	**107**
16	22	38	70,000 - 74,999	**14**	**22**	**36**
35	12	47	75,000 - 79,999	**31**	**13**	**44**
5	7	12	80,000 - 84,999	**10**	**9**	**19**
10	5	15	85,000 - 89,999	**11**	**2**	**13**
10	4	14	90,000 - 94,999	**4**	**7**	**11**
4	6	10	95,000 - 99,999	**4**	**2**	**6**
3	3	6	100,000 - 104,999	**3**	**1**	**4**
2	1	3	105,000 - 109,999	**1**	**2**	**3**
3	1	4	110,000 - 114,999	**1**	**1**	**2**
2		2	115,000 - 119,999	**4**		**4**
1	1	2	120,000 - 124-999	**2**	**1**	**3**
1		1	125,000 - 129,999	**2**		**2**
1		1	130,000 - 134,999	**1**		**1**
1		1	135,000 - 139,999			
1		1	140,000 - 144,999	**1**		**1**
			145,000 – 149,999	**1**		**1**
1		1	195,000 - 199,999			
1		1	210,000 - 214,999			
			215,000 – 219,999	**1**		**1**
451	412	863		**439**	**378**	**817**

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) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band (b) + (c)		(e) Total cost of exit packages in each band*	
	2013/14	**2014/15**	**2013/14**	**2014/15**	**2013/14**	**2014/15**	**2013/14**	**2014/15**
Cost (£)							**£000**	**£000**
0-20,000	**13**	**64**	**16**	**34**	**29**	**98**	**240**	**928**
20,001-40,000	**4**	**20**	**4**	**19**	**8**	**39**	**213**	**1,123**
40,001-60,000	**1**	**6**	**1**	**14**	**2**	**20**	**84**	**948**
60,001-80,000	**4**	**4**	**2**	**7**	**6**	**11**	**415**	**747**
80,001-100,000	**1**	**1**		**2**	**1**	**3**	**90**	**267**
100,001-150,000	**1**	**2**	**1**	**1**	**2**	**3**	**255**	**397**
150,001 – 200,000		**1**				**1**		**164**
200,001 – 250,000		**1**				**1**		**212**
Total cost included in bandings	**24**	**99**	**24**	**77**	**48**	**176**	**1,297**	**4,786**
ADD: Amounts provided for in CIES not included in bandings**	**36**	**13**	**25**	**1**	**61**	**14**	**1,144**	**290**
Total cost included in CIES	**60**	**112**	**49**	**78**	**109**	**190**	**2,441**	**5,076**

*Includes cost of pension fund strain where applicable
** Included in the total cost charged to the CIES are movements in the redundancy provision forredundancies that had been approved in 2014/15 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;

Restated 2013/14 £000		**2014/15 £000**
189	Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year	**189**
-34	Audit fee rebate from the Audit Commission and prior year fees	**-30**
5	Fees payable to the external auditors for the certification of grant claims and returns for the year	
160		**159**

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 2013. 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 nurseries.

6

Details of the deployment of DSG receivable for 2014/15 are shown on the table below:

Ref:	2013/14 £000s		Central	ISB*	**2013/14 £000s**
A	717,291	Final DSG 2014/15 before academy recoupment (DFE gross allocation)			**725,345**
A1		Less deducted by DfE for high needs placing			**-8,583**
B	-144,104	Academy figure recouped			**-182,489**
B1	-3,320	Deduction for direct funding of SEN places by EFA 2013/14			
C	569,867	Total DSG after academy recoupment			**534,273**
D	13,776	Brought forward from 2013/14			**13,252**
E	-6,395	Carry forward agreed in advance			**-4,672**
	577,248				**542,853**
F	574,602	Agreed initial budgeted distribution	112,345	430,508	**542,853**
G	2,646	In year adjustments	156	568	**724**
H	577,248	Final distribution	112,501	431,076	**543,577**
I	-104,850	Actual central expenditure	-111,334		**-111,334**
J	-465,540	Actual Individual Schools Budget (ISB)		-431,076	**-431,076**
K	-	Local authority contribution	806		**806**
L	6,858	Amount carried forward to 2015/16	1,973		**1,973**
		Pre-agreed carry forward to 2015/16	4,672		**4,672**
	6,858	Total amount carried forward to 2015/16			**6,645**

*Individual Schools Budget

Reference:

- A Final DSG figure advised by DfE in March 2015, before the January 2015 early years block adjustment. It does not include an estimated additional £330,000 expected to be received in 2015/16 as a result of correcting the September 2014 – March 2015 Early Years allocation using January 2015 pupil numbers.
- A1 Deduction from gross DSG in respect of funding for places in non maintained special schools, special academies, SEN units and resources in mainstream academies and post 16 SEN places in maintained schools, for which funding is paid directly to the academy or school by the Education Funding Agency
- 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 2013/14 as agreed with DfE
- E Any amounts which the council decided after consultation with the Schools Forum, to carry forward to 2015/16 rather than distribute in 2014/15. This was DSG underspent in 2013/14 which was not committed in the initial 2014/15 budget and which has been allocated to support the 2015/16 budget, plus additional DSG allocated after the initial Schools Budget had been agreed with the Schools Forum.
- F Initial budgeted distribution of DSG as agreed with the schools forum.
- G Changes to the initial distribution comprise changes to DSG made by DfE in 2014/15, 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 2014/15
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). Includes final budget shares for private nursery providers
K Contribution from local authority which has the effect of substituting for DSG in 2014/15 (none in 2013/14).
L Amount carried forward to be spent in 2015/16

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:

2013/14 £000			**2014/15 £000**
	General grants & contributions		
207,874	Formula Grant*		**191,275**
15,473	Private Finance Initiative Grant	11,044	
15,734	Education Services Grant	14,386	
3,518	Dedicated Schools Grant (Non-ringfenced)	3,517	
7,827	Other Revenue Grants	13,230	**42,177**
32,689	Partnership for Schools (Standards Fund)	42,569	
25,674	Highways Maintenance & Integrated Grant	30,142	
5,693	Capital S106 developer contributions	6,678	
3,108	Capital contributions from schools	3,062	
3,538	Walton Bridge Grant		
5,165	Local Sustainable Transport Fund	3,609	
3,053	Other Capital grants & Contributions	9,109	**95,169**
329,346			**328,621**

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

6

Grants credited to services are analysed in the following table:

2013/14 £000	Credited to services	2014/15 £000
566,356	Dedicated Schools Grant	**538,087**
23,237	Public Health Grant	**25,561**
19,259	Young People Learning Agency	**18,115**
15,540	Pupil Premium	**19,755**
3,381	DFT Severe Weather Recovery Grant	
1,672	Transformation Challenge Awards	
28,506	Other revenue grants	**31,511**
	Government 'Capital' Grant applied to Revenue Expenditure Funded by Capital under Statute:	
	- Partnership for Schools	
1,691	- Community Capacity grant	**1,043**
3,474	- Capital Contributions from Schools	**2,659**
1,310	- Superfast Broadband	
749	- Other grants	**35**
665,175	**Total**	**636,766**

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 2014/15 is shown in Note 26.

In addition, a survey of the related party interests of members in office during the 2014/15 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 201 bodies that members declared an interest in, with a total value of £78.6m. Of this, payments of £55.3m were to SITA UK, in which 1 member declared an interest, £14.4m to Surrey and Borders Partnership NHS Trust in which 1 members declared an interest, £2.3m was to National Centre for Young Epilepsy in which 1 member declared an interest, £1.6m to Ashford and St. Peter's NHS Trust in which 2 members declared an interest, £1.2m to Surrey Wildlife Trust in which 2 members declared an interest, £0.9m to Disability Challengers in which 1 member declared an interest, £0.5m to London Care Partnership in which 1 member declared an interest.

Senior Officers are deemed to include all officers earning over £61,292. The council had transactions with 8 other bodies in which an interest was declared totalling £9.3m. This includes payments of £5.4m to Alpenbest Ltd in which 1 officer declared an interest; £2.3m to Young Epilepsy in which 2 officers declared an interest, £1.2m to Jacobs UK Ltd in which 1 officer declared an interest.

Entities controlled or significantly influenced by the council –
The council wholly owns two Local Authority Trading Companies

- S.E. Business Services Ltd - The company was set up for the provision of business services and was incorporated on 20 June 2013.
- Surrey Choices Ltd -. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until August 2014.

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

Group accounts for 2014/15 have been prepared and are presented on page 91 to show the combined financial performance and position of the county council, SE Business Services and Surrey Choices.

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 2014/15 was £1,662,311(£1,502,912 in 2013/14). This is split into the fee for providing pension administration services £1,409,787 (£1,315,130 in 2013/14) and £252,524 (£187,781 in 2013/14) for treasury management, accounting and managerial services.

During 2014/15 the council paid employer pension contributions of £64.1m (£60.0m in 2013/2014).

Net amounts owed by the council to the fund as at 31 March 2015 were £6.59m (£9.82m at 31 March 2014).

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:

2013/14 £000		2014/15 £000
	Capital Financing	
559,695	**Opening Capital Financing Requirement**	**681,681**
	Capital investment:	
178,287	Property, Plant and Equipment	182,521
28,047	Investment Properties	3,760
746	Intangible Assets	936
42,427	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	32,240
1,759	Long Term Debtor	3,162
	Sources of Finance	
0	Capital receipts	0
-100,407	Government grants and other contributions	-89,603
-2,205	Sums set aside from revenue	-3,563
-1,625	Direct revenue contributions	-2,659
-24,877	Minimum Revenue Provision	-26,714
-166	PFI Deferred Income	-175
681,681	**Closing Capital Financing Requirement**	**781,587**
	Explanation of movements in year	
114,397	Increase in underlying need to borrowing (unsupported by government financial assistance)	101,264
-24,877	Minimum Revenue Provision	-26,714
32,632	Assets acquired under finance leases	25,531
-166	PFI Deferred Income	-175
121,986	**Increase / (decrease) in Capital Financing Requirement**	**99,906**

Note 35: Leases

Council as lessee

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

31 March 2014 £000		**31 March 2015 £000**
	Operating lease liabilities - land and buildings:	
2,307	Not later than one year	1,814
6,834	Later than one year but not later than five years	5,911
11,395	Later than five year	10,102
20,536		**17,827**

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

31 March 2014 £000	Amounts charged to the Comprehensive Income and Expenditure Statement during the year Operating leases - land and buildings	**31 March 2015 £000**
3,389	Minimum lease payments for the year	3,604
75	Contingent rents in year	
	Sublease payments receivable in year	
3,464		**3,604**

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.

6

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

31 March 2014 £000		**31 March 2015**
	Lease liabilities - land and buildings:	
3,408	Not later than one year	3,288
12,003	Later than one year but not later than five years	9,823
13,525	Later than five year	11,596
28,936		**24,707**

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: Other short-term and long-term liabilities

31 March 2014 Other liabilities				31 March 2015 Other liabilities		
Short term	Long-term	Total		Short term	Long-term	Total
6,029	76,604	82,633	PFI finance lease liabilities (Note 37)	6,955	95,797	102,752
	12,340	12,340	Deferred income liabilities (Note 37)		12,165	12,165
59	559	618	Other finance lease liabilities	59	501	560
	1,203,284	1,203,284	Pension liabilities (Note 38)		1,496,438	1,496,438
	2,769	2,769	Balances held for third parties		809	809
6,088	1,295,556	1,301,644	Total	7,014	1,605,710	1,612,725

Note 37: Private finance initiatives and similar contracts

In 1999 the council entered into a 25-year contract for waste disposal with Surrey Waste Management. The annual payments under the contract are in part dependent upon the tonnage of waste sent for disposal so that the contractor manages demand risk at higher tonnage levels whereas this risk falls on the council if tonnages fall. A large proportion of the investment remains to be delivered. As a result the council faces a contingent liability as described in note 39.

In 1998 the council entered into a long-term contract with Anchor Trust for the purchase of residential and day care for the elderly in 17 homes previously operated by the council. Whilst the council is committed to purchasing the majority of beds in the homes the contractor is able to manage the remaining capacity for their own benefit. The council is committed to purchasing 71% of the beds available and day care facilities irrespective of whether these are used for the county's clients. Of the 17 homes nine return to council management after 21 years. 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:

	2013/14		**2014/15**		
	Land & Buildings	Infrastructure	**Land & Buildings**	**Infrastructure**	**Asset Under Construction**
	£000	£000	**£000**	**£000**	**£000**
Gross cost at 1 April	79,120	47,207	**95,684**	**63,275**	
Additions	16,564	16,068	**5,244**	**13,378**	**6,909**
Revaluations					
Gross Cost at 31 March	95,684	63,275	**100,928**	**76,653**	**6,909**
Accumulated Depreciation and Impairment at 1 April	-15,212	-4,046	**-17,757**	**-5,995**	
Depreciation charge for the year	-2,545	-837	**-3,055**	**-1,610**	
Impairment losses recognised in the Surplus/Deficit on the Provision of Services		-1,112		**-1,112**	
Accumulated Depreciation and Impairment at 31 March	-17,757	-5,995	**-20,812**	**-8,717**	
Net book Value at 1 April	63,908	43,161	**77,927**	**57,280**	
Net book Value at 31 March	77,927	57,280	**80,116**	**67,936**	**6,909**

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 2015 (based on 2014/15 prices, excluding any estimation of inflation and availability/performance deductions) are as follows:

Payable in 2014/15 £000		Payable in 2015/16 £000	Payable within two to five years £000	Payable within six to ten years £000	Payable within 11 to 15 years £000	Payable within 16 to 20 years £000	**TOTAL £000**
	Payment for services						
35,912	- Waste	38,427	237,948	196,110			**472,485**
16,087	- Anchor Trust	16,086	48,259				**64,345**
8,473	- Care UK	8,473	42,366	42,366	8,473		**101,678**
3,055	- Street Lighting	1,915	9,553	9,750	10,326	8,667	**40,211**
63,527		64,901	338,126	248,226	18,799	8,667	**678,719**
	Reimbursement of capital Expenditure						
3,441	- Waste	3,475	59,420	61,928			**124,823**
1,611	- Anchor Trust	1,709	5,775				**7,484**
80	- Care UK	85	507	681	162		**1,435**
897	- Street Lighting*	1,686	10,123	13,937	19,695	21,443	**66,884**
6,029		6,955	75,825	76,546	19,857	21,443	**200,626**
	Interest						
872	- Waste	3,083	25,065	9,649			**37,797**
552	- Anchor Trust	455	715				**1,170**
92	- Care UK	87	353	179	10		**629**
6,047	- Street Lighting	6,710	31,879	27,868	21,534	10,256	**98,247**
7,563		10,335	58,012	37,696	21,544	10,256	**137,843**
77,119	TOTAL	**82,191**	**471,962**	**362,467**	**60,200**	**40,366**	**1,017,188**

* 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:

2013/14 Finance lease liability £000	2013/14 Deferred income liability £000		**2014/15 Finance lease liability £000**	**2014/15 Deferred income liability £000**
-55,907	-12,506	Balance outstanding at the start of the year	**-82,633**	**-12,340**
5,906		Payments during the year	**5,412**	
-32,632		Capital expenditure incurred in the year	**-25,531**	
	166	Amortisation of deferred income		**175**
-82,633	-12,340	Balance outstanding at year end	**-102,752**	**-12,165**

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

31/03/14 £000		**31/03/15 £000**
87	not later than one year	**124**
319	later than one year but not later than 5 years	**259**
777	later than 5 years	**714**
1,183		**1,097**

Note 38: Pension schemes accounted for as defined contribution schemes

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

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

In 2014/15, the council paid £49.9m to teachers' pensions in respect of retirement benefits, representing 14.1% of pensionable pay. The figures for 2013/14 were £52.8m 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.

6

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 2014/15 the council paid £403,200 to NHS pensions representing 14% of pensionable pay (2013/14, £220,000).

Note 39: Defined benefit pension schemes

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

Surrey County Council contributes to two defined benefit schemes:

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

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2013/14 £000	**2014/15 £000**	2013/14 £000	**2014/15 £000**
Comprehensive Income & Expenditure Statement				
Cost of Services:				
- current service cost	67,840	**69,910**	11,300	**12,400**
- past service cost	-456	**-302**		
- (gain)/loss on settlements	-17,232	**-7,575**		
Financing & Investment Income & Expenditure				
- net interest on the net defined benefit liability	27,736	**30,278**	19,900	**21,100**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	77,888	**92,311**	31,200	**33,500**
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
- return on plan assets (excluding the amount included in the net interest expense)	-59,189	**-124,142**		
- actuarial gains and losses arising on changes in demographic assumptions	42,018		11,000	
- actuarial gains and losses arising on changes in financial assumptions	-12,009	**314,473**	18,200	**71,500**
- other experience	96,439	**-17,917**	-100	**-400**
Total remeasurement of the net defined benefit liability	67,259	**172,414**	29,100	**71,100**
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	145,147	**279,875**	60,300	**104,600**
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	-77,888	**-92,311**	-31,200	**-33,500**
Actual amount charged against the General Fund Balance for pensions in the year:				
- employers' contributions to the scheme/ retirement benefits paid direct to pensioners	59,317	**63,542**	13,557	**12,629**

6

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	
	2013/14	2014/15	2014/15	2014/15
	£000	£000	£000	£000
Present value of the defined benefit obligation	-2,042,976	-2,436,780	-489,324	-581,295
Fair value of plan assets	1,329,016	1,521,637		
Net liability arising from defined benefit obligation	-713,960	-915,143	-489,324	-581,295

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	
	2013/14	**2014/15**	2013/14	**2014/15**
	£000	**£000**	£000	**£000**
Opening Balance at 1 April	-1,833,753	**-2,042,976**	-442,581	**-489,324**
Current service cost	-67,840	**-69,910**	-11,300	**-12,400**
Interest cost	-82,182	**-87,567**	-19,900	**-21,100**
Contributions by scheme participants	-18,980	**-19,118**	-2,600	**-2,700**
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	-12,009	**-314,473**	-18,200	**-71,500**
- Other experience	96,439	**17,917**	100	**400**
Actuarial gains and losses				
Pensions and lump sum expenditure			13,000	**14,900**
Benefits paid	63,039	**65,103**		
Past service costs	456	**302**		
Losses/(gains) on curtailments	24,763	**16,484**		
Settlements				
Employer contributions adjustment*	-2,031	**-2,542**	3,157	**429**
Closing balance at 31 March	-2,042,976	**-2,436,780**	-489,324	**-581,295**

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

	Local Government Pension Scheme		Firefighters' pension scheme	
	2013/14 £000	**2014/15 £000**	2013/14 £000	**2014/15 £000**
Opening fair value of scheme assets at 1 April	1,205,623	**1,329,016**		
Expected rate of return				
Actuarial gains and losses				
Interest income	54,446	**57,289**		
Remeasurement:				
Return on assets excluding amounts included in net interest	59,189	**124,142**		
Employer Contributions	59,317	**63,542**		
Employer contributions adjustment*	2,031	**2,542**		
Contributions by scheme participants	18,980	**19,118**		
Benefits paid	-63,039	**-65,103**		
Settlements	-7,531	**-8,909**		
Closing fair value of scheme assets at 31 March	1,329,016	**1,521,637**		

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

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total net liability of £1,496m 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.

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

6

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	
	2013/14	**2014/15**	2013/14	**2014/15**
Mortality assumptions:				
- longevity at 65 for current pensioners (60 for firefighters):				
- Men	22.5 years	22.5 years	29.3 years	29.5 years
- Women	24.6 years	24.6 years	31.5 years	31.7 years
- longevity at 65 for future pensioners (60 for firefighters):				
- Men	24.5 years	24.5 years	30.9 years	31.1 years
- Women	26.9 years	26.9 years	33.0 years	33.2 years
Rate of inflation	3.6%	3.0%	3.7%	3.4%
Rate of increase in salaries*	4.1%	3.8%	3.9%	3.5%
Rate of increase in pensions	2.8%	2.4%	2.9%	2.5%
Rate for discounting scheme liabilities	4.3%	3.2%	4.3%	3.3%
Take-up of option to convert annual pension into retirement lump sum	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%	248,724	10%	58,000
1 year increase in member life expectancy	3%	72,874	3%	17,500
0.5% increase in the salary increase rate	3%	76,851	2%	11,000
0.5% increase in the pension increase rate	7%	166,877	8%	48,700

6

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

31-Mar-14 Quoted prices in active markets £000	31-Mar-14 Percentage		**31-Mar-15 Quoted prices in active markets £000**	**31-Mar-15 Percentage**
		Quoted prices in active markets		
		Equity securities		
112,111	8%	Consumer	**113,980**	**8%**
90,897	7%	Manufacturing	**82,407**	**5%**
64,484	5%	Energy & utilities	**49,857**	**3%**
86,730	7%	Financial institutions	**97,485**	**6%**
48,560	4%	Health & care	**53,524**	**4%**
72,285	5%	Information technology	**72,673**	**5%**
475,067			**469,926**	
		Debt securities		
50,769	4%	Corporate bonds (investment grade)	**55,379**	**4%**
2,267	0%	Corporate bonds (non-investment grade)	**6,116**	**0%**
30,533	2%	UK government	**34,263**	**2%**
8,612	1%	Other	**14,154**	**1%**
92,181			**109,912**	
		Real estate		
45,384	3%	UK property	**96,025**	**6%**
28,297	2%	Overseas property	**733**	**0%**
73,681			**96,758**	
		Investment funds & unit trusts		
370,503	28%	Equities	**443,215**	**29%**
119,142	9%	Bonds	**142,233**	**9%**
130,678	10%	Other	**175,482**	**12%**
620,323			**760,930**	
		Derivatives		
94	0%	Interest rate	**-215**	**0%**
6,240	0%	Foreign exchange	**-1,198**	**0%**
6,334			**-1,413**	
10,911	1%	Cash & cash equivalents	**28,429**	**2%**
1,278,497	96%	Sub-total	**1,464,542**	**96%**
		Quoted prices in non-active markets		
50,518	4%	Private equity	**57,094**	**4%**
1,329,015	**100%**	**Total**	**1,521,636**	**100%**

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

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

Investment risk is monitored regularly both in absolute terms and relative to the Fund's liabilities, with regular scrutiny by the Surrey Pension Fund 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 £65.2m 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	48.3%	24.0	53.0%	25.8
Deferred members	19.7%	23.1	2.6%	25.2
Pensioner members	32.0%	11.3	44.4%	12.3
Total	**100.0%**	**18.5**	**100.0%**	**19.8**

6

Note 40: Contingent liabilities

Potential liabilities are not required to be incorporated within the accounts where there is no certainty that an actual liability will arise or where the extent of an obligation cannot be measured with sufficient reliability. At 31 March 2015 the council had the following contingent liabilities:

- The council embarked upon a PFI for waste disposal in 1999. By the end of 2014/15 £135.1m 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.

- 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.

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

2013/14 £000		**2014/15 £000**
-109,088	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	**-125,811**
72,874	Employer's pensions contributions and direct payments to pensioners payable in the year	**76,171**
166	Deferred Income in respect of PFI schemes	**175**
-81,094	Charges for depreciation & impairment of non-current assets	**-98,648**
-2,331	Amortisation of intangible assets	**-612**
-42,091	Revaluation losses on property, plant & equipment	**-35,661**
	Change in fair value of investment properties	**-2,096**
-104,526	Impairment of academies	**-55,643**
-3,639	Contributions to provisions	**-11,383**
528	Net gain/loss on sale disposal of property, plant & equipment	**3,059**
19,684	Movement in creditors	**22,539**
2,822	Movement in third party balances	**1,958**
-141	Movement in inventories	**-13**
-17,824	Movement in debtors	**-4,486**
1,466	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	**2,402**
44	Donated asset adjustment	**32**
59	Finance lease repayment	**59**
-450	Movement in Capital Receipts in Advance	**-787**
	Movement in IRR reserve to fund capital expenditure	**1,330**
-263,541		**-227,415**

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

2013/14 £000		**2014/15 £000**
145,655	Purchase of Property Plant & Equipment	**157,235**
28,048	Purchase of Investment Property	**3,760**
746	Purchase of Intangible Assets	**936**
42,427	Revenue Expenditure Funded from Capital Under Statute	**32,240**
216,876		**194,171**

Note 43: Prior period adjustments

This note summaries the adjustments made to the 2013/14 comparators from the figures published in the 2013/14 Statement of Accounts. The changes arise from the recogniation of foundation schools on the balance sheet so the 2013/14 figures have been recalculated to include those. Also, an adjustment has been made to the gross values and gross deprecation of property, plant and equipment non-current assets following a review of the accounting for impairment charges. The net book value of the assets was unaffected for these changes.

Movement in Reserve Statement –Usable Reserves

	Originally stated 2013/14 Usable Reserves £000	Restated 2013/14 Usable Reserves £000	Amount of restatement £000
(Surplus) or deficit on provision of services (accounting basis	185,354	189,261	3,907
Adjustments between accounting basis & funding basis under regulations	-175,487	-179,394	-3,907

Movement in Reserve Statement –Unusable Reserves

	Originally stated 2013/14 Unusable Reserves £000	Restated 2013/14 Unusable Reserves £000	Amount of restatement £000
Balance at 31 March 2013	327,611	186,089	-141,522
Other comprehensive income & expenditure	17,931	10,915	-7,016
Adjustments between accounting basis & funding basis under regulations	175,487	179,394	3,907
Increase/decrease in year	193,418	190,309	-3,109
Balance at 31 March 2014	521,029	376,398	-144,631

Comprehensive Income and Expenditure Statement

	Originally stated 2013/14 Net Expenditure £000	Restated 2013/14 Net Expenditure £000	Amount of restatement £000
Education & Children's Services	430,582	434,489	3,907
Surplus(-) or Deficit on Provision of Services	185,354	189,261	3,907
(Surplus) or deficit on revaluation of non-current assets	-78,428	-85,444	-7,016
Total Comprehensive Income & Expenditure	203,285	200,176	-3,109

Balance Sheet

	Originally stated as at 31.03.2014 £000	Restated as at 31.03.2014 £000	Amount of restatement £000
Property, plant & equipment	1,318,618	1,463,249	144,631
Net assets/liabilities	-242,451	-97,820	144,631
Unusable reserves	521,029	376,398	-144,631
Total reserves	242,451	97,820	-144,631

Cash Flow

	Originally stated 2013/14 £000	Restated 2013/14 £000	Amount of restatement £000
Net surplus (-) / deficit on the provision of services	185,354	189,261	3,907
Adjustments to net surplus / deficit on the provision of services for non-cash movements	-259,634	-263,541	-3,907

Note 12 – Movements in Property, Plant and Equiptment

	Originally stated 2013/14 Total PPE £000	Restated 2013/14 Total PPE £000	Amount of restatement £000
Cost (revalued)			
Balance at 1 April 2013	2,215,022	2,217,914	2,892
Impairment academies		-148,824	-148,824
Revaluations recognised in the Revaluation Reserve	89,926	96,941	7,015
At 31 March 2014	2,463,096	2,324,179	-138,917
Accumulated Depreciation and Impairment			
At 1 April 2013	-935,044	-796,412	138,632
Depreciation charge	-77,113	-81,022	-3,909
Impairment - academies	-104,526	44,298	148,824
At 31 March 2014	-1,144,477	-860,930	283,547
Net Book Value			
at 31 March 2013	1,279,978	1,421,502	141,524
at 31 March 2014	1,318,619	1,463,249	144,630

Group Accounts
In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the council and its wholly owned Local Authority Trading Companies, SE Business Services Ltd and Surrey Choices have been consolidated. The Group Accounts are presented in addition to the Council's 'single entity' financial statements and comprise:

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

These statements (the purposes of which are explained on page 3), together with those explanatory notes that are considered necessary in addition to those accompanying the Council's 'single entity' accounts, and accounting policies, are set out in the following pages.

Group Movement in Reserve Statement

2014/15	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Profit & Loss Reserve	Pension Reserve of Subsidiary	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2014	-21,331	-200,213	-20,280	-36,754	-148		**-278,726**	376,398	**97,672**
(Surplus) or deficit on provision of services (accounting basis)	162,699				155		**162,854**		**162,854**
Other comprehensive income & expenditure						1,573	**1,573**	-61,205	**-59,632**
Total comprehensive income & expenditure	**162,699**	**0**	**0**	**0**	**155**	**1,573**	**164,427**	**-61,205**	**103,222**
Adjustments between accounting basis & funding basis under regulations	-136,343	0	-10,195	-5,566			**-152,104**	152,104	**0**
Net increase/decrease before transfers to earmarkerd reserves	**26,356**	**0**	**-10,195**	**-5,566**	**155**	**1,573**	**12,323**	**90,899**	**103,222**
Transfers to/from earmarked reserves	-26,351	26,351	0	0			**0**	0	**0**
Increase/decrease in year	**5**	**26,351**	**-10,195**	**-5,566**	**155**	**1,573**	**12,323**	**90,899**	**103,222**
Balance at 31 March 2015	**-21,326**	**-173,862**	**-30,475**	**-42,320**	**7**	**1,573**	**-266,403**	**467,297**	**200,894**

2013/14	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Profit & Loss Reserve	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2013	-31,826	-181,031	-17,347	-58,241		**-288,445**	186,089	**-102,356**
(Surplus) or deficit on provision of services (accounting basis)	189,261				-148	**189,113**		**189,113**
Other comprehensive income & expenditure						**0**	10,915	**10,915**
Total comprehensive income & expenditure	**189,261**	**0**	**0**	**0**	**-148**	**189,113**	**10,915**	**200,028**
Adjustments between accounting basis & funding basis under regulations	-197,948	0	-2,933	21,487		**-179,394**	179,394	**0**
Net increase/decrease before transfers to earmarkerd reserves	**-8,687**	**0**	**-2,933**	**21,487**	**-148**	**9,719**	**190,309**	**200,028**
Transfers to/from earmarked reserves	19,182	-19,182	0	0		**0**	0	**0**
Increase/decrease in year	**10,495**	**-19,182**	**-2,933**	**21,487**	**-148**	**9,719**	**190,309**	**200,028**
Balance at 31 March 2014	**-21,331**	**-200,213**	**-20,280**	**-36,754**	**-148**	**-278,726**	**376,398**	**97,672**

Group Comprehensive Income & Expenditure Statement

Year ended 31 March 2014 Gross Expenditure £000	Income £000	Net Expenditure £000		Year ended 31 March 2015 Gross Expenditure £000	Income £000	Net Expenditure £000
444,116	-82,577	361,539	Adult Social Care	451,113	-75,977	**375,136**
1,110,517	-676,028	434,489	Education & Children's Services	1,011,124	-641,231	**369,893**
120,658	-20,595	100,063	Highways & Transport Services	141,649	-20,841	**120,808**
34,699	-4,836	29,864	Cultural and Related Services	32,775	-3,763	**29,012**
60,511	-2,146	58,364	Environmental & Regulatory Services	64,805	-2,002	**62,802**
13,723	-420	13,303	Planning Services	16,288	-1,672	**14,617**
13,015	-260	12,755	Housing General Fund	15,333	-66	**15,267**
45,069	-2,120	42,949	Fire Services	44,314	-2,100	**42,215**
23,252	-17,014	6,238	Corporate and Democratic Core	27,434	-19,486	**7,948**
7,353	-3,819	3,534	Central Services to the Public	6,782	-3,948	**2,834**
1,538	0	1,538	Court Services	1,947	-0	**1,947**
23,894	-23,620	274	Public Health	27,106	-29,152	**-2,046**
6,636	-19,072	-12,437	Non Distributed Costs	11,253	-8,615	**2,638**
1,904,982	-852,507	1,052,475	**Cost of Services - continuing operations**	**1,851,924**	**-808,820**	**1,043,071**
28,960	-25,755	3,205	Other Operating Income & Expenditure	31,435	-31,815	**-380**
123,706	-59,483	64,223	Financing & Investment Income & Expenditure	131,352	-62,011	**69,341**
	-601,480	-601,480	Local Taxation		-620,640	**-620,640**
	-329,346	-329,346	General Grants & Contributions		-328,621	**-328,621**
2,057,647	-1,868,572	189,076	**Surplus(-) or Deficit on Provision of Services**	**2,014,711**	**-1,851,941**	**162,770**
		37	Tax expense of subsidiaries			**81**
		189,113	**Group surplus/deficit**			**162,851**
		-85,444	(Surplus) or Deficit on revaluation of non current assets			**-304,719**
		96,359	Remeasurement of the net defined benefit liability			**245,087**
		10,915	**Other Comprehensive Income & Expenditure**			**-59,632**
		200,028	**Total Comprehensive Income & Expenditure**			**103,219**

Group Balance Sheet

As at 31 March 2014		As at 31 March 2015
1,463,249	Property, Plant & Equipment	1,726,341
665	Heritage Assets	665
29,186	Investment Property	30,850
4,307	Intangible Assets	4,534
332	Long Term Investments	465
10,535	Long Term Debtors	13,840
1,508,274	**LONG TERM ASSETS**	**1,776,695**
	Short Term:	
73,971	Investments	107,999
44	Intangible Assets	860
6,050	Assets Held for Sale	33,975
1,123	Inventories	1,110
124,027	Short Term Debtors	119,521
7,534	Cash & Cash Equivalents	18,038
212,749	**CURRENT ASSETS**	**281,503**
	Cash & cash equivalents	
	Short Term:	
-51,316	Borrowing	-32,563
-212,536	Creditors	-188,459
-4,685	Provisions	-2,626
-132	Revenue Grants Receipts in Advance	-171
-1,036	Capital Grants Receipts in Advance	-249
-6,088	Other Short Term Liabilities	-7,014
-37	Current tax liability	-81
-275,830	**CURRENT LIABILITIES**	**-231,163**
	Long term creditors:	
-9,391	Provisions	-22,831
-237,918	Long Term Borrowing	-397,815
-1,295,556	Other Long Term Liabilities	-1,607,283
-1,542,865	**LONG TERM LIABILITIES**	**-2,027,929**
-97,672	**NET ASSETS**	**-200,894**
-278,726	Usable Reserves	-266,405
376,398	Unusable Reserves	467,297
97,672		**200,894**

6

Group Cash Flow Statement

2013/14 £000		2014/15 £000
189,076	Net surplus (-) / deficit on the provision of services	**162,771**
-263,361	Adjustments to net surplus / deficit on the provision of services for non-cash movements	**-227,462**
-42,427	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities	**-32,240**
-116,712	**Net cash flows from operating activities**	**-96,931**
216,876	Purchase of property, plant & equipment, and investment property	**194,171**
-2,934	Proceeds from the sale of property, plant & equipment	**-10,195**
-30,025	Movement in short-term and long-term investments	**32,796**
1,702	Other receipts & expenditure from investing activities	**5,386**
185,619	**Net cash flows from investing activities**	**222,158**
5,906	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**5,412**
73,851	Repayment of short-term and long-term borrowing	**24,104**
-42,079	Receipts of short-term and long-term borrowing	**-165,247**
37,678	**Net cash flows from financing activities**	**-135,731**
106,585	**Net increase (-) / decrease in cash & cash equivalents**	**-10,507**
-114,119	Cash & cash equivalents at the beginning of the reporting period	**-7,534**
-7,534	Cash & cash equivalents at the end of the reporting period	**-18,038**

Note 1: General

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

Note 2: Group Boundary

The council has an interest in a number of entities, the most significant of which are the wholly owned Local Authority Trading Companies SE Business Services Ltd and Surrey Choices Ltd.

- S.E. Business Services Ltd – Provides business services such as IT data storage and was incorporated on 20 June 2013.
- Surrey Choices Ltd - The company delivers day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until August 2014.

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

Note 3: Accounting policies

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

Context
Surrey County Council (the council) has a responsibility 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 is required to prepare an Annual Governance Statement (AGS) under the Accounts and Audit (England) Regulations 2011.

The council is committed to fulfilling its responsibilities in accordance with the highest standards of good governance to support its Corporate Strategy "Confident in Surrey's future" and the council has adopted a Code of Corporate Governance through which good governance is evidenced. This AGS outlines the council's governance arrangements and achievements during 2014/15 and highlights areas to continue to strengthen governance in 2015/16.

The annual review of governance is overseen by the Governance Panel (the panel). The panel comprises the Director of Legal and Democratic Services [chair], the Director of Finance, 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 Statutory Responsibilities Network and the Audit and Governance Committee. The 2014/15 review has provided a satisfactory level of assurance on the governance arrangements for the year.

The governance environment during 2014/15
Purpose and Outcome
The Corporate Strategy, 'Confident in Surrey's 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 service plans. The Chief Executive reports progress on delivering the Corporate Strategy to full County Council on a six-monthly basis.

The council's strategic framework for innovation is supporting the development of new ideas and approaches. The New Models of Delivery Programme is enabling and assisting services in identifying and assessing opportunities in a structured way. The council's 'Improvement toolkit' uses a range of concepts, principles and tools that identify and support effective service delivery from the residents' and service users' perspective. The Digital Transformation Programme is looking at ways in which technology can be used as a platform to improve service delivery and support partners.

There has been an increased emphasis on commercial activity and Boards have been put in place to provide oversight. A Shareholder Board monitors the council's trading activity and ensures satisfactory performance of the trading companies created and owned by the council. An Investment Advisory Board provides strategic oversight of the Investment Strategy and evaluates investment opportunities prior to presentation to Cabinet. Both these Boards are member led and are supported by relevant internal and external professional advisors. 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. The arrangements have been further strengthened by a new member led Transformation Sub-Group that will scrutinise partnership models and the Shareholder Board.

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 member Boards. A Continual Improvement and Productivity Network oversees and tracks performance and improvement.

Leadership & Behaviour

During 2014/15 the formal directorate/service arrangements have been supplemented by the establishment of four key leadership networks; Statutory Responsibilities, Continual Improvement and Productivity, New Models of Delivery, Prosperous Places; and the Extended Leadership Team (senior managers). These networks tackle key challenges and opportunities focussed on cross-cutting priorities and strengthen the one team approach by broadening the leadership within the council.

The Chief Executive continues 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. All heads of service have quarterly meetings with the Chief Executive.

The functions of the Monitoring Officer (Director of Legal and Democratic Services) and 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 council's financial management arrangements fully comply with the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Financial Officer (CIPFA, 2010). The Director of Finance meets her financial responsibilities and ensures fully effective financial management arrangements are in place. She has reported directly to the Chief Executive throughout 2014/15 and is a member of Chief Executives Direct Reports and the Statutory Responsibilities Network. She has regular meetings with and has direct access to the Chief Executive, the Leader, Monitoring Officer, Chief Internal Auditor and External Auditor. The Director of Finance and the Chief Executive have regular support meetings with key budget holders. Budget workshops led by the Director of Finance are held with Cabinet and the Leadership Team on a monthly basis throughout the budget planning cycle. In addition, a programme of finance briefings for all members has been held throughout the year.

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 approved by full County Council.

The Cabinet comprises the Leader, Deputy Leader and eight additional Cabinet Members, with each Member holding the brief for a particular portfolio of services. Four Associate Cabinet Members support Cabinet portfolio holders in the most complex areas but do not have voting rights. Decisions can be taken by individual members of the Cabinet or collectively by the full Cabinet (excluding Associates).

The Staff and Member Codes of Conduct set out the expected high standards of conduct 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 Staff Code of Conduct is being refreshed following the internal audit of Organisational Ethics so that it explicitly references the Standards in Public Life.

Transparency and Stewardship

The council produces an Annual Report that demonstrates the delivery of priorities over the year through highlighting key data on performance and notable achievements; and includes the AGS and summary audited accounts. The 2013/14 Statement of Accounts was audited and approved for publication by the end of July 2014 (previously September).

A Capital Working Group, comprising of senior managers, recommends the council's capital budget and oversees monthly monitoring. The Investment Panel continues to ensure all proposed service capital investments have robust business cases before formal decision by Cabinet or Cabinet Member as appropriate. It is chaired by the Director of Finance and comprises senior leaders 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's risk management strategy are part of the Constitution and is reviewed annually. The Strategic Risk Forum, chaired by the Director of Finance, brings together lead officers from across the council to review and challenge risks and ensure a consistent risk approach is adopted. The Leadership risk register is regularly reviewed by the Statutory Responsibilities Network, Audit and Governance Committee and Cabinet. The Cabinet attended a risk workshop, facilitated by the Director of Finance, to review the Leadership risk register.

The council's external auditors' 2013/14 report on value for money published in July 2014 positively concluded that 'the council has adequate or better arrangements in place.'

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 range of communication channels are 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 gifts and hospitality register is online and provides a means for staff to register anything offered or accepted, making the entire process transparent.

The council has six member Boards who provide challenge to the Cabinet. Each Board will have a Performance & Finance Sub-Group to undertake scrutiny of budgets and corporate performance measures. The Council Overview Board, comprising the Board chairmen, 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 provides independent assurance on the council's control environment, the adequacy of the risk and governance arrangements, financial reporting and ethical standards. During the year a task group of the committee undertook a self-assessment of the committee's effectiveness in line with CIPFA best practice. The review concluded that the committee is generally effective and made a number of recommendations that are being implemented and progress will be reported through the committee's annual report.

The Surrey Local Government Pension Fund Board takes decisions on behalf of the council as the administering body for the Local Government Pension Scheme and meets four times a year. A new Local Pension Board has been established to assist the Surrey Pension Fund

Board in the exercise of its functions but has no decision making powers. There has also been the establishment of a Local Fire Pension Board to assist the Surrey Fire and Rescue Authority in the administration of its firefighters pension scheme.

An Effective audit opinion was given following an internal audit of Organisational Ethics. The review concluded that the council has effective arrangements in place to ensure its decisions are open, accountable and in line with recognised ethical standards.

The annual review of the effectiveness of the system of internal audit, undertaken by the Chief Internal Auditor, concluded that appropriate controls were in place during 2014/15 to ensure an effective internal audit service was provided.

The overall opinion of the Chief Internal Auditor on the internal control environment for 2014/15 is "some improvement needed". A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives met.

People

The People Strategy sets out the council's aims and objectives in relation to employees and the wider workforce, including volunteers, charities and members of the public who help the council to help residents.

The council makes a considerable investment in skills and professional development training to ensure safety, compliance, safeguarding and high standards of professionalism and customer care. The training and development programme includes a range of e-learning and classroom based courses, online guidance and websites. A high performance development programme is in place to ensure staff are resilient and are able to perform strongly in challenging and uncertain circumstances.

Engagement and collaboration

The council created two new companies in 2014/15. Surrey Choices Ltd is delivering Adult Social Care day services and community support and a property company has been created to strengthen the council's ability to invest in a diversified and balanced portfolio of assets.

The council continues to build on the strong relationships with key partners such as Surrey's Districts and Boroughs and other public bodies, and is making good progress on emergency service collaboration, the Surrey Family Support Programme and health and social care integration. A 'Collaborate event' was held in November 2014 that brought together over 400 leaders, senior managers and partners from across Surrey, Sussex and the South East to explore how services can be transformed by working together more effectively.

Surrey County Council and East Sussex County Council's business and support services have been brought together in partnership, known as Orbis, which will operate as one function under the management of a Joint Committee. The vision of the partnership is to create a resilient organisation that delivers value for money and is expected to develop and grow over time.

The trading standards services at Surrey County Council and Buckinghamshire County Council have been merged to form a new joint service, overseen by a Joint Committee. The shared strengths of the joint team allows for more effective protection to support residents and local businesses in both counties.

There has been continued focus on aiding the recovery post flooding. The council has worked with residents and businesses to help access grants for repairs to homes and repair flood damaged roads and bridges.

The council continues to develop Surrey-i, which publishes information about the council's residents and communities. It gives access to essential data, including customer needs, demand and supply side data. Snapshots are used to bring together information in a visual and user friendly way and these can be seen in the latest Annual Report.

The Surrey Residents Survey, jointly commissioned with Surrey Police, gathers customer satisfaction data and the results form part of the corporate performance scorecard. Formal customer feedback procedures ensure that feedback is both consistent and appropriate and outcomes are reported through a quarterly digest.

Continually strengthening governance

During 2014-15 concerns emerged regarding performance in Children's Services. As a result an Improvement Board was established chaired by the Deputy Leader and comprising the Lead Member for Children and representatives from the Liberal Democrats, Independents and UKIP. This Board will continue in 2015-16 to provide oversight of a detailed improvement programme.

Governance arrangements have been strengthened through the implementation of Management Action Plans in all the areas highlighted in the 2013/14 AGS, which were information governance, social care debt and children in care health and dental checks. Improvements have also been made in the procedures for profiling and monitoring capital spend.

There are a number of areas where there is a need to enhance the governance arrangements during 2015/16, in particular:

- **Children's and Safeguarding Service**
    - There is a need to reduce reliance on long term agency resource particularly in management/supervisory roles;
    - As the number of children in receipts of direct payments increases, the council must ensure it has sound systems in place to demonstrate that social care reviews are conducted in a timely manner in line with stated policy; and
    - The council needs to improve its administration of looked after children's personal finances to ensure it meets its statutory duty as the corporate parent.

- **Contract Management** – there is a need to ensure that the council's central contract management system contains key information on significant contracts to enable effective contract monitoring and timely procurement.

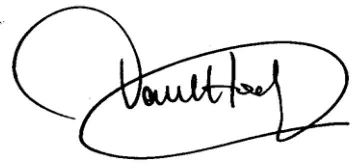
Focus for 2015/16

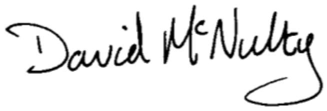
The scale of the strategic challenges the council is facing is increasing and the growing demand for services accelerated by new legislative responsibilities, alongside continuing to meet existing responsibilities. These include the implementation of the new duties incorporated in the Care Act and working with partners on the Better Care Fund Plan. The environment for delivering Adult Social Care and Children's Services is increasingly demanding due to complexity of cases, volumes and national concerns such as children in need. We will maintain our focus on programmes such as Family, Friends and Communities to assist with social care needs and demands. Strengthening our understanding of residents' experiences and our capability to co-design and co-deliver solutions is key to delivering our strategic goals.

The new Government brings potential changes to policy and future funding and long term financial planning will be challenging. We know we are going to have to continue thinking and working differently to find the best solutions for Surrey. Realising the opportunities identified by innovation work and seizing opportunities opened up by latest technology and digital developments will help to support the changes we want to make for residents, manage growing demands and ensure our county's economy remains strong and sustainable.

We will continue to make important investments and improvements for staff and members to ensure they have the training, support, equipment and working environments needed to work effectively and provide high standards of customer care for Surrey residents, businesses and the voluntary and community sector.

Signed:





Leader of the Council

July 2015

Chief Executive

July 2015

6

Explanatory Foreword

Legal status
The Firefighters' Pension Fund is administered by Surrey County Council; it falls within the jurisdiction of the council's chief finance officer for certification. Since 1st April 2006, the council has administered (the 1992 and the 2006 firefighters' pension) schemes from a separate local fire-fighter pension fund and therefore the firefighters' pension fund does not form part of the council's balance sheet.

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

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

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

As there are not any investment assets built up to meet these pension liabilities, cash, net of contributions from active members and government grants, has to be generated to meet pension payments as they fall due. When accounting for the cost of retirement benefits the liability is recognised and reported in the council's cost of services when pensions are earned by employees, rather than when the benefits are eventually paid as pensions. The 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 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £11.6m.

Significant accounting policies
The firefighters' pension fund account is prepared in accordance with the accounting policies as set out in the Chartered Institute Public Finance and Accountancy Code of Practice on Local Authority Accounting in the United Kingdom. The account summarises the transactions of the scheme and the net assets. Normal contributions, both from the members and from the employer which are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. The firefighters' schemes are prescribed by statute as unfunded defined benefit final salary schemes, the benefits of which are defined and guaranteed in law in accordance with the concept of the council as a going concern.
The fund accounts set out below do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

2013/14 £000	Ref: Note	**Firefighters' pension fund account**	**2014/15 £000**
		Contributions Receivable:	
-3,953	1	Contributions receivable from employer (normal)	-3,766
-2,575	1	Contributions receivable from employees	-2,754
-250	3	Individual transfers in from other schemes	-205
-6,778			**-6,725**
		Benefits payable	
11,070	2	Pensions	11,494
1,032	2	Commutations and lump sum retirement benefits	1,931
	2	Lump sum death benefits	123
169	3	Individual transfers out to other schemes	185
12,272		Total amounts payable	**13,733**
5,494		**Net amount receivable for the year before top-up grant**	**7,008**
-5,415	4	Top-up grant received from DCLG	-6,079
-79	4	Top-up grant still owing from DCLG	-929
-5,494		Net amount payable / receivable for the year	**-7,008**

31 March 2014 £000	**Net Asset Statement**	**31 March 2015 £000**
	Current assets:	
79	Pension top-up grant receivable from Central Government	**929**
79		**929**
	Current liabilities:	
-79	Cash overdrawn	**-929**
-79		**-929**

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 Firefighter' 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

6

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

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

Note 4 – Top up grant

The fund was topped up by Government grant of £7.008m in 2014/15 (£5.494m in 2013/14) as contributions were insufficient to meet the cost of pension payments due for the year. £6.079m was received in year leaving an outstanding balance of £0.929m due from government (£79,000 2013/14).

The council has been receiving the top up grant since 2006. In May 2014 it became apparent that between 2006 and 2013 the council had received funding under this grant for an element of firefighters' pensions relating to injury awards that should have been borne by the council under the terms of the scheme.. 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. During 2014/15 the council made a provision for the total amount of top-grant received for injury awards between 2006 and 2013 of £8.9m.

SURREY PENSION FUND ACCOUNTS 2014/2015

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2014/2015 and of the disposition of its assets at 31 March 2015.

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 2014 and 31 March 2015 are:

31 Mar 2014		31 Mar 2015
32,530	Employees in the fund	32,851
21,598	Pensioners	22,481
30,639	Deferred pensioners	33,833
84,767	**Total**	**89,165**

Surrey pension fund account

2013/2014 £000		Note	2014/2015 £000
	Contributions and benefits		
149,615	Contributions receivable	7	**173,448**
14,751	Transfers in	8	**7,656**
164,366			**181,104**
-119,223	Benefits payable	9	**-126,113**
-6,255	Payments to and on account of leavers	10	**-6,195**
-13,665	Investment and governance expenses	14	**-15,857**
-1,340	Administration expenses		**-1,550**
-140,483			**-149,715**
23,883	**Net additions from dealings with members**		**31,389**
	Return on investments		
49,654	Investment income	16	**56,444**
-1,081	Taxes on income	15	**-1,023**
176,328	Change in market value of investments	17	**299,210**
224,901	**Net return on investments**		**354,631**
248,784	**Net increase in the fund during the year**		**386,020**
	Net assets of the fund		
2,558,716	**At 1 April**		**2,807,500**
2,807,500	**At 31 March**		**3,193,520**

Net asset statement

31 Mar 2014 £000		Note	31 Mar 2015 £000
	Investment assets	17	
352,134	Fixed interest securities		**350,859**
94,675	Index linked securities		**161,260**
1,747,131	Equities		**1,908,092**
165,824	Property unit trusts		**199,410**
270,937	Diversified growth		**360,061**
101,814	Private equity		**112,642**
	Derivatives	17c	
31	- Futures		**0**
7,865	- Foreign exchange contracts		**3,082**
39,212	Cash		**77,218**
9,676	Other investment balances	17b	**9,033**
	Investment liabilities		
	Derivatives	17c	
-66	- Futures		**-288**
-3	- Foreign exchange contracts		**-11,501**
-7,718	Other investment balances	17b	**-2,441**
-4,500	Borrowings		**0**
2,777,012	**Net investment assets**		**3,167,427**
14,520	**Long-term debtors**	12	**12,705**
20,761	**Current assets**	11	**18,949**
-4,793	**Current liabilities**	13	**-5,561**
2,807,500	**Net assets of the fund at 31 March**		**3,193,520**

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

Note 1: Description of the fund

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

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2014/15 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 Public Services Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

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 2014/15 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 2015. 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
Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

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

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

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

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 2014/15 financial year and its position at the year end at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

Note 3: Summary of significant accounting policies

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs. The comparator figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance

Fund account – revenue recognition

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

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

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

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

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 2015 is reported as a current liability.

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

All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pension administration team are recharged to the fund.

Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

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

Governance costs reflect those expenses which fall outside the parameters of administrative or investment expenses. All oversight and governance expenses are accounted for on an accruals basis with associated staffing and overhead costs apportioned in accordance with council policy.

Net assets statement

h) Financial assets
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 by limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

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

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

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

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

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

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

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

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

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

l) Financial 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 2015 was £113 million (£102 million at 31 March 2014).

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 26. 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 2015 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, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Where	The total private equity investments in the financial statement are £113 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be	The total private equity fund of fund investments are £74 million. There is a risk that asset or investment transaction misclassification

	a lack of clarity over the classification of the sub funds and investment transactions	may occur.

Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in July 2015. 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

2013/2014 £000		2014/2015 £000
82,504	Employers	93,269
32,937	Employers deficit	43,580
34,174	Members	36,599
149,615		**173,448**

By authority

2013/2014 £000		2014/2015 £000
77,812	Administering authority	83,223
59,663	Scheduled bodies	75,565
12,140	Admitted bodies	14,660
149,615		**173,448**

The latest actuarial valuation carried out as at 31 March 2013, set revised contribution rates for fund employers with effect from April 2014. The financial year 2014/2015 is

Note 8: Transfers in from other pension funds

2013/2014 £000		2014/2015 £000

0	Group transfers from other schemes	0
14,751	Individual transfers in from other schemes	7,656
14,751		**7,656**

Note 9: Benefits payable

By category

2013/14 £000		2014/15 £000
99,529	Pensions	106,175
17,092	Commutation and lump sum retirement benefits	17,734
2,519	Lump sum death benefits	2,170
83	Interest on late payment of benefits	34
119,223		**126,113**

By employer

2013/2014 £000		2014/2015 £000
55,943	Administering Authority	60,937
53,503	Scheduled Bodies	55,571
9,694	Admitted Bodies	9,571
119,140		**126,079**

Note 10: Payments to and on account of leavers

2013/2014 £000		2014/2015 £000
0	Group transfers to other schemes	0
6,222	Individual transfers to other schemes	5,896
31	Refunds of contributions	227
2	Payments for members joining state schemes	72
6,255		**6,195**

Note 11: Current assets

2013/2014 £000		2014/2015 £000
3,364	Contributions - employees	2,816
13,314	Contributions - employer	10,196
4,083	Sundry debtors	5,937
20,761		**18,949**

Analysis of current assets

2013/2014 £000		2014/2015 £000
1,984	Central government bodies	3,112
16,980	Other local authorities	13,713
1,797	Other entities and individuals	2,123
20,761		**18,948**

Note 12: Long term debtors

2013/2014 £000		2014/2015 £000
14,520	Central government bodies	12,705
14,520		**12,705**

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 2015 is £14.520m but £1.815m is due in 2014/15, leaving a long term debtor of £12.705m.

Note 13: Current liabilities

2013/2014 £000		2014/2015 £000
4,731	Sundry creditors	5,541
62	Benefits payable	20
4,793		**5,561**

Analysis of current liabilities

2013/2014 £000		2014/2015 £000
1,225	Central government bodies	1,408
1,550	Other local authorities	1,664
2,018	Other entities and individuals	2,489
4,793		**5,561**

Note 14: Investment and governance expenses

2013/2014 £000		2014/2015 £000
12,731	Investment management fees	14,908
218	Investment custody fees	226
716	Oversight and governance costs	723
13,665		**15,857**

The investment management fees above includes £3.9million (2013/14:£3.5million) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £1.6million in respect of transaction costs (2013/14: £1.6million).

Note 15: Taxes on Income

2013/2014 £000		2014/2015 £000
790	Withholding tax - equities	603
291	Withholding tax - property	420
1,081		**1,023**

Note 16: Investment income

2013/2014 £000		2014/2015 £000
	Fixed interest	
5,859	UK	5,905
5,581	Overseas	5,873
2	**Index linked**	54
	Equities	
18,017	UK	18,781
10,244	Overseas	10,605
6,069	**Property unit trusts**	7,936
2,103	**Diversified growth**	2,601
1,554	**Private equity**	3,793
152	**Interest on cash deposits**	523
73	**Other**	373
49,654		**56,444**

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 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2014 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Market movements £000	Market value at 31 Mar 2015 £000
Fixed interest securities	**352,134**	50,397	-78,009	26,337	**350,859**
Index linked securities	**94,675**	143,817	-102,781	25,549	**161,260**
Equities	**1,747,131**	643,615	-679,281	196,627	**1,908,092**
Property unit trusts	**165,824**	33,218	-17,909	18,277	**199,410**
Diversified growth	**270,937**	60,253	0	28,871	**360,061**
Private equity	**101,814**	32,424	-40,239	18,643	**112,642**
Derivatives					
- Futures	**-35**	1,447	-159	-1,541	**-288**
- Forex contracts	**7,862**	11,823	-14,551	-13,553	**-8,419**
	2,740,342	**976,994**	**-932,929**	**299,210**	**3,083,617**
Cash	**39,212**				**77,218**
Other investment balances	**1,958**				**6,592**
Borrowing	**-4,500**				**0**
	2,777,012			**299,210**	**3,167,427**

	Market value at 31 Mar 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	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**	396,377	-363,306	139,373	**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**	47,550	-36,250	178	**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**	**176,486**	**2,740,342**
Cash	**59,723**			-158	**39,212**
Other investment balances	**7,318**				**1,958**
Borrowing	**-**				**-4,500**
	2,533,104			**176,328**	**2,777,012**

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 17b: Analysis of investments

	31 Mar 2014	31 Mar 2015
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	136,448	148,648
UK pooled funds	86,739	51,905
Overseas public sector & quoted	60,175	76,104
Overseas pooled fund	68,772	74,202
	352,134	**350,859**
Index linked securities	94,675	161,260
Equities		
UK quoted	513,497	540,276
UK pooled funds	237,645	276,454
Overseas quoted	460,880	554,463
Overseas pooled funds	535,109	536,899
	1,747,131	**1,908,092**
Property unit trusts		
UK property funds	157,900	194,992
Overseas property funds	7,924	4,418
	165,824	**199,410**
Diversified growth		
UK diversified growth funds	0	0
Overseas diversified growth funds	270,937	360,061
	270,937	**360,061**
Private equity		
UK limited partnerships	23,431	24,905
Overseas limited partnerships	25,770	13,852
UK fund of funds	0	0
Overseas fund of funds	52,613	73,885
	101,814	**112,642**
Derivatives		
Futures	-35	-288
FX forward contracts	7,862	-8,419
	7,827	**-8,707**
Cash deposits	**39,212**	**77,218**
Borrowings	**-4,500**	**0**
Other investment balances		
Outstanding sales	3,291	2,239
Outstanding purchases	-7,693	-2,408
Tax due on accrued income	-25	-33
Accrued income - dividends and interest	6,385	6,794
	1,958	**6,592**
Total investments	**2,777,012**	**3,167,427**

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. At 31 March 2015 the fund had two futures contracts in place with a net unrealised loss of £288k (net unrealised loss of £36k at 31 March 2014).

2014/15

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	19/06/2015	3 Months	US Treasury Bonds	3,312	0	-64
Futures	26/06/2015	3 Months	UK Government Bonds	11,471	0	-224
				14,783	**0**	**-288**

2013/14

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	20/06/2014	3 Months	UK Equity	3,992	31	0
Futures	26/06/2014	3 Months	UK Government Bonds	10,077	0	-66
				14,069	**31**	**-66**

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 2015 the Fund had forward currency contracts in place with a net unrealised loss of £8,419k (net unrealised gain of £7,862k at 31 March 2014).

2014/15

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	63	-380	0	-1
1	One Month	CHF	GBP	69	-48	0	0
1	One Month	EUR	GBP	98	-71	0	0
2	Two Months	EUR	GBP	5,183	-3,831	0	-78
1	One Month	GBP	DKK	176	-1,817	0	0
1	One Month	GBP	EUR	142	-196	0	0
1	Two Months	GBP	EUR	11,511	-15,348	399	0
5	Three Months	GBP	EUR	101,285	-136,236	2,603	0
4	Three Months	GBP	JPY	60,634	-11,040,774	0	-1,458
1	One Month	GBP	MXN	24	-535	0	0
1	Two Months	GBP	MXN	1,095	-24,670	7	0
1	One Month	GBP	NOK	78	-931	0	0
1	One Month	GBP	SEK	133	-1,708	0	0
5	Two Months	GBP	USD	16,218	-24,789	0	-486
7	Three Months	GBP	USD	262,793	-403,768	0	-9,308
1	One Month	GBP	ZAR	13	-228	0	0
1	One Month	HKD	SGD	463	-82	0	0
1	One Month	JPY	USD	1,117,909	-9,437	0	-76
1	One Month	USD	BRL	1,265	-4,002	14	0
1	One Month	USD	GBP	777	-525	0	-2
1	One Month	USD	JPY	9,412	-1,117,909	59	0
1	Three Months	USD	JPY	10,576	-1,283,435	0	-92
						3,082	**-11,501**

6

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	0	0
1	One month	EUR	DKK	31	-234	0	0
11	One month	EUR	GBP	260	-215	0	0
6	Two months	GBP	EUR	105,885	-127,629	351	0
1	One month	GBP	HKD	34	-443	0	0
3	Two months	GBP	JPY	55,062	-9,092,353	2,079	0
5	One month	GBP	USD	1,918	-3,191	4	0
10	Two months	GBP	USD	242,455	-395,044	5,431	0
1	One month	HKD	SGD	495	-80	0	0
3	One month	JPY	GBP	80,204	-470	0	-3
1	One month	USD	AUD	9	-9	0	0
						7,865	**-3**

Stock Lending

During the financial year 2014/15 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 15 the value of quoted securities on loan was £137.5million in exchange for collateral held by the fund custodian at fair value of £148.7million

Note 17d: Investments analysed by fund manager

Market value 31 March 2014 £000	%	Manager	Market value 31 March 2015 £000	%
865,106	32.3	Legal & General Investment Management	918,551	30.6
190,067	7.1	Majedie Asset Management	308,575	10.3
106,845	4.0	Mirabaud Asset Management	0	0.0
236,582	8.9	UBS Asset Management	242,069	8.0
365,046	13.6	Marathon Asset Management	424,497	14.1
200,853	7.5	Newton Investment Management	242,915	8.1
205,702	7.7	Western Asset Management	232,799	7.8
68,772	2.6	Franklin Templeton Investments	69,454	2.3
148,437	5.6	Standard Life Investments	227,691	7.6
122,500	4.6	Baillie Gifford Life Limited	132,370	4.4
143,060	5.4	CBRE Global Multi-Manager	179,326	6.0
20,000	0.7	Darwin Property Investment Management	23,354	0.8
2,672,970			**3,001,601**	

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 2014 £000	% of total fund	Security	Market value 31 March 2015 £000	% of total fund
410,273	14.8	Legal & General World Developed Equity Index	393,877	12.4
221,203	8.0	Legal & General UK Equity Index	276,450	8.7
148,437	5.3	Standard Life Global Absolute Return Strategies	163,459	5.2

6

Note 18a: Classification of financial instruments

The following table analyses the fair value of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2014				As at 31 March 2015		
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			
352,134	0	0	Fixed interest securities	350,859	0	0
94,675	0	0	Index linked securities	161,260	0	0
1,747,131	0	0	Equities	1,908,092	0	0
165,824	0	0	Property unit trusts	199,410	0	0
270,937	0	0	Diversified growth	360,061	0	0
101,814	0	0	Private equity	112,642	0	0
7,896	0	0	Derivatives	3,082	0	0
0	39,212	0	Cash	0	77,218	0
9,676	0	0	Other investment balances	9,033	0	0
0	35,281	0	Debtors	0	31,654	0
2,750,087	**74,493**	**0**	**Total financial assets**	**3,104,439**	**108,872**	**0**
			Financial liabilities			
-69	0	0	Derivatives	-11,789	0	0
-7,718	0	0	Other investment balances	-2,441	0	0
0	0	-4,793	Creditors	0	0	-5,561
-4,500	0	0	Borrowings	0	0	0
-12,287	**0**	**-4,793**	**Total financial liabilities**	**-14,230**	**0**	**-5,561**
2,737,800	**74,493**	**-4,793**		**3,090,209**	**108,872**	**-5,561**

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

6

31 March 2015	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	2,877,727	93,600	133,112	3,104,439
Total financial assets	**2,877,727**	**93,600**	**133,112**	**3,104,439**
Financial liabilities				
Financial liabilities though profit & loss	14.230	0	0	14,230
Total financial liabilities	**14.230**	**0**	**0**	**14,230**
Net financial assets	**2,863,497**	**93,600**	**133,112**	**3,090,209**

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	0	0	12,287
Total financial liabilities	**12,287**	**0**	**0**	**12,287**
Net financial assets	**2,525,512**	**70,289**	**141,999**	**2,737,800**

Note 18c: Book cost

The book cost of all investments at 31 March 2015 is £2,489million (£2,285million at 31 March 2014).

Note 19: Outstanding commitments

At 31 March 2015 the Fund held part paid investments on which the liability for future calls amounted to £98million (£107million as at 31 March 2014).

Note 20: Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) **Market risk**

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

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

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

Other price risk – Sensitivity Analysis

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 2014/15 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2015 £000	Change	Value on increase £000	Value on decrease £000
UK equities	816,730	9.76%	896,443	737,017
Overseas equities	1,091,362	9.09%	1,190,567	992,157
Fixed interest bonds	350,859	5.52%	370,226	331,492
Index linked	161,260	9.33%	176,306	146,214
Cash	77,218	0.01%	77,226	77,210
Property	199,410	2.43%	204,256	194,564
Alternatives	112,642	5.60%	118,950	106,334
Diversified growth fund	360,061	3.27%	371,835	348,287
Other assets	-2,115	0.00%	-2,115	-2,115
Total Investment Assets	**3,167,427**	**6.12%(2)**	**3,361,274**	**2,973,580**

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
Fixed interest bonds	352,134	5.55%	371,677	332,591
Index linked	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.

Interest rate risk

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

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2014 £000		**As at 31 March 2015 £000**
39,212	Cash & cash equivalents	77,218
352,134	Fixed interest securities	350,859
391,346	**Total**	**428,077**

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 2015	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	77,218	772	-772
Fixed interest securities	350,859	3,509	-3,509
Total	**428,077**	**4,281**	**-4,281**

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**

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.

6

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 2014/15 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2015 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,074,070	5.94%	1,137,820	1,010,320
Fixed interest	117,553	5.94%	124,530	110,576
Property and Private Equity	94,249	5.94%	99,843	88,655
Diversified Growth	360,061	5.94%	381,432	338,690
Cash and Other Assets	-3,644	5.94%	-3,860	-3,428
Total	**1,642,289**	**5.94%**	**1,739,765**	**1,544,813**

For comparison last year figures are included below.

Asset type	Value at 31 March 2014 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,346,686	5.30%	1,418,101	1,275,270
Fixed interest	81,040	5.30%	85,337	76,742
Property and Private Equity	83,469	5.30%	87,895	79,043
Diversified Growth	270,937	5.30%	285,305	256,569
Cash and Other Assets	-388,294	5.30%	-408,885	-367,703
Total	**1,393,837**	**5.30%**	**1,467,753**	**1,319,921**

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 2014 £000		**Balance at 31 March 2015 £000**
	Call account	
0	NatWest	7,400
	Money market fund	
0	Goldman Sachs	15,000
	Current account	
-402	HSBC	-193
-402	Internally Managed Cash	22,207
39,614	Externally Managed Cash	55,011
39,212	**Total Cash**	**77,218**

The fund's cash holding under its treasury management arrangements as at 31 March 2015 was £22.2million (£-0.4million at 31 March 2014).

c) Liquidity risk

6

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.

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.

6

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2014/15 amounted to £64,074k (£59,321k in 2013/14).

2013/2014 £000		2014/2015 £000
42,483	Employers' current service contributions	42,996
16,379	Lump sum payments to recover the deficit in respect of past service	18,834
459	Payments into the fund to recover the additional cost of early retirement liabilities	2,244
59,321		**64,074**

ii) Surrey Pension Fund paid Surrey County Council £1,662k for services provided in 2014/15 (£1,503k in 2013/14).

2013/2014 £000		2014/2015 £000
188	Treasury management, accounting and managerial services	252
1,315	Pension administration services	1,410
1,503		**1,662**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2015 were £6,594k (£9,820k at 31 March 2014).

Note 22: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions that can be attributed to the fund.

2013/14 £	Position	2014/15 £	
20,057	Chief Finance Officer	22,313	1
74,780	Pension Fund & Treasury Manager	67,659	2
48,054	Senior Accountant	52,653	3
142,891		**142,625**	

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 23: Custody

Custody arrangements for all securities and cash balances are provided by the fund's global custodian, The Northern Trust Company, excluding private equity investments and internally held cash. For the Fund's private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private equity are as follows:

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

Note 24 : Actuarial statement for 2014/15 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of funding policy

The funding policy is set out in the 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

6

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	31 March 2013 % 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.

Experience over the year since April 2014

Real bond yields have fallen dramatically (leading to a higher liability). The effect of this has been only partially offset by the strong asset returns. Overall funding levels are likely to have remained approximately the same as at the 2013 valuation, but the monetary amount of the deficit will have increased over this period as both asset and liability values have increased in size.

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

Barry McKay FFA

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

June 2015

Note 25: Actuarial present value of future retirement benefits

6

CIPFA's Code of Practice on Local Authority Accounting 2014/15 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 2015 £m**
Present value of promised retirement benefits	4,151	4,984

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 2015 comprises £2,384m in respect of employee members, £989m in respect of deferred pensioners and £1,611m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member 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 2015 is to increase the actuarial present value by £662m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2014	31 March 2015
Inflation/pension increase rate	2.8%	2.8%
Salary increase rate	4.1%	5.1%
Discount rate	4.3%	4.5%

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..

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 15 April 2015. 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.

Anne Cranston AFA

21 May 2015

6

For and on behalf of Hymans Robertson LLP

Note 26: Additional Voluntary Contributions

Market Value 2013/14 £000	Position	Market Value 2014/15 £000
8,243	Prudential	9,613
8,242		**9,613**

Additional Voluntary Contributions, net of returned payments, of £2.1million were paid directly to prudential during the year (£1.4million during 2013/14).

Note 27: 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 28: Annual report

The Surrey Pension Fund Annual Report 2014/2015 provides further details on the management, investment performance and governance of the Fund.

Annex 1. Accounting policies

i. General principles
The statement of accounts summarises the council's transactions for the 2014/15 financial year and its position at the year end 31 March 2015. 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 2014/15 and the Service Reporting Code of Practice 2014/15 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.

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

<u>Benefits payable during employment</u>
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.

<u>Termination benefits</u>
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.

6

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

Post-employment benefits
Employees of the council may be members of four separate pension schemes:

- the 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 Firefighters' 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 firefighter scheme is unfunded meaning that liabilities are recognised when awards are made and hence there are no investment assets; cash has to be built up to meet actual pension payments as they fall due (net of contributions from active members and government grant). Deficits on the Firefighters' Pension Scheme are covered by a government grant received each year from the 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.

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:

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied (i.e. will be expended as intended) the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xii. Heritage assets

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

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

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

xiii. Intangible assets

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

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

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

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

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

xiv. Interests in companies/other entities and jointly controlled operations/assets

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

In 2014/15 group accouts have be produced based on qualitative factors. The use of Local Authority Trading Companies, such as S.E. Business Service and Surrey Choices is a new development for the council and there is significant interest from members and public about what effect this will have on the financial position and performance of the council. In order to provide a full picture of the financial performance of the group, group accounts have been provided for 2014/15 along with comparators for 2013/14.

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

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

xvi. Leases
Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee otherwise all other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The council as lessee

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

- a charge for the acquisition of the interest in the property, plant or equipment to be applied to write down the lease liability;
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

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

The council as lessor

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

Lease rentals receivable are apportioned between:

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

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

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating leases
Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvii. Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 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.

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 (including assets held for sale)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition
Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

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.

Measurement
Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.
Assets are then carried in the Balance Sheet using the following measurement bases:

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

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

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

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified they are accounted for in the same way as for a revaluation loss.

Where an impairment loss is reversed subsequently the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation
Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, community assets and heritage assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

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

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

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

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

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use it is reclassified as an asset held for sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is 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.

xx. 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.

xxi. 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.

xxii. 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 firefighters' pension scheme's liabilities expected to arise from employee service in the current period.

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

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

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

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

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

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

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

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

Government grants
Financial assistance from central government, or its agents, in the form of cash transfers 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.

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.

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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 for Surrey County Council

Year ended 31 March 2015

July 2015

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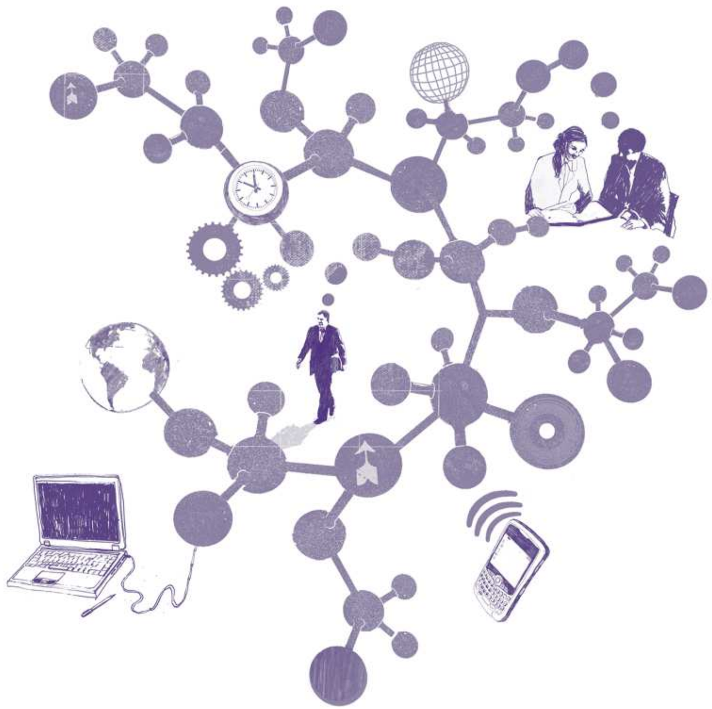

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July 2015

Dear Sirs

Audit Findings for Surrey County Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Surrey County Council, the Audit and Governance Committee) , as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours faithfully

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

Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	24
4. Fees, non-audit services and independence	30
5. Communication of audit matters	32
Appendices	
A Action plan	35
B Audit opinion	36

Section 1: Executive summary

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

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Surrey County Council's (the Council) group and Council financial statements for the year ended 31 March 2015. 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 UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the group and Council's financial statements present a true and fair view of the financial position and 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 had to alter our planned audit approach, which we communicated to you in our Audit Plan dated 9 April 2015. Specifically, we have had to undertake additional procedures for our value for money conclusion in respect of the publication of the Ofsted report on Children's Services in June 2015.

As at 16 July our audit is nearing completion although we are finalising our procedures in a small number of areas:

Audit testing still to complete:

- Related party transactions

Procedures to be performed as part of audit closing procedures once above matters resolved:

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation once it has been signed at the Audit and Governance Committee meeting
- updating our post balance sheet events review, to the date of signing the opinion
- testing of the Whole of Government Accounts return.

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 in respect of the financial statements.

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6

Page 220

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

- produced draft financial statements and working papers to a good standard , bringing forward the timetable for working paper preparation
- successfully prepared group accounts for the first time in respect of S. E. Business Services Limited and Surrey Choices.
- the timeliness of response to audit queries could be improved. This will be important in enabling the Council to close down its accounts more efficiently ahead of the statutory deadline for audited accounts moving forward in 2017/18.

During the course of our audit management identified two adjustments affecting the group's and Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2015 recorded net expenditure of £1,021m. The equivalent figure per the audited financial statements is £1,043m. The adjustments relate to:

- An amendment in respect of the collection fund required on receipt of the council tax and business rate returns from Surrey District and Borough Councils.
- The accounting treatment in respect of three foundation schools that gained academy status during the year.

Management have also made additional disclosure in the financial statements regarding a critical judgement re the derecognition of the three schools mentioned above. The impairment charge in respect of these schools would be £23.3m. Rather than make a charge to the general fund in respect of the derecognition, management have applied a statutory override. It is currently unclear as to whether the application of the override is permitted by the regulations. CIPFA's view is that the applicable statutory adjustment is for the authority to determine and the Council should obtain its own advice as to the statutory basis for the reversal of the loss. We are satisfied that the impact is not material on the 2014/15 financial statements. However we recommend that the Council obtains legal advice to determine if the approach it has taken is appropriate. Further details are provided on page 18 of this report.

Value for Money conclusion

The Council continues to have good arrangements in place to secure financial resilience. In determining our conclusion on the Council's arrangements for challenging economy, efficiency and effectiveness, we have had regard to Ofsted's findings from its new style multi-agency inspection of services for children in need of help and protection, children looked after and care leavers. The inspection took place in October and November 2014 at the Council's request and concluded that children's services were inadequate. Immediately following the inspection the Council established an Improvement Board to action Ofsted's recommendations.

We propose to issue a value for money conclusion which is qualified on an 'except for' basis in respect of this one matter. This is based on the outcome of Ofsted's inspection and not on any further inspection work performed by Grant Thornton in respect of children's services. We have not identified any weaknesses in other arrangements. Further detail of our work on Value for Money is set out in section three of this report.

Whole of Government Accounts (WGA)

As at 16 July we have not completed our work in respect of the Whole of Government Accounts in accordance with the national timetable.

We will update Audit and Governance Committee members with the findings of our work.

Controls

Roles and responsibilities

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.

Findings
Our work has not identified any control weaknesses which we wish to highlight for your attention.
Further details are provided within section two 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 small 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 2015

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Section 2: Audit findings

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

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the 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 9 April 2015. 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 made one change to our Audit Plan as previously communicated to you on 9 April 2015. Further details are provided on page 5.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 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 (UK&I) 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 the risk identified.
2.	**Management override of controls** Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	• testing of journal entries • review of unusual significant transactions • review of accounting estimates, judgements and decisions made by management	Our audit work has not identified any issues in respect of the risk identified.

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Valuation of property, plant and equipment** The Council undertakes a rolling programme of revaluations of its land and buildings. This represents a significant estimate by management in the financial statements.	• Identification of the controls put in place by management to ensure that the carrying value of property, plant & equipment is not materially different from fair value at year end. An assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Review of the consistency of the financial statements with the valuation report from your valuers • Performing procedures to confirm the reasonableness of the proposed revaluations, including reference to national trends.	Our audit work has not identified any issues in respect of the risk identified.
4.	**Valuation of property, plant and equipment – schools** Guidance issued during 2014 has confirmed that maintained schools (but not free schools or academies) are separate entities, and that under IFRS 10 they meet the definition of entities controlled by local authorities which should be consolidated in group accounts. The 2014/15 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires local authorities to account for maintained schools within their single entity accounts. Identifying and accounting for school land and buildings not already included in the Council's accounts is a significant exercise.	• We have discussed the guidance with finance team and agreed an approach for the accounting of the authority's voluntary-aided, voluntary-controlled and foundation schools. • Identification of the controls put in place by management to ensure the schools to be included in the authority's accounts are correctly identified and accounted for. An assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Review of the judgements made by management for each school reviewed and agree the land and buildings included to supporting working papers.	Our audit work has not identified any issues in respect of the risk identified.

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5.	**Consolidation – schools** Guidance issued during 2014 has confirmed that maintained schools (but not free schools or academies) are separate entities, and that under IFRS 10 they meet the definition of entities controlled by local authorities which should be consolidated in group accounts. The 2014/15 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. Identifying and accounting for schools not already included in the Council's accounts is a significant exercise.	• We have discussed the guidance with the finance team and agreed an approach for the accounting of the authority's voluntary-aided, voluntary-controlled and foundation schools • Identification of the controls put in place by management to ensure the schools to be included in the authority's accounts are correctly identified and accounted for. Assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Review of the judgements made by management for each school assessed. **As at 16 July**, the following procedures are in progress: • Testing of assets and liabilities, income and expenditure for those schools included to supporting working papers.	Subject to resolution of the outstanding issues as detailed on page 5 of this report, our audit work has not identified any issues in respect of revenue recognition. We will update Audit and Governance Committee members with the findings from our work.
6.	**Valuation of pension fund liability** The Council's pension fund liability represents a significant estimate in the financial statements.	• We have identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have concluded these controls were implemented as expected and are sufficient to mitigate the risk of material misstatement. • Review of the consistency of the financial statements with the actuarial report from your actuary • Procedures to confirm the reasonableness of the actuarial assumptions made.	Our audit work has not identified any issues in respect of the risk identified.

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Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
7.	**Consolidation – S.E. Business Services Limited and Surrey Choices Limited.** The Council will be preparing consolidated accounts for the first time this year. Although its subsidiaries' accounts are not expected to be quantitatively material to the group, they are qualitatively material.	• Identification of the controls put in place by management over the consolidation process. Assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of misstatement and ensure that all required disclosures are made. • Review and testing of the consolidation working papers and agreement to supporting evidence**.**	Our audit work has not identified any issues in respect of the risk identified.

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	• Walkthrough of your controls in place over operating expenditure • Review of the year-end reconciliation of your accounts payable system to the general ledger • Testing of year-end creditors and accruals • Testing of post-year end payments	Our audit work has not identified any issues in respect of the risk identified.
Employee remuneration	Employee remuneration accruals understated	• Walkthrough of your controls in place over payroll expenditure • Review of the year-end reconciliation of your payroll system to the general ledger • Trend analysis of the monthly payroll runs from during the year • Testing of employee contracts to provide sufficient assurance over existence and occurrence.	Our audit work has not identified any issues in respect of the risk identified.
Property, plant and equipment	Property, plant and equipment activity not valid	• Walkthrough of your controls in place over property, plant and equipment • Review of the reconciliation of your fixed assets register to the general ledger • Testing of a sample of disposals • Testing of a sample of additions • Testing of the depreciation charge for the year	Our audit work has not identified any issues in respect of the risk identified.

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
S. E. Business Services Limited	No	Targeted	None	Agreement of amounts to underlying financial records and performance of a high level analytical review.	Our audit work has not identified any issues in respect of the risk identified.
Surrey Choices Limited	No	Targeted	None	Agreement of amounts to underlying financial records and performance of a high level analytical review.	Our audit work has not identified any issues in respect of the risk identified.

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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 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: (i) The Council will comply with the conditions attached to the payments; and (ii) The grants or contributions will be received.	• The accounting policies are adequately disclosed in line with the requirements of the Code • Our testing of government grants and contributions has not identified any instances of improper revenue recognition.	Green
Estimates and judgements	Critical judgements include: • Recognition of grants and contributions • Accounting treatment of the Council's PFI scheme • Whether group accounts should be prepared • Applying the statutory override in not making a charge to the Council's general fund in respect of 3 schools that converted to academy status in the year Key estimates include: • The useful lives of property, plant & equipment • Provisions • Pensions 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. • Whilst the Council's companies are numerically immaterial to the financial statements, the Council has still prepared group accounts this year. • The Council's judgement in relation to the schools converting to academies has been referred to by means of a disclosure in the revised financial statements. Further detail is provided on page 17 of this report.	Green

Page 230

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

DRAFT

Accounting policies, estimates & judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Judgements - local authority maintained schools premises	As a result of guidance requiring local authorities to account for maintained schools within their single entity accounts, the Council has undertaken a review of its schools to determine which of these to include in its accounts.	The Council has included in the revised financial statements an expanded disclosure of their judgements made over schools consolidation that more fully reflects the decisions taken.	● **Green**
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	● **Green**
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	● **Green**

Page 231

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

DRAFT

9

Accounting policies, estimates & judgements (continued)

Accounting area	Summary of policy	Comments
Judgements - schools converting to academy status during the year	There were 3 foundation schools within the county that gained academy status during 2014/15. When this transfer took place the schools were removed from the council's accounts. There are two approaches that determine the accounting treatment when this takes place: • If a foundation school is on the council's balance sheet by virtue of the council owning the land, and if the school becomes an academy, then when it is written off, a statutory adjustment is made against the capital adjustment account. • If a foundation school is on the council's balance sheet by virtue of the school's control, and the school becomes an academy, it is unclear whether this adjustment against the CAA is permitted and as a result the loss should be charged to the general fund. The general fund is used by the council as a basis for setting its annual budget each year. The Council has three foundation schools that have become academies during the year and which fit into the second category above. The impairment charge in respect of these schools would be £23.3m. Management have not applied this charge to the general fund in the draft financial statements and it is unclear whether the regulations permit this approach. CIPFA's view is that the applicable statutory adjustment is for the authority to determine and the Council should obtain its own advice as to the statutory basis for the reversal of the loss.	Management has decided not to charge this amount to the general fund as they consider that this would represent a double charge to the public purse in respect of these assets. We are awaiting receipt of the Council's legal advice on this matter.

Page 232

DRAFT

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 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 Council.
4.	Disclosures	• Our review found no non-trivial 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.	Confirmation requests from third parties	• We obtained direct confirmations from the PWLB, the Council's bank and counterparties with whom the Council has placed investment deposits. All of these confirmations positively stated the balances included in the Council's financial statements.

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Property, Plant & Equipment, Employee Remuneration and Operating Expenses as set out on page 13.

The controls were found to be operating effectively and we have no matters to report to the Audit and Governance Committee.

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial 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. There were no unadjusted misstatements.

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 has processed an adjustment to the collection fund in respect of council tax and business rate returns received from Surrey District and Borough Councils. We have agreed the final details of this adjustment with the finance team.	Cr local taxation 4,424	Dr debtors 5,187 Dr creditors 1,288 Cr provisions 2,051 Cr unusable reserves – collection fund adjustment account 4,424	Cr deficit on provision of services 4,424
2	The revaluation gain on Foundation Schools as at 31 March 2015 was incorrectly recorded in the draft financial statements. This has no net impact on the Council's recorded financial position and has been corrected by management.	Nil	Dr property, plant & equipment 6,260 Dr unusable reserves - revaluation reserve 3,024 Cr property, plant & equipment 3,024	Nil
3	The upward revaluation of three foundation schools in 2013/14 that converted to academy status in 2014/15 has been incorrectly accounted for in the draft financial statements. This has no net impact on the Council's recorded financial position and management have agreed to correct for this in the revised financial statements. We are awaiting evidence to support the impact on the financial statements.	Dr cost of services – education and children's services 22,131	Cr unusable reserves – revaluation reserve 5,871 Cr unusable reserves – capital adjustment account 389	Dr deficit on provision of services 22,131
	Overall impact	**(17,707)**	**(7,660)**	**(17,707)**

DRAFT

9

Impact of uncorrected misstatements in the prior year

	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	This adjustment was immaterial to the 13/14 financial statements. Management have corrected for this in the 14/15 financial statements.
	Overall impact	**(2,715)**	**2,715**	

Page 236

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	n/a	Note 12 – Property, plant & equipment and Note 14 – Foundation, voluntary aided and voluntary controlled schools and academies	The Council has agreed to update these disclosures to reflect: - The rationale for judgements made over which local authority maintained schools to include in the council's accounts (note 14) - An inconsistency between reference to historical cost and a rolling programme of asset revaluation (note 12)
2	Disclosure	n/a	Note 27 – Senior officer remuneration	The Council has revised this disclosure to correct for small errors in the 2014/15 salary figures of four officers.
3	Disclosure	n/a	Note 30 – External audit costs	To ensure compliance with the CIPFA Code of Local Practice, the Council has amended this disclosure so as to include the current and prior year external audit fees at their gross values, before deduction of rebates received from the Audit Commission.

Section 3: Value for Money

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

Value for Money

Value for money conclusion

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

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; 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.

Our work highlighted that the Council has taken positive action to address the recommendations we raised in our 2013/14 VfM report and continues to maintain proper arrangements in these areas. It develops appropriate responses to external developments, such as the implementation of the Better Care Fund, and internal developments, such as the establishment of S.E. Business Services Ltd. and Surrey Choices Ltd.

We have highlighted one risk in respect of the Council's identification of plans for achieving the level of savings required over the next 5 years.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall VfM conclusion

In overall terms, the Council has good arrangements in place across a number of key areas. We have drawn attention in our draft conclusion to the following matter:

- The overall judgement in the Ofsted report published on 3 June 2015 and based on their new style multi-agency inspection in November and December 2014 is that children's services were inadequate. This judgement is evidence of weaknesses in arrangements for promoting and demonstrating the principles and values of good governance within the Council's Children's Services directorate. Immediately following the inspection the Council established an Improvement Board to action Ofsted's recommendations

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015. Our judgement is based on the outcome of Ofsted's inspection and not on any further work performed by ourselves in respect of children's services.

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 and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2013/14	RAG rating 2014/15
Key indicators of performance	The Council achieved an underspend of £13m against its revenue budget in 2014/15 and of £10.2m on its re-profiled capital budget of £209.5m. For 2014/15 the Council had a savings target of £72.3m, and achieved efficiencies and savings of £74.1m. As at 31 March 2015 the Council has net liabilities of £206m (net liabilities of £127m as at 31 March 2014 and net assets of £79m as at 31 March 2013). The increase in net liabilities is due to the increase in the pension fund liability as a result of falling real bond yields. A specific policy statement on reserves and balances was presented to the Cabinet at its meeting on 3 February 2015. This report advised that it was considered prudent to maintain a minimum level of available general balances of between 2.0% to 2.5% of the sum of council tax plus settlement funding i.e. between £16m and £20m. In terms of addressing the specific point regarding pension fund liabilities raised in our 2013/14 VfM report, the Council has this year established a pensions stabilisation reserve within earmarked reserves of £1.1m. This was set aside to meet the increases in back funding that the Council anticipates for 2015/16.	**Green**	**Green**

Theme	Summary findings	RAG rating 2013/14	RAG rating 2014/15
Strategic financial planning	The Medium Term Financial Plan presented to the Cabinet in February 2015 estimated that the total savings identified for the period 2015/16 to 2019/2 0 were £147m, of which £67.3m were due for 2015/16. At that time officers recognised that there were a number of uncertainties, such as the result of the General Election, which could have a significant impact on future funding streams and hence the level of savings and efficiencies required. It was agreed that a refresh of the MTFP would take place in summer 2015, and this is currently in progress. Early indications are that increasing demand, together with cost and funding pressures may require the level of savings over the next 5 years to rise to £320m unless additional funding sources can be identified. The Council has satisfactorily implemented the recommendations we raised in our 2013/14 VfM report and the implications of the Care Act and the Better Care Fund plans for Surrey are reflected in the MTFP. An additional £18.2m is included in the 2015/16 revenue budget to cover the Council's responsibilities in respect of the Care Act, Independent Living Fund and Public Health. Internal Audit's reviews of Care Act Preparedness and Preparation for the Better Care Fund concluded that the Council's arrangements were effective. The demand for school places is continuing to rise and this is reflected in the Council's capital programme, which includes £289.9m on Schools Basic Need over the 5 year period. The Council has been successful in its applications for Schools Basic Needs top-up grants (£41.3m) and increases to Schools Basic Need funding and Schools Maintenance Capital funding. We recommend the Council build on the lessons it has learned from previous successful efficiency programmes to address the increasing financial challenges it faces.	Green	Green
Financial governance	Progress is being made in embedding use of the finance dashboards, including the cultural change required within the central finance team in terms of relinquishing responsibility for budget monitoring and moving this out to budget holders. The final sessions of the forecasting tool roll-out took place in May and July 2014 and the financial management training pathway has just been launched. The Council has embraced early close down, and reported its 2014/15 outturn position in April 2015, a month earlier than in 2013/14.	Green	Green
Financial control	The Council has taken positive action to address the recommendation we raised in our 2013/14 VfM report in respect of its arrangements for project managing and profiling capital expenditure and presented an update report to the Audit & Governance Committee meeting on 9 April 2015. Property Services has reviewed its procedures for profiling capital spend and the way that it forecasts this spend in year. The service held a workshop on 8 July 2014 to investigate the reasons for the slippage and identified the following: planning permission, intrusive investigations and severe weather. The service has also improved the robustness of the challenge of forecasts made by the senior management team and documented the procedures that need to be followed to ensure good capital profiling and monitoring.	Green	Green

Page 241

Theme	Summary findings	RAG rating 2013/14	RAG rating 2014/15
Prioritising resources	The Council continues to demonstrate a sound understanding of the main risks it faces, which relate to failure to achieve the MTFP, safeguarding in children's services and adult social care, central government policy development, integration of health and social care, and the 2015 Comprehensive Spending Review. In our 2013/14 VfM report we commented that information governance was a high risk area and that significant further work was required to raise awareness of the risks across the organisation. The Council has now implemented its action plan and Internal Audit's follow up report in December 2014 gave an overall green assessment.	Green	Green
Improving efficiency & productivity	The Council invited OFSTED to carry out an inspection of its children's services based on the new multi-agency framework , following a reorganisation of its children in need teams and the establishment of the referral, assessment and intervention service (RIAS). OFSTED undertook its review in October and November 2014. Its report was published on 3 June 2015 with the overall judgement that children's services are inadequate. It states that 'there are widespread and serious failures that potentially leave children at risk of harm.' The main failing relates to the lack of management oversight of cases which were stepped down, with the risk that children do not receive the services that they need. The Council accepts this finding. An action plan was developed as soon as the inspection had concluded. This was divided into immediate short-term actions to correct failings, and longer-term more sustainable solutions. The formal action plan is currently being developed with support from the Department for Education and will be submitted to OFSTED within the required timeframe. The Strategic Director, Business Services, has taken on an interim role as Deputy Chief Executive and also assumed strategic responsibility for Children, Schools and Families with effect from June 2015. Progress is reported to the Improvement Board, which has met fortnightly since December. Membership of the Board consists of the Leaders of each political party on the Council. Having considered the work undertaken by OFSTED we have concluded that the arrangements for promoting and demonstrating the principles and values of good governance within children's services are inadequate. We are satisfied from our overall review of the Council that the arrangements in respect of other services, including its Local Authority Trading Companies (S.E. Business Services Ltd. and Surrey Choices Ltd.) are adequate. We propose to issue a qualified 'except for' value for money conclusion.	Green	Red
Management of natural resources	The Council continues to progress the development of the Eco Park as a key aspect of its waste strategy. Having satisfied itself that all necessary preconditions, including the value for money criterion, have been met, the Cabinet approved the issue of the second notice to proceed on 28 April 2015.	Green	Green

DRAFT

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 risk to our VfM conclusion:

Residual risk identified	Summary findings
Identification of sustainable long term savings	As highlighted above, the current refresh of the Medium Term Financial Plan has indicated that the level of savings that the Council is required to make over the next 5 years may more than double from £147m to £320m. The Council needs to build on the lessons it has learned from previous successful efficiency programmes to address the increasing financial challenges it faces.

DRAFT

Section 4: Fees, non-audit services and independence

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

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Initial Audit plan £	Revised Plan £	Actual fees £
Council audit	189,464	189,464	189,464
S. E. Business Services Limited *	TBC	15,000	15,000
Surrey Choices Limited *	TBC	9,000	9,000
Total audit fees	**189,464**	**213,464**	**213,464**

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical 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.

* S. E. Business Services Limited and Surrey Choices Limited: Work still in progress.

Fees for other services

Service	Fees £
Audit related services Certification of Teachers' Pensions return*	 TBC
Non audit related services	Nil

*We have not yet agreed with the Council terms of engagement in relation to this work, nor the fee.

DRAFT

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

DRAFT

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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.

Page 247

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		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

DRAFT

6

Page 248

Appendices

DRAFT

Appendix A: Action plan

The following recommendations have been agreed with management:

Rec No.	Recommendations for 2015/16	Priority	Management response	Implementation date & responsibility
1	Obtain legal advice to ensure that the approach taken to the de-recognition of schools and the use of the statutory override is appropriate.	High	This issue represents a significant financial risk to the council in future years. The council will seek legal advice on the appropriateness of the statutory override	Deputy Chief Finance Officer December 2015
2	Ensure the accounts fully disclose all key judgements made in applying its accounting policies and the rationale for determining them.	Medium	Managers concur that the accounts fully disclose all judgements, and their rationale	Principal Accountant – Financial Accounting May 2016
3	Undertake a review of the 2014/15 closedown and identify areas where the timeliness of response to audit queries can be improved.	Medium	The Closing Working Group will develop plans to more effectively communicate the importance of the timeliness of response to audit queries	Principal Accountant – Financial Accounting
4	Build on the lessons learned from previous successful efficiency programmes to address the increasing financial challenges it faces.	Medium	Officers will develop further service transformational strategies necessary for the council to meet its financial challenges and prepare a draft Medium Term Financial Plan 2016 to 2021 for the Cabinet Meeting in November 2015	Director of Finance November 2015

Appendix B: Audit opinion

We anticipate we will provide the Council with an unqualified opinion on its financial statements and a modified value for money conclusion

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

We have audited the financial statements of Surrey County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the annex containing the accounting policies, 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 2014/15.

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

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, 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 also 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 and Group'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 2015 and of its expenditure and income for the year then ended;
give a true and fair view of the financial position of the Group as at 31 March 2015 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 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and 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 are required to 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; or
we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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.

Basis of qualified conclusion

In seeking to satisfy ourselves that the Authority has made proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. An Ofsted inspection report published in June 2015 concluded that the overall arrangements for Children's Services in the Surrey County Council area were judged to be 'inadequate'. This judgement is evidence of weaknesses in the Authority's arrangements for promoting and demonstrating the principles and values of good governance within the Council's Children's Services directorate.

Qualified conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Surrey County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of Surrey County Council included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2015. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the 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
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

DRAFT July 2015

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

27 July 2015

Dear Andy

Surrey County Council - Group Financial Statements for the year ended 31 March 2015

This representation letter is provided in connection with the audit of the group financial statements of Surrey County Council and its subsidiary undertakings, for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the group and parent Council financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group financial Statements

We have fulfilled our responsibilities for the preparation of the group and parent Council 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 2014/15 ("the Code") which give a true and fair view in accordance therewith.

We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group financial statements.

The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

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

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

We are satisfied that the material judgements used in the preparation of the group and parent Council financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

Except as disclosed in the financial statements:

- there are no unrecorded liabilities, actual or contingent
- none of the assets of the group or parent Council has been assigned, pledged or mortgaged
- there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

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

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

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

We have considered the unadjusted misstatements schedule included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

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

We believe that the Group and Council 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 Council's needs. We believe that no further disclosures relating to the Group or Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

We have provided you with:

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

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

All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

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

We have disclosed to you all our knowledge of fraud or suspected fraud affecting the group and parent Council involving:

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

We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, regulators or others.

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing group and parent Council financial statements.

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

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

Annual Governance Statement
We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval
The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 27 July 2015.

Sheila Little
Director of Finance
27 July 2015

Signed on behalf of Surrey County Council

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SURREY COUNTY COUNCIL

Audit & Governance Committee
27 July 2015

SURREY PENSION FUND
LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2014/2015 AND GRANT THORNTON AUDIT FINDINGS REPORT

SUMMARY:

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2015, in light of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

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

PURPOSE:

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

Annex A represents the primary statements and accompanying notes to the accounts. Annex B summarises the amendments that have been made to the draft financial statements, with an explanation for the changes, as a result of the external audit.

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

RECOMMENDATIONS:

The Committee is asked to:

(i) Approve the 2014/15 Pension Fund financial statements in Annex A.

(ii) Note the amendments made to the Pension Fund financial statements in Annex B

(iii) Consider the content of the Audit Findings for Surrey Pension Fund Report in Annex C.

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

(v) 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.

7

2014/15 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 a number of amendments being made to the 2014/15 draft financial statements and related notes to the accounts.
3. Annex A represents the Pension Fund primary statements. Changes to the statements of accounts are shown in Annex B.

2014/15 ANNUAL GOVERNANCE REPORT:

4. The external auditor is required to report on the Pension Fund financial statements. The Audit Findings for Surrey Pension Fund Report is presented at Annex C and sets out a summary of the work carried out, the conclusions reached and recommendations made.
5. The Committee will note that the auditor is anticipating issuing an unqualified opinion on the financial statements

MANAGEMENT REPRESENTATION LETTER:

6. 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.

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.

REPORT AUTHOR:
Phil Triggs, Strategic Finance Manager

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

Sources/Background Papers:
Closure of Accounts Working Papers 2014/2015
Statement of Accounts of the Surrey Pension Fund

SURREY PENSION FUND ACCOUNTS 2014/2015

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2014/2015 and of the disposition of its assets at 31 March 2015.

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 2014 and 31 March 2015 are:

31 Mar 2014		**31 Mar 2015**
32,530	Employees in the fund	32,851
21,598	Pensioners	22,481
30,639	Deferred pensioners	33,833
84,767	**Total**	**89,165**

7

Surrey pension fund account

2013/2014 £000		Note	2014/2015 £000
	Contributions and benefits		
149,615	Contributions receivable	7	**173,448**
14,751	Transfers in	8	**7,656**
164,366			**181,104**
-119,223	Benefits payable	9	**-126,113**
-6,255	Payments to and on account of leavers	10	**-6,195**
-13,665	Investment and governance expenses	14	**-15,857**
-1,340	Administration expenses		**-1,550**
-140,483			**-149,715**
23,883	**Net additions from dealings with members**		**31,389**
	Return on investments		
49,654	Investment income	16	**56,444**
-1,081	Taxes on income	15	**-1,023**
176,328	Change in market value of investments	17	**299,210**
224,901	**Net return on investments**		**354,631**
248,784	**Net increase in the fund during the year**		**386,020**
	Net assets of the fund		
2,558,716	**At 1 April**		**2,807,500**
2,807,500	**At 31 March**		**3,193,520**

Net asset statement

31 Mar 2014 £000		Note	31 Mar 2015 £000
	Investment assets	17	
352,134	Fixed interest securities		**350,859**
94,675	Index linked securities		**161,260**
1,747,131	Equities		**1,908,092**
165,824	Property unit trusts		**199,410**
270,937	Diversified growth		**360,061**
101,814	Private equity		**112,642**
	Derivatives	17c	
31	- Futures		**0**
7,865	- Foreign exchange contracts		**3,082**
39,212	Cash		**77,218**
9,676	Other investment balances	17b	**9,033**
	Investment liabilities		
	Derivatives	17c	
-66	- Futures		**-288**
-3	- Foreign exchange contracts		**-11,501**
-7,718	Other investment balances	17b	**-2,441**
-4,500	Borrowings		**0**
2,777,012	**Net investment assets**		**3,167,427**
14,520	**Long-term debtors**	12	**12,705**
20,761	**Current assets**	11	**18,949**
-4,793	**Current liabilities**	13	**-5,561**
2,807,500	**Net assets of the fund at 31 March**		**3,193,520**

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

7

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 2014/15 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 Public Services Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

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 2014/15 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 2015. 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
Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

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

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

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

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 2014/15 financial year and its position at the year end at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

Note 3: Summary of significant accounting policies

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs. The comparator figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance

Fund account – revenue recognition

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

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

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

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

7

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 2015 is reported as a current liability.

f) Administration expenses

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

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

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

Governance costs reflect those expenses which fall outside the parameters of administrative or investment expenses. All oversight and governance expenses are accounted for on an accruals basis with associated staffing and overhead costs apportioned in accordance with council policy.

Net assets statement

h) Financial assets
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 by limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation

7

standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

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

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

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

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

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

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

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

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

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

l) Financial 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 2015 was £113 million (£102 million at 31 March 2014).

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 26. This estimate is subject to significant variances based on changes to the underlying assumptions.

7

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 2015 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, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Where	The total private equity investments in the financial statement are £113 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £74 million. There is a risk that asset or investment transaction misclassification may occur.

Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in July 2015. 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

2013/2014 £000		2014/2015 £000
82,504	Employers	93,269
32,937	Employers deficit	43,580
34,174	Members	36,599
149,615		**173,448**

By authority

2013/2014 £000		2014/2015 £000
77,812	Administering authority	83,223
59,663	Scheduled bodies	75,565
12,140	Admitted bodies	14,660
149,615		**173,448**

The latest actuarial valuation carried out as at 31 March 2013, set revised contribution rates for fund employers with effect from April 2014. The financial year 2014/2015 is

Note 8: Transfers in from other pension funds

2013/2014 £000		2014/2015 £000
0	Group transfers from other schemes	0
14,751	Individual transfers in from other schemes	7,656
14,751		**7,656**

7

Note 9: Benefits payable

By category

2013/14 £000		2014/15 £000
99,529	Pensions	106,175
17,092	Commutation and lump sum retirement benefits	17,734
2,519	Lump sum death benefits	2,170
83	Interest on late payment of benefits	34
119,223		**126,113**

By employer

2013/2014 £000		2014/2015 £000
55,943	Administering Authority	60,937
53,503	Scheduled Bodies	55,571
9,694	Admitted Bodies	9,571
119,140		**126,079**

Note 10: Payments to and on account of leavers

2013/2014 £000		2014/2015 £000
0	Group transfers to other schemes	0
6,222	Individual transfers to other schemes	5,896
31	Refunds of contributions	227
2	Payments for members joining state schemes	72
6,255		**6,195**

Note 11: Current assets

2013/2014		2014/2015
£000		**£000**
3,364	Contributions - employees	2,816
13,314	Contributions - employer	10,196
4,083	Sundry debtors	5,937
20,761		**18,949**

Analysis of current assets

2013/2014		2014/2015
£000		**£000**
1,984	Central government bodies	3,112
16,980	Other local authorities	13,713
1,797	Other entities and individuals	2,123
20,761		**18,948**

Note 12: Long term debtors

2013/2014		2014/2015
£000		**£000**
14,520	Central government bodies	12,705
14,520		**12,705**

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 2015 is £14.520m but £1.815m is due in 2014/15, leaving a long term debtor of £12.705m.

7

Note 13: Current liabilities

2013/2014 £000		2014/2015 £000
4,731	Sundry creditors	5,541
62	Benefits payable	20
4,793		**5,561**

Analysis of current liabilities

2013/2014 £000		2014/2015 £000
1,225	Central government bodies	1,408
1,550	Other local authorities	1,664
2,018	Other entities and individuals	2,489
4,793		**5,561**

Note 14: Investment and governance expenses

2013/2014 £000		2014/2015 £000
12,731	Investment management fees	14,908
218	Investment custody fees	226
716	Oversight and governance costs	723
13,665		**15,857**

The investment management fees above includes £3.9million (2013/14:£3.5million) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £1.6million in respect of transaction costs (2013/14: £1.6million).

Note 15: Taxes on Income

2013/2014 £000		2014/2015 £000
790	Withholding tax - equities	603
291	Withholding tax - property	420
1,081		**1,023**

Note 16: Investment income

2013/2014 £000		2014/2015 £000
	Fixed interest	
5,859	UK	5,905
5,581	Overseas	5,873
2	**Index linked**	54
	Equities	
18,017	UK	18,781
10,244	Overseas	10,605
6,069	**Property unit trusts**	7,936
2,103	**Diversified growth**	2,601
1,554	**Private equity**	3,793
152	**Interest on cash deposits**	523
73	**Other**	373
49,654		**56,444**

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.

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Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2015
	£000	£000	£000	£000	£000
Fixed interest securities	**352,134**	50,397	-78,009	26,337	**350,859**
Index linked securities	**94,675**	143,817	-102,781	25,549	**161,260**
Equities	**1,747,131**	643,615	-679,281	196,627	**1,908,092**
Property unit trusts	**165,824**	33,218	-17,909	18,277	**199,410**
Diversified growth	**270,937**	60,253	0	28,871	**360,061**
Private equity	**101,814**	32,424	-40,239	18,643	**112,642**
Derivatives					
- Futures	**-35**	1,447	-159	-1,541	**-288**
- Forex contracts	**7,862**	11,823	-14,551	-13,553	**-8,419**
	2,740,342	**976,994**	**-932,929**	**299,210**	**3,083,617**
Cash	**39,212**				**77,218**
Other investment balances	**1,958**				**6,592**
Borrowing	**-4,500**				**0**
	2,777,012			**299,210**	**3,167,427**

	Market value at 31 Mar 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	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**	396,377	-363,306	139,373	**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**	47,550	-36,250	178	**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**	**176,486**	**2,740,342**
Cash	**59,723**			-158	**39,212**
Other investment balances	**7,318**				**1,958**
Borrowing	**-**				**-4,500**
	2,533,104			**176,328**	**2,777,012**

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.

7

Note 17b: Analysis of investments

	31 Mar 2014	31 Mar 2015
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	136,448	148,648
UK pooled funds	86,739	51,905
Overseas public sector & quoted	60,175	76,104
Overseas pooled fund	68,772	74,202
	352,134	**350,859**
Index linked securities	94,675	161,260
Equities		
UK quoted	513,497	540,276
UK pooled funds	237,645	276,454
Overseas quoted	460,880	554,463
Overseas pooled funds	535,109	536,899
	1,747,131	**1,908,092**
Property unit trusts		
UK property funds	157,900	194,992
Overseas property funds	7,924	4,418
	165,824	**199,410**
Diversified growth		
UK diversified growth funds	0	0
Overseas diversified growth funds	270,937	360,061
	270,937	**360,061**
Private equity		
UK limited partnerships	23,431	24,905
Overseas limited partnerships	25,770	13,852
UK fund of funds	0	0
Overseas fund of funds	52,613	73,885
	101,814	**112,642**
Derivatives		
Futures	-35	-288
FX forward contracts	7,862	-8,419
	7,827	**-8,707**
Cash deposits	**39,212**	**77,218**
Borrowings	**-4,500**	**0**
Other investment balances		
Outstanding sales	3,291	2,239
Outstanding purchases	-7,693	-2,408
Tax due on accrued income	-25	-33
Accrued income - dividends and interest	6,385	6,794
	1,958	**6,592**
Total investments	**2,777,012**	**3,167,427**

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. At 31 March 2015 the fund had two futures contracts in place with a net unrealised loss of £288k (net unrealised loss of £36k at 31 March 2014).

2014/15

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	19/06/2015	3 Months	US Treasury Bonds	3,312	0	-64
Futures	26/06/2015	3 Months	UK Government Bonds	11,471	0	-224
				14,783	**0**	**-288**

2013/14

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	20/06/2014	3 Months	UK Equity	3,992	31	0
Futures	26/06/2014	3 Months	UK Government Bonds	10,077	0	-66
				14,069	**31**	**-66**

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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 2015 the Fund had forward currency contracts in place with a net unrealised loss of £8,419k (net unrealised gain of £7,862k at 31 March 2014).

2014/15

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	63	-380	0	-1
1	One Month	CHF	GBP	69	-48	0	0
1	One Month	EUR	GBP	98	-71	0	0
2	Two Months	EUR	GBP	5,183	-3,831	0	-78
1	One Month	GBP	DKK	176	-1,817	0	0
1	One Month	GBP	EUR	142	-196	0	0
1	Two Months	GBP	EUR	11,511	-15,348	399	0
5	Three Months	GBP	EUR	101,285	-136,236	2,603	0
4	Three Months	GBP	JPY	60,634	-11,040,774	0	-1,458
1	One Month	GBP	MXN	24	-535	0	0
1	Two Months	GBP	MXN	1,095	-24,670	7	0
1	One Month	GBP	NOK	78	-931	0	0
1	One Month	GBP	SEK	133	-1,708	0	0
5	Two Months	GBP	USD	16,218	-24,789	0	-486
7	Three Months	GBP	USD	262,793	-403,768	0	-9,308
1	One Month	GBP	ZAR	13	-228	0	0
1	One Month	HKD	SGD	463	-82	0	0
1	One Month	JPY	USD	1,117,909	-9,437	0	-76
1	One Month	USD	BRL	1,265	-4,002	14	0
1	One Month	USD	GBP	777	-525	0	-2
1	One Month	USD	JPY	9,412	-1,117,909	59	0
1	Three Months	USD	JPY	10,576	-1,283,435	0	-92
						3,082	**-11,501**

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	0	0
1	One month	EUR	DKK	31	-234	0	0
11	One month	EUR	GBP	260	-215	0	0
6	Two months	GBP	EUR	105,885	-127,629	351	0
1	One month	GBP	HKD	34	-443	0	0
3	Two months	GBP	JPY	55,062	-9,092,353	2,079	0
5	One month	GBP	USD	1,918	-3,191	4	0
10	Two months	GBP	USD	242,455	-395,044	5,431	0
1	One month	HKD	SGD	495	-80	0	0
3	One month	JPY	GBP	80,204	-470	0	-3
1	One month	USD	AUD	9	-9	0	0
						7,865	**-3**

Stock Lending

During the financial year 2014/15 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 15 the value of quoted securities on loan was £137.5million in exchange for collateral held by the fund custodian at fair value of £148.7million

7

Note 17d: Investments analysed by fund manager

Market value 31 March 2014 £000	%	Manager	Market value 31 March 2015 £000	%
865,106	32.3	Legal & General Investment Management	918,551	30.6
190,067	7.1	Majedie Asset Management	308,575	10.3
106,845	4.0	Mirabaud Asset Management	0	0.0
236,582	8.9	UBS Asset Management	242,069	8.0
365,046	13.6	Marathon Asset Management	424,497	14.1
200,853	7.5	Newton Investment Management	242,915	8.1
205,702	7.7	Western Asset Management	232,799	7.8
68,772	2.6	Franklin Templeton Investments	69,454	2.3
148,437	5.6	Standard Life Investments	227,691	7.6
122,500	4.6	Baillie Gifford Life Limited	132,370	4.4
143,060	5.4	CBRE Global Multi-Manager	179,326	6.0
20,000	0.7	Darwin Property Investment Management	23,354	0.8
2,672,970			**3,001,601**	

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 2014 £000	% of total fund	Security	Market value 31 March 2015 £000	% of total fund
410,273	14.8	Legal & General World Developed Equity Index	393,877	12.4
221,203	8.0	Legal & General UK Equity Index	276,450	8.7
148,437	5.3	Standard Life Global Absolute Return Strategies	163,459	5.2

Note 18a: Classification of financial instruments

The following table analyses the fair value of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2014				As at 31 March 2015		
Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			Financial assets			
352,134	0	0	Fixed interest securities	350,859	0	0
94,675	0	0	Index linked securities	161,260	0	0
1,747,131	0	0	Equities	1,908,092	0	0
165,824	0	0	Property unit trusts	199,410	0	0
270,937	0	0	Diversified growth	360,061	0	0
101,814	0	0	Private equity	112,642	0	0
7,896	0	0	Derivatives	3,082	0	0
0	39,212	0	Cash	0	77,218	0
9,676	0	0	Other investment balances	9,033	0	0
0	35,281	0	Debtors	0	31,654	0
2,750,087	**74,493**	**0**	**Total financial assets**	**3,104,439**	**108,872**	**0**
			Financial liabilities			
-69	0	0	Derivatives	-11,789	0	0
-7,718	0	0	Other investment balances	-2,441	0	0
0	0	-4,793	Creditors	0	0	-5,561
-4,500	0	0	Borrowings	0	0	0
-12,287	**0**	**-4,793**	**Total financial liabilities**	**-14,230**	**0**	**-5,561**
2,737,800	**74,493**	**-4,793**		**3,090,209**	**108,872**	**-5,561**

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

31 March 2015	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	2,877,727	93,600	133,112	3,104,439
Total financial assets	**2,877,727**	**93,600**	**133,112**	**3,104,439**
Financial liabilities				
Financial liabilities though profit & loss	14.230	0	0	14,230
Total financial liabilities	**14.230**	**0**	**0**	**14,230**
Net financial assets	**2,863,497**	**93,600**	**133,112**	**3,090,209**

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	0	0	12,287
Total financial liabilities	**12,287**	**0**	**0**	**12,287**
Net financial assets	**2,525,512**	**70,289**	**141,999**	**2,737,800**

Note 18c: Book cost

The book cost of all investments at 31 March 2015 is £2,489million (£2,285million at 31 March 2014).

Note 19: Outstanding commitments

At 31 March 2015 the Fund held part paid investments on which the liability for future calls amounted to £98million (£107million as at 31 March 2014).

7

Note 20: Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) **Market risk**

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

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

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

Other price risk – Sensitivity Analysis
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 2014/15 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2015 £000	Change	Value on increase £000	Value on decrease £000
UK equities	816,730	9.76%	896,443	737,017
Overseas equities	1,091,362	9.09%	1,190,567	992,157
Fixed interest bonds	350,859	5.52%	370,226	331,492
Index linked	161,260	9.33%	176,306	146,214
Cash	77,218	0.01%	77,226	77,210
Property	199,410	2.43%	204,256	194,564
Alternatives	112,642	5.60%	118,950	106,334
Diversified growth fund	360,061	3.27%	371,835	348,287
Other assets	-2,115	0.00%	-2,115	-2,115
Total Investment Assets	**3,167,427**	**6.12%(2)**	**3,361,274**	**2,973,580**

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
Fixed interest bonds	352,134	5.55%	371,677	332,591
Index linked	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.

Interest rate risk

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

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2014 £000		As at 31 March 2015 £000
39,212	Cash & cash equivalents	77,218
352,134	Fixed interest securities	350,859
391,346	**Total**	**428,077**

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 2015	Change in net assets	
		+100 bps	**- 100 bps**
	£000	**£000**	**£000**
Cash & cash equivalents	77,218	772	-772
Fixed interest securities	350,859	3,509	-3,509
Total	**428,077**	**4,281**	**-4,281**

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**

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.

7

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 2014/15 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2015 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,074,070	5.94%	1,137,820	1,010,320
Fixed interest	117,553	5.94%	124,530	110,576
Property and Private Equity	94,249	5.94%	99,843	88,655
Diversified Growth	360,061	5.94%	381,432	338,690
Cash and Other Assets	-3,644	5.94%	-3,860	-3,428
Total	**1,642,289**	**5.94%**	**1,739,765**	**1,544,813**

For comparison last year figures are included below.

Asset type	Value at 31 March 2014 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,346,686	5.30%	1,418,101	1,275,270
Fixed interest	81,040	5.30%	85,337	76,742
Property and Private Equity	83,469	5.30%	87,895	79,043
Diversified Growth	270,937	5.30%	285,305	256,569
Cash and Other Assets	-388,294	5.30%	-408,885	-367,703
Total	**1,393,837**	**5.30%**	**1,467,753**	**1,319,921**

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 2014 £000		**Balance at 31 March 2015 £000**
	Call account	
0	NatWest	7,400
	Money market fund	
0	Goldman Sachs	15,000
	Current account	
-402	HSBC	-193
-402	Internally Managed Cash	22,207
39,614	Externally Managed Cash	55,011
39,212	**Total Cash**	**77,218**

The fund's cash holding under its treasury management arrangements as at 31 March 2015 was £22.2million (£-0.4million at 31 March 2014).

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.

d) Derivative risk

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

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

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

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2014/15 amounted to £64,074k (£59,321k in 2013/14).

2013/2014 £000		2014/2015 £000
42,483	Employers' current service contributions	42,996
16,379	Lump sum payments to recover the deficit in respect of past service	18,834
459	Payments into the fund to recover the additional cost of early retirement liabilities	2,244
59,321		**64,074**

ii) Surrey Pension Fund paid Surrey County Council £1,662k for services provided in 2014/15 (£1,503k in 2013/14).

2013/2014 £000		2014/2015 £000
188	Treasury management, accounting and managerial services	252
1,315	Pension administration services	1,410
1,503		**1,662**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2015 were £6,594k (£9,820k at 31 March 2014).

Note 22: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions that can be attributed to the fund.

2013/14 £	Position	2014/15 £	
20,057	Chief Finance Officer	22,313	1
74,780	Pension Fund & Treasury Manager	67,659	2
48,054	Senior Accountant	52,653	3
142,891		**142,625**	

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

7

Note 23: Custody

Custody arrangements for all securities and cash balances are provided by the fund's global custodian, The Northern Trust Company, excluding private equity investments and internally held cash. For the Fund's private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private equity are as follows:

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

Note 24 : Actuarial statement for 2014/15 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of funding policy

The funding policy is set out in the 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.

7

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.

Experience over the year since April 2014

Real bond yields have fallen dramatically (leading to a higher liability). The effect of this has been only partially offset by the strong asset returns. Overall funding levels are likely to have remained approximately the same as at the 2013 valuation, but the monetary amount of the deficit will have increased over this period as both asset and liability values have increased in size.

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

Barry McKay FFA

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

June 2015

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2014/15 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 2015 £m**
Present value of promised retirement benefits	4,151	4,984

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 2015 comprises £2,384m in respect of employee members, £989m in respect of deferred pensioners and £1,611m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member 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).

7

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 2015 is to increase the actuarial present value by £662m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2014	31 March 2015
Inflation/pension increase rate	2.8%	2.8%
Salary increase rate	4.1%	5.1%
Discount rate	4.3%	4.5%

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..

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 15 April 2015. 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.

Anne Cranston AFA

21 May 2015

For and on behalf of Hymans Robertson LLP

Note 26: Additional Voluntary Contributions

Market Value 2013/14 £000	Position	Market Value 2014/15 £000
8,243	Prudential	9,613
8,242		**9,613**

Additional Voluntary Contributions, net of returned payments, of £2.1million were paid directly to prudential during the year (£1.4million during 2013/14).

Note 27: 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 28: Annual report

The Surrey Pension Fund Annual Report 2014/2015 provides further details on the management, investment performance and governance of the Fund.

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Note/Statement	Adjustment	Draft	Updated
Membership Numbers	Draft Membership numbers for 31 March 2015 were to be confirmed.		
Net Asset Statement	Administration expenses were included as part of overall management expenses, and disclosed separately in a note to the accounts. Updated to be shown separately on the net asset statement		
Note 17(a)	Updated prior year comparators accidently omitted.		
Note 17(b)	Updated to separate all asset classes into UK and Overseas and Quoted and Unquoted. In previous years not all assets were disclosed in this manner.		
Note 17(c)	Incorrect derivative figured used	2014/15 11,247	2014/15 11,471
Note 17(d)	Added Darwin into list of investment managers. Had been excluded as part of the private equity portfolio in previous years accounts.		
Note 19	Original outstanding commitments figure was not updated.		
Note 23	Updated disclosure to clarify custodian use by private equity partnerships.		
Note 25	Actuarial statement made available after draft accounts were submitted.		
Note 26	Annual Statement by AVC provider made available after draft accounts are made available.		

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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.

Grant Thornton

The Audit Findings for the Surrey County Council Pension Fund

Year ended 31 March 2015

27 July 2015

Page 303

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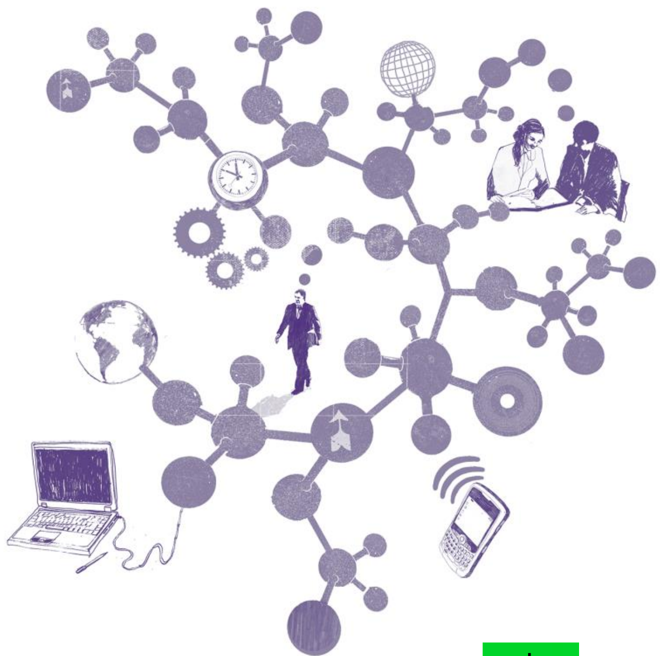

7

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27 July 2015

Dear Councillor Selleck

Audit Findings for Surrey County Council Pension Fund for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of the Audit and Governance Committee (those charged with governance (for the Pension Fund,), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours sincerely

Darren Wells – Pension Fund Engagement Lead

Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Fees, non-audit services and independence	17
4. Communication of audit matters	19

Appendices

A Action plan

B Audit opinion

Section 1: Executive summary

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

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Surrey County Council Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. 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 UK&I).

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 and 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.

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 March 2015.

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

- completion of our testing on Investments, in particular work relating to the Fund's Private Equity Investments
- completion of our testing on the Contributions received by the Fund during the year
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- review of the Pension Fund annual report.

We cannot formally conclude the audit and issue an audit certificate until we have completed our review of the Pension Fund Annual Report. We will review the Annual Report on completion and then issue a separate audit statement on the pension fund annual report together with our audit certificate.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

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

- the draft Pension Fund Financial Statements were received on the 9th of June, two working days later than the main Statements. The Statements received were incomplete, with several notes being provided at a later date.
- initially there were delays with the provision of information to support some of the figures included within the Statements, which has had an impact on the timeframe and delivery of the audit. However there was an improvement in the provision of this information as the audit progressed which helped to ensure we met the agreed deadline.

We have not identified any adjustments affecting the Fund's reported financial position. However, we have agreed with officers a number of adjustments to improve the presentation of the financial statements.

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

Controls

Roles and responsibilities

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 as the administering authority.

Findings

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

The way forward

Matters arising from the financial statements audit have been discussed 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 2015

Section 2: Audit findings

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

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7

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 the 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 9 April 2015. 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 9 April 2015.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix B.

We have yet to receive a copy of the Fund's Annual Report. We will confirm the wording of our proposed opinion on the financial statements in the Annual Report on completion of our review of the Annual Report.

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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 (UK&I) 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 (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	We rebutted this presumption during the interim phase of the audit, and communicated this to members via the audit plan.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	We : • reviewed of accounting estimates, judgements and decisions made by management • Tested journal entries • Considered if there were any unusual significant transactions	Subject to the completion of our outstanding testing, our audit work to date 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 have not been made aware of or identified any unusual significant transactions. We set out on page 12 our work and findings on key accounting estimates and judgements.
3.	**Level 3 Investments – valuation is incorrect** Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	• Gained an understanding of the controls officers have put in place to obtain assurance over the valuation of these investments at year end • For a sample of investments, we tested the valuations by obtaining and reviewing the audited accounts at the latest date for investment valuations and agreed these back to fund manager reports at that date. We then reconciled these movements to the values at 31st March 2015 with reference to known movements in the intervening period • We also reviewed the nature and basis of estimated values, and the opinions issued on the audited accounts of the specific investments.	Subject to the completion of outstanding testing, our audit work to date hasn't identified any issues with the Level 3 Investment valuations included within the Accounts.

Page 311

DRAFT 7

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments values – Level 2 investments	Fair value measurement not correct	We have undertaken the following work in relation to this risk: • We have reviewed the reconciliation of information provided by the Fund Managers, the Custodian and the Pension Fund's own records, and sought explanations for any significant variances identified. • As sufficient assurance was obtained from the work performed above, we did not need to complete the planned detailed testing on units or unit prices.	Subject to the completion of our outstanding testing, no issues have been identified to date with the Level 2 valuations included within the Accounts.
Contributions	Recorded contributions not correct.	We have undertaken the following work in relation to this risk: • We performed controls testing over the occurrence, completeness and accuracy of contributions from member bodies. • We rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners, and sought explanations for any unexpected trends identified. • We also undertook substantive testing on a sample of contributions received during the year to ensure they were deducted at the correct rate given the changes that have occurred following the introduction of LGPS 2014.	Subject to the completion of our outstanding testing, no issues have been identified to date with the Contributions recorded within the Accounts.

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Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Purchases and Sales	Investment activity not valid	We have undertaken the following work in relation to this risk: • We have reviewed the reconciliation of information provided by the Fund Managers, the Custodian and the Pension Fund's own records, and sought explanations for any significant variances identified. • We have also undertaken testing on a sample of purchases and sales where we were unable to obtain the required level of assurance from the work mentioned above.	Subject to the completion of our outstanding testing, no issues have been identified to date with the Investment Purchases and Sales included within the Accounts.
Benefit payments	Benefits improperly calculated/claims liability understated	We have undertaken the following work in relation to this risk: • We performed controls testing over the completeness, accuracy and occurrence of benefit payments. • We undertook an analytical review of pensions paid to changes in pensioner numbers and increases applied during the year to ensure that any unusual trends were explained. • We didn't perform any detailed testing of pensions in payment, lump sum benefits or refunds as the amounts involved were immaterial. • We compared the movements on membership statistics to material transactions in the accounting records.	Our audit work has not identified any significant issues in relation to the risk identified. We have obtained sufficient assurance over the benefit payments included within the Accounts.
Member Data	Member data not correct	We have undertaken the following work in relation to this risk: • We have performed controls testing over annual/monthly reconciliations and verifications with individual members • We performed sample testing of changes to member data during the year, including new starters.	Our audit work has not identified any significant issues in relation to the risk identified. We have obtained sufficient assurance over the Fund's Member Data.

DRAFT

7

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.

Page 314

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The **Pension Fund's** policy for Contributions and Investment Income is set out in Note 3 under Fund Account – Revenue Recognition.	The revenue recognition policy appears to be consistent with the Code of Practice of Local Authority Accounting and the findings from our audit of the financial statements.	● Green
Estimates and judgements	Key estimates and judgements disclosed in the notes to the accounts include: - Major sources of estimation uncertainty - Investment valuations - Pension Fund Liability	We reviewed the key estimates and judgements made by management within the material notes to the accounts. For the disclosures listed, we concluded they appear to be consistent in all material aspects with the guidance set out in the Code of Practice of Local Authority Accounting.	● Green
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of the Fund's accounting policies has not highlighted any issues which we wish to bring to your attention.	● 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

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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. 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 standard letter of representation has been requested from the Fund.
4.	**Disclosures**	• A number of required disclosures were blank in the first draft of the Accounts, more details of which can be seen on the Misclassifications and disclosure changes section of the Report.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Confirmation requests from third parties**	• We obtained direct confirmations from all Fund Managers and the Custodian for cash and investment balances included within the Accounts. We were able to obtain confirmation of all balances and thus no alternative procedures were required.
7.	**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.

Page 315

Adjusted misstatements

There are no adjustments to the draft financial statements which 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.

DRAFT

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	n/a	Membership Numbers	The draft Accounts incorrectly included the 2013-14 membership data as the position as at the 31st March 2015, which has been corrected in the revised version of the Accounts.
2	Disclosure	1,550	Net Asset Statement – Fund Account	The draft Accounts did not disclose the Administration Fees for 2014-15 separately within the Accounts. This is correctly disclosed within the revised Accounts.
3	Disclosure	Several	Note 18a – Equities and Private Equity	The draft Accounts omitted the prior year comparatives for 'Purchases and Sales relating to Equities and Private Equity', which have been amended in the revised Accounts.
4	Disclosure	Several	Note 18b – Analysis of Investments	The draft Accounts did not split all asset classes between 'UK and Overseas', and 'Quoted and Unquoted'. The correct splits have now been included within the revised Accounts.
5	Disclosure	11,471	Note 18c – Analysis of Derivatives	An incorrect figure had been included for the economic exposure of a Futures Contract, which has now been amended within the revised Accounts.
6	Disclosure	23,354	Note 18d – Investments by Fund Manager	The Fund had initially omitted the investment with Darwin Property Asset Management from the breakdown by Fund Manager. This is included within the revised Accounts.
7	Disclosure	98,000	Note 20 – Commitments	This note did not show the position as at the 31st of March 2015, but has been updated in the revised Accounts.
8	Disclosure	428,077	Note 21 – Interest Rate Risk and Sensitivity Analysis	The disclosures in the draft Accounts didn't include the values as at the 31st of March 2015. These are correctly shown in the revised Accounts.

Page 317

DRAFT

Misclassifications & disclosure changes (continued)

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
9	Disclosure	1,642,289	Note 21 – Currency Risk Sensitivity Analysis	This note had not been updated for 2014/15 in the draft accounts. The note has been amended in the revised Accounts.
10	Disclosure	77,218	Note 21 – Credit Risk – Cash Balances	This note had not been updated for 2014/15 in the draft accounts. The note has been amended in the revised Accounts.
11	Disclosure	n/a	Note 24 - Custody	We requested an enhancement to the disclosure in respect of the Fund's Private Equity Mandates to clarify the role the Custodian's role in respect of each of these investments, which has now been updated in the revised Accounts.
12	Disclosure	Several	Note 26 – Actuarial Present Value of Future Retirement Benefits	The draft Accounts included the 2013-14 Actuarial Statement, which has now been updated for the 2014-15 Actuarial Statement in the revised Accounts.
13	Disclosure	9,613	Note 27 – Additional Voluntary Contributions	This note had not been updated for 2014/15 in the draft accounts. The note has been amended in the revised Accounts.

Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non-audit services and independence

04. Communication of audit matters

7

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 £
Pension fund scale fee	27,105	27,105
Fee variation	n/a	2,000
Total audit fees	27,105	29,105

We are currently in discussion with the Council in respect of agreeing a fee variation for the delays encountered at the start of the audit.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical 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 4: Communication of audit matters

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

DRAFT

7

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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

Page 322

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 Fund'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		✓

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Appendices

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Appendix B: Audit opinion

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

Page 324

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

We have audited the pension fund financial statements of Surrey County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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

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 Authority's Statement of Accounts, which include 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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 pension fund'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 pension fund financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited pension fund 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 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

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

Darren Wells
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
Fleming Way
Manor Royal
Crawley
RH10 9GT

xx July 2015

Grant Thornton

grant-thornton.co.uk

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27 July 2015

Dear Sirs

Surrey County Council Pension Fund:
Financial Statements for the Year Ended 31 March 2015

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 2015 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 2015, 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 2014/15 (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.

7

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

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

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

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

Information Provided

10 We have provided you with:

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

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

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

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

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

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

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

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

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

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

19 We confirm that no member of the Surrey Pension Fund Board 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
27 July 2015

2015/16 External Audit Fee Letter

Purpose of the report:

This report provides the Audit & Governance Committee with details of the planned fee for the 2015/16 external audit of the Council.

Recommendations:

It is recommended that the Committee consider the contents of the 2015/16 External Audit Fee Letter.

Introduction:

1. The 2015/16 fee covers:

   - the external audit of the Council's financial statements

   - the work undertaken by Grant Thornton to reach a conclusion on the economy, efficiency and effectiveness in the Council's use of resources (the value for money conclusion)

   - the work undertaken by Grant Thornton on the Council's whole of government accounts return.

2015/16 External Audit Fee

2. The enclosed letter confirms that:

   - The Council's external audit fee for 2015/16 is £142,098, a reduction of 25% as compared with the 2014/15 fee of £189,464.

   - The fee for the pension fund audit for 2015/16 is £27,105.

   - The fee for the certification of grant claims and returns for 2015/16 is £nil. Any certification work undertaken for the Council will be subject to agreement of terms of engagement and a separate fee.

8

Conclusions:

Financial and value for money implications
None.

Equalities and Diversity Implications
None.

Risk Management Implications
None.

Next steps:

None

Report contact: Thomas Ball, Manager, Grant Thornton

Contact details: Thomas.Ball@uk.gt.com

Sources/background papers: None.

Grant Thornton

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16 April 2015

Dear David

Planned audit fee for 2015/16

Before it closed on 31 March 2015, the Audit Commission was asked to set the scale fees for audits for 2015/16. The Commission published its work programme and scales of fees for 2015/16 at the end of March 2015. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as "the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes."

The Council's scale fee for 2015/16 has been set by the Audit Commission at £142,098, which compares to the audit fee of £189,464 for 2014/15. The reduction in fees has been enabled by the procurement exercises run by the Commission across both the Local Government and Health sectors.

After the Commission's closure, the 2015/16 work programme and fees will be accessible from the archived Audit Commission website from the National Archives http://webarchive.nationalarchives.gov.uk/*/http:/www.audit-commission.gov.uk/ and on the Public Sector Audit Appointments PSAA website psaa.co.uk

The audit planning process for 2015/16, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and provide feedback in our Audit Findings Report.

Certification of grant claims and returns

The Council's indicative grant certification fee has been set by the Audit Commission at £nil.

Pension Fund audit

The Audit Commission has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £27,105. Our work on the pension fund will be undertaken between March and July 2016 by our specialist pension fund audit team, led by Darren Wells.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2015	35,524
December 2015	35,524
March 2016	35,525
June 2016	35,525
Total	**142,098**

Pension Fund audit	
March 2016	27,105

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2015 to March 2016. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July 2016 and work on the whole of government accounts return in September 2016.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2015-March 2016	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July 2016	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	Jan to July 2016	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	September 2016	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2016	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	January 2016	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2015/16 are:

	Name	Phone Number	E-mail
Engagement Lead	Andy Mack	0207 728 3299	Andy.L.Mack@uk.gt.com
Senior Manager	Kathryn Sharp	01293 554086	Kathryn.E.Sharp@uk.gt.com
Engagement Manager	Tom Ball	0207 728 3009	Thomas.Ball@uk.gt.com
Pensions Audit Manager	Matt Dean	0207 728 3181	Matthew.Dean@uk.gt.com
In Charge Auditor	Rajiv Bissessur	0207 728 2458	Rajiv.Bissessur@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner, via Paul.Dossett@uk.gt.com.

Yours sincerely

A. L. Mack

Andy Mack

Engagement Lead

For Grant Thornton UK LLP

SURREY
COUNTY COUNCIL

Audit & Governance Committee
27 July 2015

TREASURY MANAGEMENT OUTTURN REPORT 2014/15

SUMMARY AND PURPOSE:

This report summarises the council's treasury management activity during 2014/15, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential Indicators for 2014/15, 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 2014/15; and
2) adopt the revised Treasury Management Risk Register shown in Annex 3.

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 2014/15:

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 11 February 2014. 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:

9

Table 1: Borrowing Position Against CFR

	£m
Total Borrowing at 31 March 2015	397
Investments at 31 March 2015	152
Net borrowing position at 31 March 2015	**245**
CFR 2014/15	682
CFR 2015/16	782

4. Table 2 sets out the long-term borrowing position and the new loans taken out in 2014/15.

Table 2: Long-term borrowing

	£m
Debt outstanding as at 1 April 2014	237.2
Loans raised	160.0
Loans repaid	0.0
Current balance as at 31 March 2015 **Average Rate going forward at 1 April 2015: 4.12%**	397.2

5. Table 3 sets out the details of the new loans totalling £160m taken out in 2014/15.

Table 3: New PWLB Loans 2014/15

Start Date	Duration Years	Interest Rate%	£m
02 September 2014	50	3.72	30
15 December 2014	50	3.36	20
20 January 2015	50	2.99	20
16 February 2015	49	3.23	30
27 February 2015	47	3.19	30
19 March 2015	46	3.19	30
		3.29	**160**

6. 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 4 demonstrates that during 2014/15, the council has maintained gross borrowing within its Authorised Limit.

7. 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 4: Borrowing Against Authorised Limit & Operational Boundary 2014/15

	£m
Authorised Limit	690
Operational Boundary	622
Highest gross borrowing position during 2014/15	442

8 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 2014/15 are detailed as follows:

Table 5: Capital Financing Costs 2014/15

Description	Original Estimate £000	Outturn £000
Minimum Revenue Provision (MRP)	22,327	22,208
Interest on long-term borrowing	11,107	12,636
Interest on short-term cashflow	(808)	(861)
Total	32,626	33,983

9 Interest on long-term borrowing is higher than budget as further borrowing (2014/15 and forward borrowing for 2015/16) was made during the year. Net interest received on short-term cashflow is higher than the estimate due to higher levels of cash on deposit than originally expected.

Treasury Management Activity during 2014/15

10 The treasury position at 31 March 2015 compared with the end of the last financial year is shown in Table 6. The council's credit rating criteria effective at 31 March 2015 are shown at Annex 2 Table 14.

Table 6: Investment and Borrowing Position 2014/15

	2013/14*		**2014/15**	
	Principal £m	**Average Rate**	**Principal £m**	**Average Rate**
Fixed Interest Rate Debt*	237	4.42%	397	4.53%
Total Debt	**237**	**4.42%**	**397**	**4.53%**
Fixed Interest Investments	102	0.41%	152	0.42%
Total Investments	**102**	**0.41%**	**152**	**0.42%**
NET BORROWING	**135**		**245**	

*Excludes Office of the Police and Crime Commissioner for Surrey debt

11. The treasury management gross borrowing position increased during 2014/15 as a result of further borrowing as undertaken as set out in Table 3.

12. The increase in investment balances is the result of higher cash balances at the end of 2014/15 as a result of the actions described above compared with 2013/14. The average interest rate paid on debt has increased slightly (from 4.42% in 2013/14 to 4.53% in 2014/15) and this is attributable to the repayment of £68.0m debt in 2013/14 which was subject to a lower interest rate than the average of the total portfolio. The consistent rate of investment interest income is due to the stable interest rates available for deposits remaining low in 2014/15.

Borrowing Position

13. The weighted average interest rate on PWLB debt from 2004/05 is shown in Table 7.

Table 7: 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
2014/15	4.53

14. All of the council's current long-term borrowing has been taken from the Public Works Loan Board (PWLB), whose purpose is to provide loans to local authorities in order to finance capital spend, apart from a £10m market loan taken from Barclays. A summary showing the movement of long-term borrowing during 2013/14 and 2014/15 is as follows:

Table 8: Long-Term Borrowing Position

Long-term Borrowing	1 April 2013 to 31 March 2014 £000	1 April 2014 to 31 March 2015 £000
Total debt outstanding at 1 April	305,230	237,247
Loans raised	0	160,000
Loans repaid	67,983	0
Total debt at period end	**237,247**	**397,247**

15. 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 2015 are detailed in Table 9.

Table 9: Temporary Borrowing Position

Temporary Borrowing at 31 March 2015	£000
Short-term borrowing for cash flow purposes	0
Office of the Police and Crime Commissioner for Surrey	31,539
Total Temporary Borrowing	**31,539**

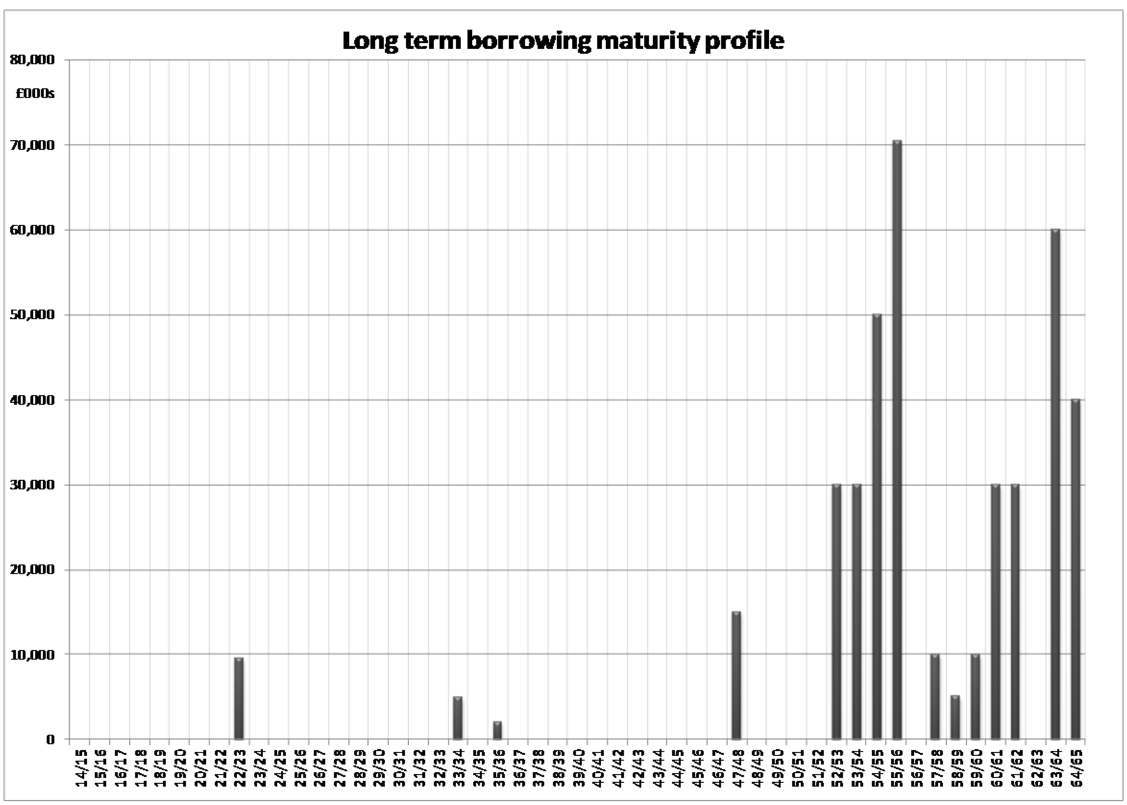
16. The council has limited its exposure to large fixed rate loans maturing in any one year by setting gross limits for its maturity structure of borrowing in accordance with the Prudential Code.

Table 10: Debt Maturity Profile as at 31 March 2015

Maturity Profile	Upper Limit	Lower Limit	Actual
Under 12 months*	50%	0%	7.4%
1 year and within 2 years	50%	0%	0.0%
2 years and within 5 years	50%	0%	0.0%
5 years and within 10 years	75%	0%	2.2%
10 years and above	100%	25%	90.4%

* Includes balances held on behalf of the Office of the Police and Crime Commissioner for Surrey.

17 The debt maturity profile of the council's long-term debt is shown on the following chart:



9

Investment Position

18. Average investment returns from 2004/2005 onwards are shown in Table 11.

Table11: 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
2014/2015	0.42

19. 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.

20. All cash held by the council is aggregated for the purpose of treasury management and daily surpluses are invested temporarily until required to meet daily outgoings. 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.

21. Some 300 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.

22. In 2014/15, the council applied the average return of its whole investment portfolio to all of the funds that were held on behalf of the Office of the Police and Crime Commissioner for Surrey (as per the current service level agreement).

23. Money brokers are used to facilitate investment dealing and loans are only made to institutions that meet the council's approved counterparty criteria. In addition to dealing through brokers, short-term investments are also made by dealing direct with some approved institutions, including banks, building societies and money market funds.

24. Due to frequent action on the part of credit ratings agencies, the council's credit rating criteria, investment limits and resultant counterparty list have been under continual scrutiny. The counterparty criteria set out for the period 1 April 2014 to 31 March 2015, which was affirmed at the County Council meeting of 11 February 2014, is shown in Annex 2, with investment limits effective during that period.

25. During 2014/15, the council maintained an investment portfolio with a daily average balance of £142m (£281m in 2013/14) and received an average return of 0.42%. 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 0.07%.

Icelandic Deposits

26. The Audit & Governance Committee has received regular reports on the prospects for recovery of the remaining Icelandic deposits and the efforts made by the Local Government Association (LGA) and its legal advisors in this regard.

9

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 Director of Finance 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. With regard to Glitnir, over 84% of Glitnir deposits had previously been repaid. At a meeting of 3 February 2015, 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 remaining deposit with Glitnir through the Central Bank of Iceland (CBI). It authorised the Director of Finance, in consultation with the Leader, the Cabinet Member for Business Services and the Monitoring Officer, to submit final papers in respect of the auction and to determine the relevant exchange rate bid to be included in the offer.

30. The CBI set the auction price at ISK200/EUR. Therefore, offers submitted at or above ISK201/EUR were accepted in full. Surrey's bid of ISK210/EUR was successful and resulted in a receipt of £1,467,101, received into the Council's bank account on 13 February 2015, which includes an amount of interest due on the investment. This will involve a write off (in respect of the Glitnir deposit) for the Council in the amount of £797,088 against a provision held in the amount of £563,718.

31. The conclusion of the Glitnir auction process draws a final line under the Icelandic investment with the overall loss contained to a single figure percentage of the original investments, amounting to £20,000,000. On 8 June 2015, Iceland announced it was due to end capital controls on deposits with proposals to impose a 39% exit tax on remaining deposits. The possible imposition of such an exit tax was the main factor in the officers' recommendations to proceed with the auction processes as outlined above. The auction processes thus represents a satisfactory conclusion for the Council in its quest to retrieve its deposits following the Icelandic bank crash back in 2008.

Member and Officer Training

32. 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 will be given additional training by Capita later in 2015/16.

Treasury Management Advisors

33. The Council uses Capita as its treasury management advisor. The company provides a range of services including:

9

- 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

34. 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 3.

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.

Yield: The Council currently reports the overall return in interest against the 7-Day LIBID rate. The overall return in 2014/15 on deposits was 0.42%, compared with the benchmark of 0.35%, a margin of 0.07%.

Table 12: Benchmarking Deposits against Default Rates at 31 March 2015

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	43,600	0.00%	0
AA rated counterparties	-	0.02%	0
A rated counterparties	20,000	0.09%	18
Other counterparties*	88,000		0
Total	151,600		18

*other Local Authorities that do not have credit ratings

Regulatory Framework, Risk and Performance

35. The council's treasury management activities are regulated by statute. The DCLG has also issued investment guidance to regulate the Council's investment activities.

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Act permits the Secretary of State to set limits either on the council or nationally on all local authorities, restricting the amount of borrowing which may be undertaken (no restrictions were made in 2014/15);

- Statutory Instrument (SI) 3146 2003, as amended, specifies the controls and powers within the Act. The SI requires the council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The SI also requires the council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under section 238(2) Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices.

36. The council has complied with all of the above relevant statutory and regulatory requirements, which require the council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management ensures that capital expenditure is prudent, affordable and sustainable, and treasury practices demonstrate a low risk approach.

37. The council is aware of the risks of passive management of the treasury portfolio and, with the support of the council's advisors, has proactively managed the debt and investments. The council has utilised historically low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio, as it consists of predominantly fixed long-term loans, with the capacity for repayment of any shorter dated debt. Shorter term interest rates and likely future movements in these rates predominantly determine the council's investment return. These returns can be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

Risk Register

38. A risk register for the Treasury Management operation is shown in Annex 3.

39. The Committee is invited to comment on the register and propose amendments as appropriate.

9

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 35 to 39.

WHAT HAPPENS NEXT:

i. The Pension Fund & Treasury Team will monitor the UK and overseas banking sector and will continue to update this Committee as appropriate.

ii. In line with the requirements of CIPFA's Code of Practice for Treasury Management, this committee will receive a half year report on the council's treasury management position in December, and a full-year report for 2015/16 at the meeting in July 2016.

iii. The Pension Fund & Treasury Team will prepare the annual Treasury Management Strategy, which will be presented as part of the MTFP to Council in February 2016.

REPORT AUTHOR:
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Sources/background papers:
Capital Budget and Treasury Management Strategy 2014/15
Prudential Indicators and Treasury Management Strategy 2013/14 to 2014/15
CIPFA Code of Practice for Treasury Management in the Public Services (Revised)
CIPFA Treasury Management Benchmarking Club Report 2014/15

Table 13: Summary of Prudential Indicators for 2014/15

Prudential Indicator	Maximum Position 2014/15 £000	Limit 2014/15 £000
Maximum net borrowing incurred against the Capital Financing Requirement (CFR)	246,600	782,000
Maximum gross borrowing incurred against the Authorised Limit	442,500	688,000
Maximum gross borrowing incurred against the Operational Boundary	442,500	619,000
Ratio of financing costs to net revenue stream	4.02%	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	7.4%	0% - 50%
12 months to 2 years	0%	0% - 50%
2 years to 5 years	0%	0% - 50%
5 years to 10 years	2.2%	0% - 75%
10 years and above	90.4%	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).

9

Annex 2

Table 14: Effective counterparty limits 1 April 2014 to 31 March 2015

	Fitch				Moody's			S&P		
Type	ST	LT	Via	Sup	ST	LT	FSR	ST	LT	Maximum Value
Bank / BS	F1	A	-	1	P-2	Baa1	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.

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.

Risk Group	Risk Ref.	Risk Description	Impact Financial	Impact Reputation	Impact Total	Likelihood	Total risk score	Mitigation actions
Financial	1	**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	**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	**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	**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	**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	**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	**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	**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	**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	**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	**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	**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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SURREY
COUNTY COUNCIL

Audit & Governance Committee
27 July 2015

Annual Report of Surrey County Council

Purpose of the report:

To formally consider the Annual Report for the authority.

Recommendations:

It is recommended that the committee note and endorse the Annual Report (Annex A) for the authority.

Introduction:

1. Since the 2013/14 Annual Report included a summary of the financial statements, improvement emphasis has been on how information is presented within the report. This is just the beginning of the journey on presentational improvements.

Changes to the annual report

2. *"If I had more time I would have written you a shorter letter*" Winston Churchill.

   2013/14 Annual Report feels like the long letter. Whilst 2014/15 has been the time to write the shorter letter. For 2013/14, Annex A was 72 pages (when laid-out and published the report was 147 pages). Condensing and making information more succinct and adding workforce and diversity information, energy consumption and Member leadership attendance have overall reduced Annex A to 56 pages.

3. This year, accountability and governance has been widened to include the officers from the Continuous Improvement and Productivity Network. This involvement has just commenced and the network will review this year's report in October to precede the 2015/16 report and inform how the future annual reports are disseminated to maximise residents' experience.

10

4. At the front of the report, there is now a brief glance at 2014/15. These items have all been in the press at some time another. There is a one page financial highlights that links to the Director of Finance review. Also one page highlighting our performance measures. The performance measures link to the performance measures website.

5. The Environmental Sustainability Review now comes from the Strategic Director of Environment and Infrastructure. Instead of just noting the greenhouse gas emissions, infographics now illustrate our corporate consumption and includes our corporate waste information. Adding this information within the section provides a more balanced position of our consumption and energy usage. There are links to the fuller reports on greenhouse gas emissions for readers who would like to know more.

6. The governance review is now from the Director of Legal and Democratic Services and contains a summary of the Annual Governance Statement and our governance arrangements. Member attendance has been included at only Member Leadership and Cabinet level.

7. The report now includes a review from the Chairman of the People, Performance and Development Committee on remuneration, workforce and diversity information and members' allowances. The review is based on the corporate annual report from remuneration committee and brings together Officers' and Members' workforce information.

8. The Annual Report contains links to key transparency information. For example: instead of individual member allowances being presented in full, there is a link to where the full information is held. This means that readers who would like further details can retrieve the information directly from our website. It also allows a more succinct message to be reported.

9. The endorsement of the Audit & Governance Committee will formalise the completion of the 2014/15 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.

Conclusions:

10. The County Council's Annual Report, set out in Annex A, includes:

- reviews from relevant areas that draw together distinct information;
- wider corporate information on energy consumptions and workforce diversity;
- financial highlights; and
- summarised information with clear links for further information.

11. The Annual Report 2014/15 will be available and published (external website and paper) in August.

Financial and value for money implications

12. 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 2014/15 budget has been considered in the outturn report to the Cabinet.

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

The Annual Report 2014/15 will be available and published (external website and paper) in August.

Report contact: Verity Royle, Senior Principal Accountant, Finance Service

Contact details: 020 8541 9225 / verity.royle@surreycc.gov.uk

Sources/background papers:
Financial Outturn 2014/15 – Report to Cabinet 28 April 2015.
Statement of Accounts 2014/15 – Report to Audit & Governance Committee 27 July 2015

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Foreword from the Leader of the Council ______ 4

Reflections on the year from the Leader and Chief Executive ______ 5

Our business model ______ 8

Who we serve and how ______ 10

At a glance: a year in Surrey County Council ______ 11

Financial highlights ______ 13

Keeping track of progress on our goals ______ 14

Our performance, 2014-15 ______ 15

Wellbeing - Everyone in Surrey has a great start to life and can live and age well ______ 15

Economic Prosperity - Surrey's economy remains strong and sustainable ______ 20

Resident Experience - Residents in Surrey experience public services that are easy to use, responsive and value for money ______ 24

Director of Finance review ______ 29

Financial Results ______ 31

How we manage our principal strategic risks ______ 33

Strategic Director Environment & Infrastructure -Environmental Sustainability Report ______ 35

Corporate Environment Sustainability Headlines ______ 36

Director of Legal & Democratic Services - Governance Review ______ 37

Overview of Governance ______ 37

Summary of Annual Governance Statement ______ 38

Member Governance ______ 39

Officer Governance ______ 41

Review from People, Performance and Development Committee Chair – David Hodge ______ 42

Financial highlights ______ 46

Income and expenditure statement (IES) ______ 47

Balance sheet as at 31 March 2015 ______ 48

Cashflow statement ______ 49

Movement in reserves ______ 50

Selected notes to the accounts ______ 51

Further reading and references ______ 55

Overview

We are pleased to present the Surrey County Council annual report for 2014-15, published in line with corporate best practice and guidance. The council's Audit & Governance Committee scrutinised the annual report alongside the statement of accounts on 27 July 2015. The report is for all stakeholders of Surrey County Council to provide an overview of the organisation's structure and its performance over the last year, highlighting some of the significant achievements across different service areas.

The information is presented in narrative form, as well as through the use of graphics, number tables and images. Some of the graphs and data have been supplied by Surrey-i, a database which compiles and publishes statistical and info-graphical information about Surrey residents and communities. If you require further information, there is a reference guide at the back of the document directing you to further reading. This section uses shortened website addresses (tinyurl) for simplicity and ease. All websites referenced direct you to Surrey County Council's website.

Foreword from the Leader of the Council

For me, the most important message to the new Government is to have the courage to trust local government to enable us to make further savings and improve services for the benefit of our residents.

I will never stop pushing for more devolution of responsibilities down to communities so that the right decisions are taken in the right places. It is the right thing to do and is essential that we in local government make our full contribution to ensuring quality services at the right cost for our residents.

We must never stop looking at what we can do to improve – always with our residents' interests at the forefront of our minds.

I consider it a privilege and honour to lead such change in our public services. We have made substantial headway over the past four years to reduce costs and improve services. The challenge always remains to do more for residents and I encourage residents, partners and colleagues in all organisations to work together as one team to deliver further improvements.

We at Surrey recognised early into the financial crisis in 2008-9 that we needed to change the way we do things to meet the challenges and difficulties ahead. One of my first actions was to launch a programme of Public Value Reviews (PVRs), looking at every service provided by the county council, focusing on what was important to Surrey people. This involved a series of rapid improvement events with elected Members and council officers, who challenged one another's thinking to find new ways of working for the benefit of residents.

We have achieved significant savings as a result and are developing new models of delivery with our partners. It is all part of our role and responsibility as a large corporate business - with an annual budget of £1.7bn – to ensure the highest quality services possible for our residents. The job is never done.

Please do tell us what you think of our latest annual report, covering our performance over the last year, 2014-15. We have structured the report to show how our 2014-15 achievements relate to our strategic goals (Wellbeing, Economic Prosperity and Resident Experience). As ever, your feedback is most welcome.

David Hodge

Leader of Surrey County Council

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August 2015

Reflections on the year from the Leader 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 27 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. 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.

Over the past twelve months, the council has been through a journey. Most things have gone well and others could have gone better. Here are some of our reflections over the past year, as well as some thoughts about what lies ahead.

<u>Corporate strategy: confident in Surrey's future</u>

Ensuring there is a defined and well communicated corporate strategy is key to ensuring the organisation moves forward appropriately. Reflecting the feedback from staff, members and customers, we updated our corporate strategy and improved its presentation with clearer and more succinct messages. It now emphasises deeper collaboration with partners where our joint contributions would ensure significant benefits for residents.

<u>Partnership and joint working</u>

After careful preparation, we launched an official partnership with East Sussex in April 2015 that will integrate business services across the two councils. This means that we can share expertise, maximise resources and deliver a range of professional support services to both Surrey and East Sussex, making the two organisations stronger, more agile, digitally-enabled and professional.

There are other examples of joint working, like the South East Seven procurement partnership and our Public Sector Transformation Network with partners including police, health and central government.

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School provision

Our property services and schools teams created an additional 4,170 primary school places for the last academic year (beginning in September 2014).

However, Surrey's continuing baby boom means the county council has to provide 13,000 extra school places (the equivalent of 39 two-form entry primary schools) through its £290m school expansion programme over the next five years. Although the Government has awarded Surrey an additional £41m over the next two years in recognition of the increasing demand, it still leaves the council with a significant funding shortfall.

Children's Services Review

Last November, the Office for Standards in Education, Children's Services and Skills (OFSTED) raised concerns over the way we handle children who are not in immediate danger but have difficult lives through neglect or lack of care. We agreed, and put into place action plans in response to OFSTED's recommendations, which have been monitored by a cross-party improvement board. Also, we added an extra £2m investment in recruiting social workers to help us improve in this area.

OFSTED recognised that children who need child protection and are in immediate danger already receive appropriate protection and receive help quickly to ensure that they are safe. OFSTED also identified a number of our other strengths especially in finding permanent adoption homing and family support programme.

Flooding – Lower Thames seven councils

Through the Chancellor's Autumn Statement, the Government announced there would be £60m available for flood defence schemes across the lower Thames – for Datchet and Teddington locks - to protect up to 15,000 households at risk of flooding by 2021. It is good news but still leaves a £45m funding gap for us and our six local authority partners bordering that stretch of the Thames.

Furthermore some of our awards ...

Some of our awards are worth mentioning. Both our Shared Service Centre and Highways Service have received impressive awards both internationally and nationally. The Shared Service Centre, which handles pension administration, payroll, recruitment, invoices and booking internal training courses, was named best in Europe by The Shared Services & Outsourcing Network (SSON). It was judged to put the customer at the heart of its service, driving cost savings and increasing efficiency and customer satisfaction. Coca Cola Hellenic, Siemens and Bank of Ireland were among the more than 150 organisations up for the title in the annual SSON awards.

Our highways engineers a have collected a number of awards this year for the £32 million Walton road bridge carrying 35,000 commuter cars a day between Shepperton and Walton. The first Thames crossing built in 20 years, scooped the Community Award at the Institution of Civil Engineers' (ICE) London regional ceremony in May, then the best overall award in ICE South East awards in June and the Best Practice Award at the British Construction Industry Awards in October.

Magna Carta planning and hosting a year of celebrations

Last June marked the start of a year of artistic and educational events, involving schools and the council's Surrey Arts service, to mark the 800th anniversary of the sealing of the Magna Carta at Runnymede in 1215. A giant puppet show, with puppets built by four local schools, was the centre piece at a Giant's Picnic event at the Runnymede memorial site to launch the programme of activities, leading up to the royal commemoration event on 15 June 2015.

Financial challenges enormous

The financial pressures and uncertainty of central government funding for councils remain. In February 2015 we set out our revised five-year financial plan. Austerity, unprecedented growth and volatile demand for the council's services are challenging for our planning, financial sustainability and resilience. Together with operational processes and assured financial resilience, we are building a council that can achieve our corporate goals and remain sustainable.

Central government plans for devolution

The Government is looking to devolve some functions and responsibilities to local government. For some time we have been working with other councils to be involved with planning and discussions around what devolution would mean to the south-east. This is a key goal for us over the next year.

Our business model

Further reading links pg 55

The strategic challenges facing the council stem from two significant and persisting trends. Firstly, population changes - alongside the introduction of new responsibilities and duties - mean there is an increasing number of things the council needs to do in order to fulfil its purpose. Secondly, the total financial resource available to do these things continues to reduce in real terms.

By putting its strategy into action since 2013 the council has made good progress in meeting these challenges. The progress made confirms the value of staying true to the long-term strategy the council agreed in July 2013. It has helped the council to navigate significant challenges over recent years.

The council's vision statement has been updated to "one place, one budget, one team for Surrey". This reflects the need to deepen and accelerate collaboration among partners over coming years, and the strong case for Surrey to be granted greater local powers.

The list of key actions for the next financial year has also been updated. These actions have been grouped under three headings as our strategic goals. These goals (Wellbeing, Economic prosperity, Resident Experience) describe the key outcomes that everyone in the council will be contributing to for the benefit of residents. There are a number of more detailed supporting strategies and plans which contribute to the delivery of the corporate strategy.

Confident in Surrey's future: Corporate Strategy 2015-20

SURREY

PURPOSE

We are the representative body elected to ensure Surrey residents remain healthy, safe and confident about their future

VISION

ONE place
ONE budget
ONE team for Surrey

VALUES

- Listen
- Responsibility
- Trust
- Respect

Context

Residents expect services to be easy to use, responsive and value for money. Demands are increasing while financial resources are decreasing. We will meet these challenges by continuing to work as one team with our residents and partners. By working together, investing in early support, and using digital technology we will improve and ensure residents can lead more independent lives.

Changing birth rates and people moving into Surrey means that 13,000 more school places are expected to be needed by 2020

Surrey's population is increasing and is ageing - by 2020, it is estimated that older people will make up 20% of the population, increasing demand on health and social care services

Surrey's economy expanded by 17% between 2009 and 2013, but there are critical challenges: roads are congested; employers struggle to attract staff with the right skills; and there is limited affordable housing

Our strategic goals

Wellbeing

Everyone in Surrey has a great start to life and can live and age well

To support this goal in 2015/16 we will

- Provide over 2,800 additional school places for the September 2015 school year
- Improve outcomes for children in need
- Support 750 families through the Surrey Family Support Programme
- Help older and disabled people to live independently at home
- Support a healthy living approach

Economic prosperity

Surrey's economy remains strong and sustainable

To support this goal in 2015/16 we will

- Support young people to participate in education, training or employment
- Ensure more than 50% of council spending is with Surrey businesses
- Improve and renew 70kms of roads
- Increase waste recycling and reduce the amount produced and sent to landfill
- Support a £50m plus infrastructure investment programme

Resident experience

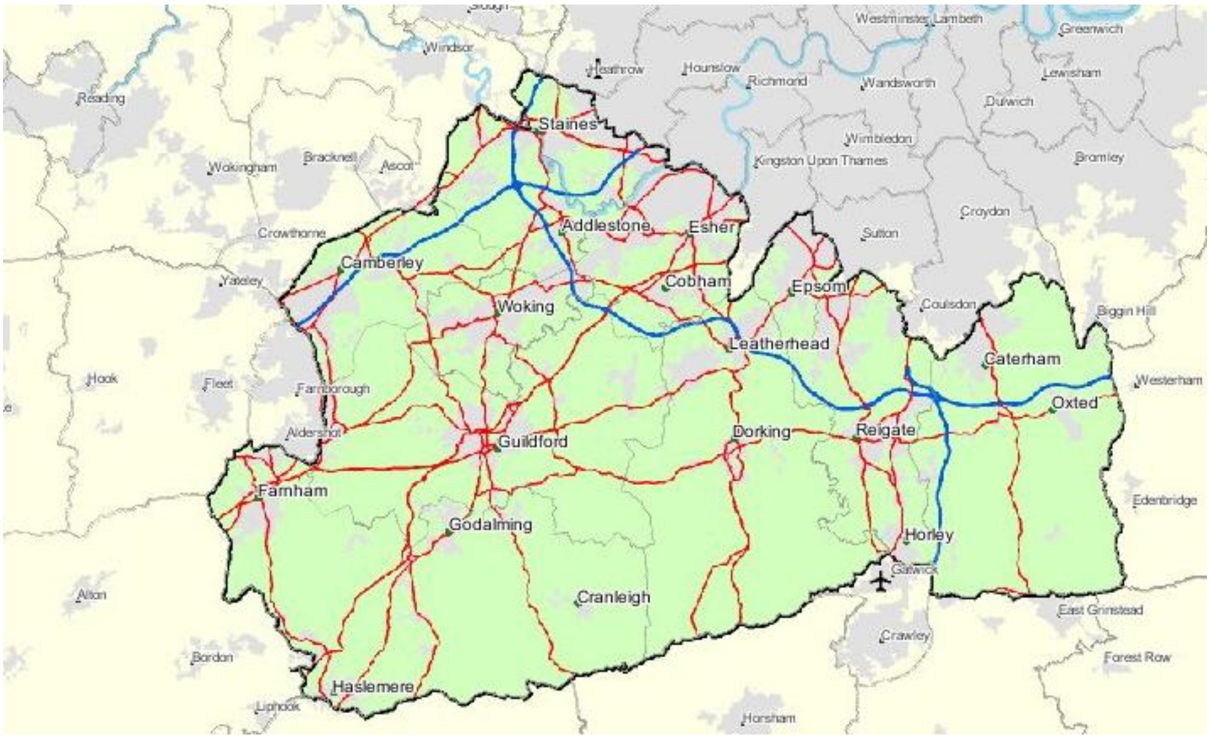
Residents in Surrey experience public services that are easy to use, responsive and value for money

To support this goal in 2015/16 we will

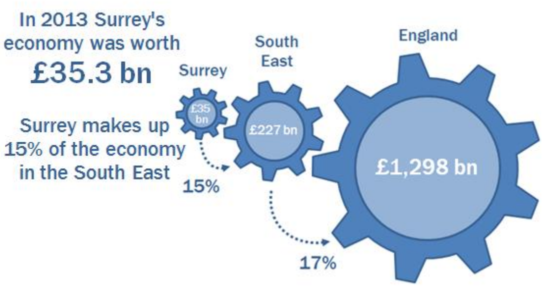
- Collaborate with partners to transform services for residents
- Use digital technology to improve services for residents
- Invest in flood and maintenance schemes
- Work with partners to tackle issues that make residents less safe
- Deliver £62m savings

Who we serve and how

The county of Surrey is about 1,663 km^2 (650 m^2), which is similar to the size of Greater London. Occasionally, it i involves using facilities beyond our boundaries as a county, for example: care homes, fire stations and primary, secondary and special needs schools.



It is expected that the population will increase from 1.15m (double the size of Luxembourg) to 1.4m by 2037. Predominantly this increase is due to an ageing population, an increased birth rate and immigration.



Since 1889, 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. This is demonstrated through transparency, information and public accountability.

Examples of these legislative powers and high level directives (statutory duties) include: education; supporting and protecting vulnerable people through social services, including assessing the needs of and providing support to children, older and disabled people in the community; managing the amount of waste Surrey people produce; ensuring that levies charged are minimised; maintaining and managing roads and public transport networks; libraries; strategic planning; consumer protection; public health; and fire and rescue services.

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.

At a glance: a year in Surrey County Council

April 2014

Primary school places

Most Surrey children continue to get a primary school of their choice. This month pupils starting next September find out where they have a place. Primary education in Surrey covers reception and junior levels.

* 85% got their first preference
* 94% got one of their top three preferences.

May 2014

Fostering Fortnight

Surrey fostering in figures:
1,601 – years of experience that carers have clocked up
644 – children currently being looked after
236 – families caring for children
14 – specialist carers.

June 2014

Preston Regeneration commenced

Work has started on Surrey County Council's joint project with Reigate & Banstead Borough Council to regenerate the Preston area with new community facilities includes a 25-metre six-lane swimming pool, a 60-station gym and sports hall, space for community activities and a youth skills centre.

July 2014

Flood volunteers thanked

Scores of volunteers who worked tirelessly to keep Surrey residents safe during last winter's floods have been thanked by Surrey's Lord-Lieutenant Dame Sarah Goad and the previous county council Chairman, David Munro.

August 2014

Cycle Surrey

Cabinet Member for Community Services, Helyn Clack, said:
"I'm delighted that the wind and rain didn't quash the determination of nearly 21,000 cyclists to turn out for the RideLondon-Surrey event."

September 2014

Extra school places

Cabinet Member for Schools and Learning, Linda Kemeny, said: "I'm pleased we have ensured more than 4,100 additional pupils can learn in Surrey schools but it is going to get harder and harder for us to find the £290 million we need over the next five years for the 13,000 further places the county desperately needs."

<table>
<tr>
<td>October 2014

Autism home opens

MP Kwasi Kwarteng helped to celebrate the unveiling of a new home for people with autism when he dropped in at the official launch. The Spelthorne MP joined Cabinet Member for Adult Social Care, Mel Few, at the event to mark the opening of Surrey County Council and London Care Partnership's home.
The new service in Sunbury-on-Thames provides a home for eight people aged 18 to 25.</td>
<td>November 2014


Surrey Libraries won an award for supporting those who are unable to visit a library by themselves. The Village Centre of Englefield Green were recognised for running free lifts to Egham Post Office for people who may otherwise be housebound. Lynne Baxter and the Mole Valley Ponderers were honoured for ensuring people with dementia have ongoing social support.</td>
<td>December 2014

Keeping Surrey moving

Surrey County Council's gritting lorries treated 6,089 miles of road. the equivalent distance from London to Tokyo.
As temperatures plummeted, the council's winter operation kicked into gear with the fleet of 39 gritters drawing on the 16,000 tonnes of salt stockpiled at depots across Surrey in preparation for icy conditions.
52 farmers have also been equipped with snow ploughs to help us clear the rural roads.</td>
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<tr>
<td>January 2015

A conman was jailed for three years for swindling unsuspecting shoppers out of £600,000 by selling knock-off versions of Disney's Little Mermaid and Mrs Brown's Boys imported from China.
He was found guilty at Guildford Crown Court of 13 counts – including importing and supplying counterfeit DVDs, running a fraudulent business and money laundering. The prosecution was brought by Surrey County Council trading standards officers and the Federation Against Copyright Theft (FACT).</td>
<td>February 2015


Libraries across Surrey held events to celebrate National Libraries Day on Saturday 7 February.
Guildford Library ran sessions to guide people through the world of e-books and e-audiobooks, while other branches held children's events.</td>
<td>March 2015
Open Data Champion

Surrey County Council was named an 'Open Data Champion' by Cabinet Office Minister, Francis Maude, for its digital approach.
He named Surrey as one of 16 champions nationally at an event looking at the role of the 'local authority of the future'.
Openly published data can be used to create applications that provide better public services, boost the economy and help people with day to day tasks.</td>
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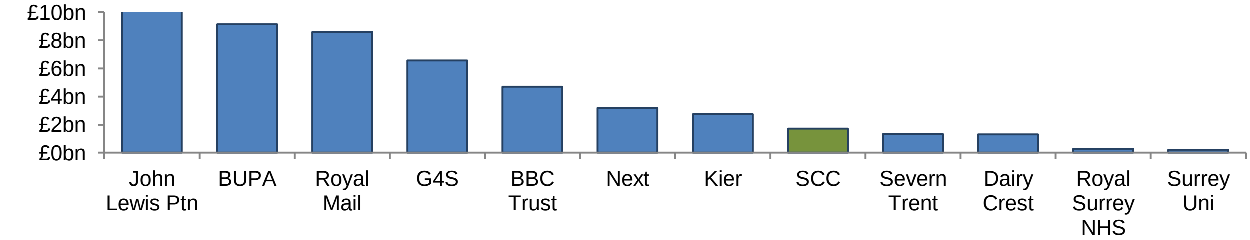
Financial highlights

Read more pg 29 and 46

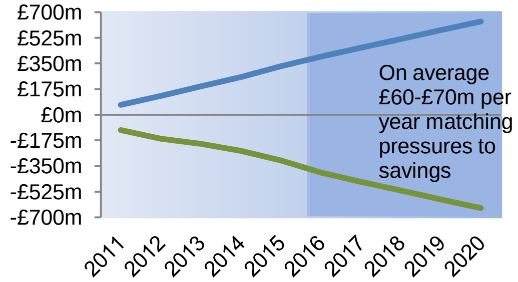
Surrey County Council always sets its budget for the next financial year in February. It is set in line with the council's multi-year approach to financial management which aims to smooth resource fluctuations over five years. In 2014-15, the council's Cabinet approved using reserves to meet the revenue budget gap. Financial monitoring reports are presented to Cabinet monthly.

More than 10% of Surrey schools have transferred to academy status (with a reduction of more than £150m in the Surrey schools budget), while the council has been handed extra responsibilities, like public health. This has meant the council' revenue budget has remained around £1.7bn for the last five years. It is likely to remain at a similar level over the next five years as a result of central government grant reductions, demographic and service pressures offset by local taxation increases (council tax and business rates) and savings programmes.

The below graph highlights the council's revenue expenditure (for 2014-15) against other broadly comparable local and national organisations.

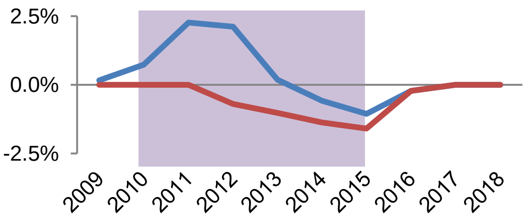


Cumulative revenue pressures and savings



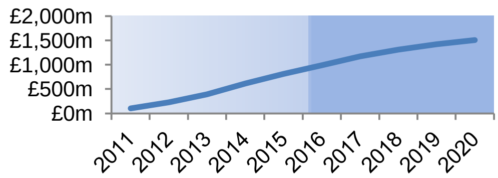
A key objective of the council is to increase the council's financial resilience, including reducing long-term reliance on government grants. There is an ongoing sustainable savings programme (green line).Continuing absorbing service pressures (blue line) and maintaining service quality demonstrates our long-term goal.

% Planned & Actual +Surplus / -Deficit:



In the last government's term of office (purple section), the actual result (blue line) demonstrates that previous reserves built up before the austerity measures have been drawn upon. The red line shows what we estimated to draw on from general reserves while in austerity.
The gap between the lines demonstrates the tight grip on financial management.

Cumulative capital expenditure:



The council has invested to school places and highway infrastructure. Therefore the capital expenditure has increased over the five years. The next five years demonstrate the profile of the capital programme.

10

Keeping track of progress on our goals

Further reading links pg 55

Our corporate strategy sets out three strategic goals on wellbeing, economic prosperity and resident experience. For each goal we have set some key actions to be delivered in the 2015-16 financial year. We publish progress on each of these and other important measures on our website so everyone can see how we are doing. Below are some examples of the measures you can review on the website.

Wellbeing - Everyone in Surrey has a great start to life and can live and age well

Improve outcomes for children in need of support

Early Help Assessments completed	Children on a protection plan	Number of Children Looked After	Statements or Education, Health & Care Plans
512 Assessments	1,042 children	775 children	5,631 Children in receipt of a plan

Economic Prosperity - Surrey's economy remains strong and sustainable

Support young people to participate in education, training or employment

Surrey pupils attaining Level 2 by age 19	Apprenticeship take-up in Surrey
87.4 % of young people	1,560 16-18 year old residents

Ensure more than 50% of council spending is with Surrey businesses

Council spend with Surrey businesses (%)	Council spend with Surrey businesses (£m)
54 % % of council spend	470 £ million spent in 2014/15

Surrey's economy

Value of Surrey's economy	Employment in Surrey	Unemployment in Surrey	Businesses in Surrey
35.3 £ billion	75.8 % of people in employment in Surrey	4,890 claimants for Jobseekers Allowance	65,690 businesses

Resident Experience - Residents in Surrey experience public services that are easy to use, responsive and value for money

Use digital technology to improve services for residents

Increase use of Surrey Information Point
17,674 Unique visitors

We have number of metrics tracking online activity on registrations, school admissions, highway defects, library renewals to Adult continuing learning enrolments

Work with partners to make residents safer

Reduce road casualties in Surrey	Businesses assisted by Trading Standards
5,223 annual casualties	1,810 businesses assisted

Our performance, 2014-15

Wellbeing - Everyone in Surrey has a great start to life and can live and age well

More than 4,000 additional school places created – The council created an additional 4,170 primary school places on time for the start of the last academic year (September 2014). This involved developing about 55 school expansion proposals, ranging from temporary classrooms to a major expansion of schools on existing sites (in many cases representing a 50% increase in the size of the school) and building a new school.

Looking to the future, council planners are also identifying what further schemes will be needed, not only to provide sufficient primary classrooms but also to match primary capacity with extra capacity in secondary schools. Such classroom-building schemes are at various different stages and are far from straightforward. They have to take account of a range of sensitive issues, including traffic, noise and disturbance, listed buildings and sites within protected areas, such as the Green Belt. There is also the design of buildings to consider, as well as ecological and environmental factors, including flood risk.

Surrey's continuing baby boom means the county council has to provide 20,000 extra school places between 2010 and 2022 (the equivalent of 39 two-form entry primary schools). The council's £327m school expansion programme for 2014-19 is on track to provide these necessary places. Although the Government has awarded Surrey an additional £41m over the next two years (2015-17) in recognition of the increasing demand, it still leaves the council with a significant funding shortfall.

Over 1,000 families benefit from Family Support Programme - Surrey has successfully reached its target of turning around the lives of 1,050 families through the Surrey Family Support Programme. The programme provides support to families with challenges and difficulties affecting their relationships with each other and their communities. 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 involvement in crime and antisocial behaviour. The Surrey Family Support Programme brings different practitioners together including health, education and housing professionals to work as a "team around the family" to support each family in achieving their goals.

This has proved so successful in helping families reduce their involvement in crime and antisocial behaviour and improve school attendance and work opportunities that Surrey was selected as an early starter for the expansion of the government's Troubled Families programme. Our focus here will be on other family concerns, such as mental health issues, domestic abuse, substance misuse, risk of homelessness and other challenges that have an impact on family life.

The council now aims to turn around the lives of 3,660 families by 2020, supporting about 1,000 families a year with a targeted whole family intervention. This involves working closely with other Surrey public agencies to develop preventative services that achieve better outcomes for local residents.

10

Big jump in Health Checks for over 40s – Surrey people are jumping at the opportunity to have a free NHS Health Check. The checks, for people aged 40 to 74, are carried out at more than 100 venues, including GP practices, pharmacies and other community organisations. The number of health checks surged from 2,067 in 2013-14 to 16,799 in 2014-15. Health checks are part of the strategy of reducing preventable disease by helping people lead healthier lives, such as making small adjustments to their diet and doing regular exercise. More information about health checks is available at: www.healthysurrey.org.uk/your-health/health-checks/

Sugar, alcohol and tobacco targeted in campaigns – A number of behaviour change campaigns over the last year have supported Surrey families to lead healthier lives. Nearly 6,000 people signed up to the Change4Life campaign in January and February this year to substitute healthy options for sugary foods and drinks. Surrey had the seventh highest number of sign-ups in England.

Over 1,000 people in Surrey started the New Year by taking a break from the booze in the Dry January campaign. And in October 2014, 3,955 people signed up to quit smoking during the Stoptober campaign, the seventh highest number of all local authority areas in England and Wales.

Highlighting issue of head injuries in the young - Surrey's public health professionals have produced new guidance and advice on dealing with head injuries, which are the most common cause of death and disability in people up to the age of 40. Part of this drive to raise awareness of the risks of head injuries, particularly among children and young people, is an easy-to-use guide for parents, schools, nurseries, childminders and voluntary and sports groups. About half the 1.4 million people admitted to A&E in England and Wales last year with head injuries were children under 15. The guide gives a checklist of what to look for when a child suffers a head injury, along with a green, amber and red warning system, indicating whether the injury can be treated at home or requires a visit to A&E or a 999 call.

Boost for young people with autism - In October a new home for young people with autism was officially opened in Sunbury-on-Thames. The new building, in partnership with London Care Partnership, was created with families and staff to help people with autism stay among their friends and relatives in familiar surroundings.

And in a groundbreaking scheme with the National Autistic Society (NAS) and the Cullum Family Trust, Surrey is to open centres in four secondary schools to provide specialist support for 80 pupils with autism, enabling them to stay in mainstream education nearer home.

Surrey state schools are top of the class –The majority of pupils in Surrey state-funded schools continue to perform better across all key stages, and in the majority of performance areas, than most of their peers regionally and nationally. Last year the percentage of pupils achieving five or more GCSE grades at A*-C, including English and mathematics, was 63.5%, compared to 56.8% nationally. (Due to a change in the method of calculation, these figures are not comparable with previous years).

Improvements at Key Stage 4 this year mean that the proportion of disadvantaged pupils who achieved five or more GCSE grades at A*-C, including English and mathematics, is now higher in Surrey than nationally.

Over 85% of Surrey schools were rated by Ofsted as good or outstanding at the end of March 2015, compared with 80% last year, with 92% of secondary schools rated as good or outstanding.

In 2014, more than eight out of 10 parents got their first preference for their child’s primary or secondary school, and more than 90% were offered one of their top four preferences.

School admission appeals - Parents who are unsuccessful in gaining a place for their child at one of their preferred schools have the right of appeal to an independent panel. The council’s School Appeals Team held 533 appeals for the September 2014 intake (25% up on the total for the 2013-14 academic year). Their responsibility is to ensure the three-person panels, all made up of volunteers, conduct the appeals impartially and in line with legal requirements. 158 (30%) of these appeals were successful.

Energy efficiency means affordable warmth – The council has completed the second year of a partnership scheme with Surrey’s clinical commissioning groups (CCGs) and district and borough councils to help vulnerable residents get warmer, healthier homes more cheaply and with lower carbon emissions. The scheme has provided better advice to residents and attracted £2.5m in extra funding for insulating the least efficient, older solid wall homes in Surrey. More than 6,000 households have been advised how to boost their energy efficiency, and over 1,000 have benefited from better insulation, more efficient boilers and other improvements.

Promoting independence – The objective of helping more people live at home with the support of community-based care services, instead of having to live in residential care homes, has continued. Over the last year, the council:

- reduced the number of adults aged 18-64 in residential and nursing homes to 1,188 in March 2015 - a 6% decrease from 2014
- supported 219 people with learning disabilities and eight people with Autistic Spectrum Disorder in paid jobs

Equipment assessment clinics - During 2014-15, 338 people opted to have an assessment at a local equipment clinic – an increase of 12% from 2013-14. Surrey now has 11 equipment clinics across the county, giving people access to faster clinic based assessments, reducing waiting times for equipment. Locations have been provided in partnership with district and borough council partners, demonstrating an integrated approach to supporting residents.

Rise in personal budgets – The council has increased the number of people receiving a personal budget to 11,134 to give people more choice and control over the care they receive. This is an increase of 629 people since March 2014.

10

Wellbeing centres - There are now nine Wellbeing Centres operating across Surrey. The centres provide a meeting place for carers, local information points for people living with dementia and telecare demonstration suites. The aim is to have 11 Wellbeing Centres in total - one in each borough and district. The 10th is due to open in 2015-16.

Supporting people living with dementia - During 2014-15, the council's Adult Social Care directorate:

- undertook a large-scale consultation seeking views on how to improve day services for people with dementia and their carers and to inform a new approach to bring more flexibility and choice
- worked with partners to develop 'dementia-friendly' towns and villages across Surrey
- completed a review of the 2010-2015 Joint Dementia and Older People's Mental Health Strategy and developed a toolkit to enable partners to develop their own area-based strategies and action plans.

Community Connections - At the end of December 2014, community services supported 3,367 people with mental health needs across Surrey. These local preventative services for people with mental health problems are run by the voluntary sector and funded by Surrey County Council and Surrey's six CCGs. There is a community connections service in each district and borough.

Supporting carers – Thousands of people care for loved ones and friends on a daily basis, which can take its toll on their own health and wellbeing. The council commissions a range of specialist carer services with NHS partners, provided by the voluntary sector, to enable carers to continue caring and have a life outside caring. Approximately 19,400 carers and 1,600 young carers were supported in the first half of 2014-15, with specialist services, including:

- Carer Back Care Service - 955 carers supported
- Carers and Employment Service - 198 carers supported
- Benefits Advice for Carers - 178 carers supported
- Rethink Mental Health Carer Support Service - 424 carers supported
- Surrey Young Carers - 1,633 carers supported

In addition, the council, NHS and carer organisations have developed schemes to support carers with cash payments. For example,

- carers' support organisations approved 869 payments of up to £500 to support carers' own needs, including young carers
- and GPs agreed 2,165 payments of up to £500 for residential and other breaks for carers, including young carers.

Helping people regain independence – The council arranged 3,370 people to have reablement services, which are designed to help them regain the skills necessary for daily living at home following an illness or setback.

Joining up health and social care – An £18.3m investment by the council with health partners aims to continue to improve health and social care outcomes for people with long-term conditions. The council and six CCGs together agreed the Surrey Better Care Fund Plan, setting out plans to deliver local integrated community-based health and social care services in 2015-16.

An electronic automated NHS number-matching system has also been introduced so that social care records now hold an individual's NHS number - this will support and enable the ongoing integration of health and social care services.

Adult social care information online – The adult social care and health online information directory, Surrey Information Point, had more than 162,000 unique visitors during 2014-15.

Health and Wellbeing Board highlights - Surrey's Health and Wellbeing Board published a strategy in 2013 with five priorities for improving health and wellbeing in Surrey. These are:

- improving children's health and wellbeing
- developing a preventative approach
- promoting emotional wellbeing and mental health
- improving older adults' health
- and safeguarding the population.

Important achievements of 2014-15 include:

- Agreeing the Surrey mental health crisis Concordat (a national agreement) to ensure a joined-up approach among all the services and agencies supporting people in crisis
- Pooling £71.4m of health and social care budgets under the Better Care Fund to make it easier for people to get the right care and support
- Supporting 1,315 children and young people through an Early Help Assessment
- Developing a breastfeeding strategy
- Awarding £729,000 from the Social Innovation Fund to reduce placement breakdowns, out of county social care placements, inappropriate hospital admissions, stays in prison cells and inpatient admissions to psychiatric units
- Preventing 34 young people from admission to a psychiatric unit through the HOPE service
- Over 100 partners have agreed joint actions to tackle childhood obesity
- The Time to Change project has reached 1,600 people to reduce the stigma around mental health issues
- A Surrey suicide prevention plan has been developed
- A successful pilot involving placing mental health staff in the police call centre has been extended to seven nights a week
- The ambulance service now responds within an hour for people in need of a mental health assessment under section 136 of the Mental Health Act (which gives police the power to take someone to a place of safety on grounds of mental illness)
- The Dementia Friendly Surrey campaign has signed up 125 Dementia Friendly Champions from across local communities
- 14 projects across Surrey were awarded up to £5,000 each to deliver dementia-friendly projects

Economic Prosperity - Surrey's economy remains strong and sustainable

Local businesses scoop £1.3m a day from council's economic pledge - Local businesses have benefited to the tune of nearly £1.3 million a day as a result of Surrey County Council's pledge to help drive economic growth. Figures for 2014 reveal that £470m worth of contracts were secured from the council by 3,000 local businesses and organisations. That is the equivalent of £1.29m daily going into the Surrey economy from council spending on essential goods and services. Now 54% of council spending is directed to Surrey firms, up from around 30% just four years ago.

It follows the launch of a series of online initiatives, including the BuildSurrey and SupplytoSurrey websites, to make it easier for firms to bid for contracts and do business with the council. The council has also encouraged its contractors and suppliers to recruit apprentices, resulting in the creation of 1,500 apprenticeships.

University technical college approved - The Department for Education (DfE) has approved council plans for a new £10m university technical college (UTC) in Guildford. As well as helping to address the need to boost secondary school places, the curriculum is being designed to address local skills gaps and support future economic growth by focusing on computer science and engineering.

£100m road renewal plan on track as well as £23m flood repairs – Last year was particularly challenging as Surrey highways engineers pressed ahead with the council's £100m road rebuilding programme, while also having to repair extensive damage caused by the winter floods of 2013-14. The severe flooding across the county led to a massive rise in the number of potholes requiring immediate repairs, and damaged bridges and other structures, footways and drainage systems. The Department of Transport contributed £9m to the £23m flood bill, with the remainder coming from the county council.

Over a five-month period, council road contractors had to:

- Permanently repair over 70km of roads
- Undertake 150 localised repair schemes on the road network
- Make safe over 50,000 potholes
- Repair 300 drainage systems
- Repair 38 bridges

The council's road renewal programme, known as Operation Horizon, continued during the flood recovery work so that it remains on schedule to replace 10% of Surrey's roads by 2018. To date £55m of resurfacing has been completed, providing 200km of roads with a new, high quality surface. Careful management has so far generated over £5m in savings, which has been re-invested in the overall road programme.

Key improvements in 2014-15 include:

- Resurfacing a large number of concrete roads in Epsom and Guildford, removing long-standing defects which had previously been too expensive to repair
- Completing the resurfacing of Reigate town centre
- Resurfacing busy junctions feeding the strategic road network, including Painshill Junction for the A3 and access to the M3 motorway.

High-speed broadband coverage makes Surrey best connected county - Surrey has become the best connected county in Britain following the completion of the main part of the council's £35m high-speed broadband project with BT. It means 82,000 businesses and homes, mainly in rural Surrey and excluded from the commercial broadband rollout areas, can now have access to the fibre broadband network.

In extending the fibre broadband infrastructure across Surrey, the project has involved:

- Laying more than 250 miles of fibre optic cable (the distance between London and Newcastle)
- Upgrading more than 30 rural telephone exchanges across the county to high speed fibre broadband
- Installing more than 600 green roadside cabinets and fibre structures and
- Helping Surrey record the second highest take-up of fibre broadband in the country.

County and districts plan £40m growth investment - Building on the success of the Redhill town centre regeneration scheme, the county council has worked with the district and borough councils and other partner organisations to secure £35.5m in external funding for Surrey's road network. This will enable over £40m in infrastructure investment over the next 4 years.

This funding covers 12 schemes focusing on reducing congestion, improving sustainable transport options (such as walking, cycling and public transport) and protecting the network against future flood damage, which is costly to repair and disrupts business. Key schemes will include:

- Major improvements to the Runnymede roundabout connecting the M25 with Windsor
- Regeneration of Epsom town centre's road network
- Major improvements to the wider Camberley road network
- Upgrading key drainage infrastructure in Tandridge and Mole Valley.

There are plans to submit further bids in January 2016 for about £20m to the Local Enterprise Partnerships (LEPs), which distribute government cash for projects to drive economic growth.

Technology improves road repair efficiency - Technology is playing a key role in speeding up the process of finding and fixing safety-related problems on the roads. Examples include:

- Handheld devices enable details of highway defects to be digitally transmitted to the highway crews for repair, removing the need for manual administrators and paper records;
- Digital photographs taken before and after defects are repaired allow a clear quality audit of work carried out by contractors;

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- Technology assists with real-time scheduling, which improves the productivity of road gangs, helps prioritise urgent repairs and ensures repair gangs are allocated to the defects closest to them to reduce travelling time;
- The frequency at which roads are inspected has also been increased in higher risk locations, with all primary routes now inspected on a monthly basis to further improve safety.

Wastebuster scheme recycles clothes into cash – Surrey County Council has set up a textiles recycling scheme, on a trial basis, that enables charities and community groups to raise funds by arranging collections of clothes and home textiles. It includes shirts, coats, tights, towels, sheets, bags and pairs of shoes. It doesn't matter if they are torn or tatty, as long as they are clean and dry. Groups can receive hundreds of pounds through Wastebuster, a not-for-profit organisation that promotes recycling and waste reduction in schools and communities. Wastebuster can provide materials to ensure collections are a success and will collect and pay for donations of used clothing and textiles. The effectiveness of the scheme will be reviewed after summer 2015.

Research by the council showed more than 10,000 tonnes of clothes and home textiles were thrown away in Surrey last year when they could have been reused or recycled. Visit recycleforsurrey.org.uk for more information. **Working together to improve recycling performance -** Working together as the Surrey Waste Partnership, the county council and the 11 borough and district councils have carried out a number of initiatives to encourage residents to waste less and recycle more. They include a calendar of coordinated Recycle for Surrey campaigns to encourage behaviour change and provide consistent information for households across Surrey to promote home composting, plastics recycling and food waste reduction and recycling. Evaluation of the food recycling campaign showed that 56% of residents increased the amount of food waste they recycled and 80% had an increased understanding of what happens to food waste that is collected.

Reducing waste sent to landfill – Surrey households produce more than 530,000 tonnes of waste a year that has to be collected and disposed of by the district and county councils. Burying the waste in the ground (known as landfill) is the most expensive and least environmentally-friendly way of dealing with waste so Surrey councils have continued their push to reduce landfill for the benefit of residents. This has proved highly successful with the amount sent to landfill dropping from 10.9% (58,000 tonnes) in 2013-14 to 6% (32,000 tonnes) in 2014-15. It costs about £112 per tonne to dispose of waste through landfill, but only £57 per tonne to recycle.

Maximising value from waste – The county council has agreed a new deal with its waste disposal contractor, SITA, to pre-treat 100,000 tonnes of residual waste a year to be used to power energy-from-waste plants. Around 2.5% of the waste processed will also be recycled, which will help improve Surrey's recycling rate and the deal will save around £2.5 million over four years, compared to sending the waste to landfill. The council has also secured better prices for other waste materials, including food waste and street sweepings.

Supporting local communities through reuse - The Surrey Reuse Network (SRN) is a consortium of charities working with the council's waste team to deliver sustainable reuse, recycling and repair services. In 2014 the SRN opened a new Hub in Addlestone which takes unwanted furniture, bric-a-brac and white goods for repair and resale. The Hub has started taking material from Lyne Lane Community Recycling Centre and will provide volunteering, training and employment opportunities for the local community. Altogether the network provided low cost or free items to 4,989 low income households in 2014-15. They also had 403 volunteers and provided training and work placements to 122 people.

Improved waste facilities at Earlswood - A new waste transfer station and bulking facility at Earlswood (near Redhill) was opened in December 2014. The site provides bulking capacity for residual waste and recyclable materials collected by the district and borough councils in the east of the county, as well as materials collected at Community Recycling Centres. The new facility will help improve efficiencies and reduce costs for district and borough councils and the county council. Surrey produces about 461kg of waste per person a year. The average amount produced per person in England is 468kg.

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Resident Experience - Residents in Surrey experience public services that are easy to use, responsive and value for money

Drive for savings continues - Surrey County Council achieved nearly £74 million of savings for Surrey council taxpayers in 2014-15 – the equivalent of about £190,000 a day. It's the fifth successive year annual savings have exceeded £60m, bringing total savings for the period to £330m. A big chunk of the savings comes from striking better procurement deals with contractors, working more effectively with other councils and organisations, sharing office space and expertise and introducing new operating models and smarter ways of working.

It is all part of the council's continuing commitment to do more for less at a time of rising demand for elderly care and more school places that alone will cost the council hundreds of millions of pounds more in the coming years.

Firefighters speed up access to critically ill patients - Surrey firefighters are stepping in to help ambulance crews gain quick access to the homes of patients too ill or injured to open their doors to paramedics. They have taken on a new role gaining entry to locked properties in medical emergencies to help save more lives. Traditionally it has been a police responsibility to force entry to private property on behalf of paramedics who lack the equipment and expertise to carry out the task themselves.

The initiative is part of a Surrey-wide 'blue light' collaboration, called Working Together, in which the emergency services have agreed new arrangements to make the best possible use of their combined resources for the benefit of their communities. Under the arrangements, the council's Surrey Fire and Rescue Service has assumed the main responsibility for gaining emergency entry to a home. They are better placed at gaining access because of their training and the specialist equipment they carry on fire engines.

In a further move towards closer co-operation among 999 services, all 35 Surrey fire engines carry defribillators and life-saving kits and 180 firefighters have undergone enhanced training so that at some medical emergencies where they have been called to gain entry, they may be able to start administering care before the ambulance crew arrives. At the scene of fires or road accidents they are also able to start treating casualties as quickly as possible.

Defibrillators work by delivering an electric shock through the chest in an attempt to restore normal heart rhythm. Every minute that passes without defibrillation, a patient's chances of survival decrease by 10%. The life-saving kit now being carried by fire engines also includes cervical collars for spinal injury patients and treatments to stop severe bleeding.

Digital on the rise as readers flock to Surrey libraries - In the last year, Surrey's 52 libraries were visited 3.8 million times and 5.7 million books and 191,000 audio visual items were borrowed, with 69,010 e-books and e-audio books downloaded.

240,000 registered members used Surrey libraries in the past year. Library computers were used 1.1 million times with 4,600 newspapers read online. 2,136 people used the library classical music app and 12,000 people used the catalogue app.

- During 2014, Ewell Court library and Bramley library became the latest community-partnered libraries in Surrey. There are now nine community-run libraries managed by volunteers. In addition, the council opened three 'community link' sites, again run by volunteers, which act as mini-libraries. This involves providing a stock of books for the public to borrow in the village halls in Shere and Beare Green and the community centre in Old Woking.

Residents benefit from Travel SMART car alternatives – The council's sustainable travel programme, known as Travel SMART, has helped residents cut carbon, calories and costs over the last three years. Since winning £18m in funding from the Department for Transport, Travel SMART has allocated over £1m to 69 community groups in Guildford, Woking, Redhill and Reigate via an innovative funding scheme. The groups' projects have all aimed to improve access to sustainable travel to reduce congestion and carbon emissions and stimulate local jobs and skills.

One such example is the Guildford Bike Project, which collects abandoned bicycles from the local community (helping to improve the local environment), trains young people who are not in education, employment or training (known as NEET) how to repair and refurbish them and then sells the bikes for use within the local community.

A behaviour change campaign has been at the heart of the Travel SMART programme, promoting alternatives to the car by encouraging people to enjoy the benefits of cycling and walking, and the use of car clubs, lift-sharing and electric vehicles.

Travel SMART has also focused on improving transport information and infrastructure, including:

- Upgrading over 200 bus stops along key bus routes
- Improving urban traffic flow with enhanced traffic signals
- Constructing pedestrian and cycling facilities and infrastructure
- Opening a new park-and-ride scheme at Onslow in Guildford
- Building a new link road for Sheerwater in Woking.

The council has now secured an additional £1.7m in funding to expand Travel SMART's work into Staines, Camberley and the Blackwater Valley over the next year. More information is available at travelsmartsurrey.info

Surrey website rated top for local authorities – Surrey County Council's re-designed website has been judged the best in UK local government by the Society of Information Technology Management. It follows a project to improve the online experience of residents and customers by making council services easier, quicker and more convenient for users, with the added benefit of reduced costs for the council. A significant challenge was to ensure the website was accessible to smart phones and other digital devices, which is increasingly how people visit the website.

More opportunities than ever for adult learners – Surrey's Adult and Community Learning service supports more than 8,700 adult learners. In the last full academic year the service ran 1,823 courses, with about 57% of learners aged 50 or over.

In January 2015, Farnham Adult Learning Centre opened a new, professionally equipped studio at its premises in West Street, Farnham. It includes a large pottery area equipped with potters' wheels and a workspace for many other arts and crafts activities. The centre now offers courses in pottery, sculpture and mosaics, extending the quality and range of learning opportunities for local people.

Residents have their say on transport issues – Thousands of residents gave their views on a range of passenger transport issues in the county council's Local Transport Review last winter. The consultation, which covered a range of issues, including buses, community transport and concessionary fares, drew more than 6,800 responses between October 2014 and February 2015. While the council has to find £2m of savings, the public feedback is

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essential to ensure residents can continue to have the services they rely on for essential journeys, such as shopping and getting to work, school and hospital appointments.

Following an analysis of the responses and ongoing discussions with transport operators, the council plans a second round of consultation on proposed changes to bus services in 2015 that will maintain key services and achieve the necessary savings.

App helps children and young people make their voice heard – Digital technology is helping children in care, as well as young people due to leave care when they are 18, cut through official processes to make their voices heard. The council initially developed a “self-advocacy” app with children in the care system to help them communicate more easily and effectively with social workers and others who work with them. The council’s special projects team, known as Shift Surrey, then saw the potential of developing the app (called Mind of my own or MOMO) to support young people leaving care and preparing for adulthood.

The MOMO app’s availability on a range of hand-held devices, such as smart phones, laptops, ipads and tablets, replaces a reliance on paper forms and provides them with a simpler, more reliable and structured way of expressing their views and identifying what support they need to help them become more independent.

It also helps them develop their communication skills and confidence to speak up and self-advocate.

Easier than ever to book registration slots – The council’s registration service has had another bumper year. Surrey registrars performed 3,750 marriage and civil partnership ceremonies. 1,718 were at Surrey Register Offices and 2,032 at outside venues. More than 9,000 notices of marriage were given at Surrey offices. Over 19,000 births and 11,000 deaths were registered and over 2,000 new citizen ceremonies were held by the council.

The introduction of a new online appointment-booking system has made it easier for members of the public to arrange appointments at Surrey register offices. The booking software allows time slots to be reserved at the convenience of the customer.

Thousands tune in to primary music festivals – Surrey Arts hosted a summer of musical celebration in 2014 with 11 highly successful primary music festivals taking place, attended by a combined audience of close to 10,000 people and participation by 3,000 Surrey schoolchildren.

Events point way to 800th anniversary of Magna Carta – Last June marked the start of a year of artistic and educational events, involving schools and the council’s Surrey Arts service, to mark the 800th anniversary of the sealing of the Magna Carta at Runnymede in 1215. A giant puppet show, with puppets built by four local schools, was the centre piece at a Giant’s Picnic event at the Runnymede memorial site to launch the programme of activities, leading up to the royal commemoration event on 15 June 2015.

The eight puppets, which appeared at a number of festivities around the Runnymede area, each depicted a historical figure famous for their role in promoting political and intellectual freedoms. Each in their own way has contributed to the growth of human rights and democracy since Magna Carta, which established the principle that no one is above the law. The puppet figures included: leader of the Peasants Revolt, Wat Tyler; inventor of the printing press, Johannes Gutenberg; Toussaint Louverture, who led the slaves’ revolt on Saint Domingue (Haiti); suffragette Emmeline Pankhurst; and Pakistani schoolgirl Malala Yousafzai, who now campaigns globally for increasing access to education.

Other events included The Freedom Games opera performed at the Albert Hall by a massed choir from 17 Surrey schools.

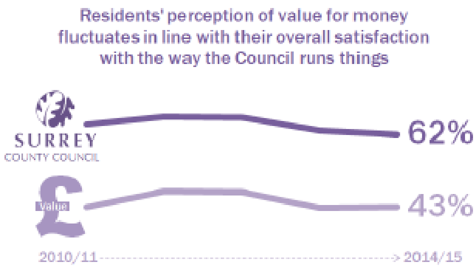
Leith Hill mountain trail open to bikers – A mountain bike trail, called Summer Lightning, has been created on Leith Hill, offering bikers a segregated route through Surrey's highest beauty spot. It's the result of four years of work by a group of organisations in the Surrey Hills Area of Outstanding Natural Beauty looking at the impact of mountain biking on the area. The intention of the trail is to avoid potential conflicts between mountain bike enthusiasts and other visitors to Leith Hill, promoting wider enjoyment of the countryside while also protecting the wildlife of the commons.

20 million local history records online – People delving into the local history of the county now have access to 20 million local history records as the council continues the task of putting Surrey's rich history online. The online records have already proved hugely popular, with around six million online views so far. All of this material can be accessed free of charge at Surrey History Centre or at any of the county's main libraries.

Surrey's Heritage Service has also been making digital copies of Surrey historical parish records, such as baptisms, marriages and burials**,** available to the public through the Ancestry.co.uk website, since 2013. As of March 2015 these records had been viewed over 10 million times.

Anti-fraud board set up – The county and its district and borough council partners have set up the Surrey Counter Fraud Partnership to tackle non-benefit fraud. A partnership board now coordinates their work to investigate fraudulent housing applications, tenancy fraud and business rates avoidance, which is expected to save the public purse £1.5m by 2016-17.

Residents' survey shows satisfaction with Surrey – The regular survey of 6,600 residents from across all Surrey's districts and boroughs, shows:

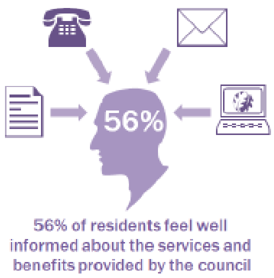


62% of surveyed residents are satisfied with the way the council runs things.

43% of residents perceive that we are value for money. This is in line with the residents' satisfaction results

56% think the council keeps people informed through a variety of channels

When residents have contacted the council, 66% were satisfied with the way they had been served



93% are satisfied with their local area as a place to live

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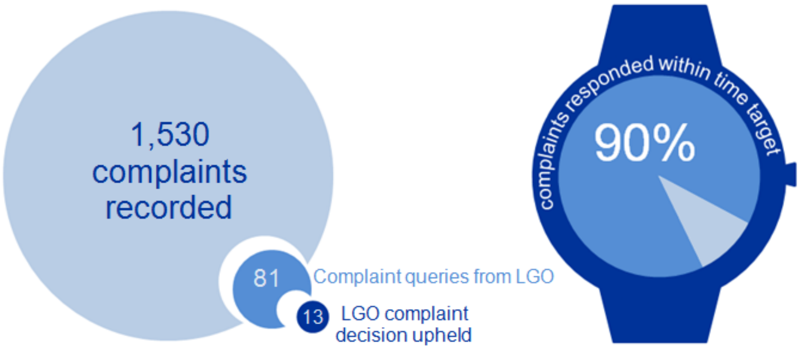
Keeping the Customer Promise (complaints)
Also aside from the residents' surveys, there are the results and outcomes from formal complaints. This is an opportunity to understand if there is a gap between a resident's expectations and the standard of their public services. The table below shows the number of complaints received about our directorates and illustrates if these were taken forward to the Local Government Ombudsman (LGO) and the complaint decision upheld (LGO agreed with the complainant).



2014-15	Complaints recorded	Complaints responded within time target	Complaints queries from LGO	LGO complaint decision upheld
Adult Social Care	192	93%	27	12
Children, Schools & Families	372	79%	33	0
Customers & Communities	72	92%	0	0
Environment & Infrastructure	726	94%	16	1
Business Services	30	97%	3	0
Central support	138	87%	2	0
2014-15 Total	1,530	90%	81	13
2013-14 Total	1,487	88%	69	1
2014-15 Members	14	100%	0	0
2013-14 Members	20	100%	1	0

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.

Children, Schools , Adults and Corporate Complaints annual reports provide more information on the themes, timing, and outcomes. These reports will be formally presented to Audit & Governance Committee in September.

Director of Finance review

Read more pg 31 and 46

Sheila Little

Sheila is Director of Finance with responsibility to ensure the council has proper financial management and control systems in place. While she is part of the senior management of the organisation, she also has the power under Section 151 of the Local Government Act 1972 to act independently of the council if she has any concerns about safeguarding public finances.

As well as the statutory finance role as Director of Finance, Sheila is the strategic advisor to the Surrey Pension Fund Board and provides strategic leadership for risk, insurance and governance across the authority.

Sustaining financial resilience requires maintaining a financial strategy and continuously reviewing potential issues that could impinge on delivering a high quality and consistent service. We have a long term financial strategy to ensure sound governance, effective management of the council's finances and compliance with best practice. The key points are:

- keep any additional call on the council taxpayer to a minimum, consistent with delivery of key services through continuously driving the efficiency agenda;
- develop a funding strategy to reduce the council's reliance on council tax and government grant income;
- balance the council's 2014-15 budget by maintaining a prudent level of general balances and applying reserves as appropriate; and
- continue to maximise our investment in Surrey.

Keep the additional call on the council tax payer to a minimum, consistent with delivery of key services

Monitoring the budget and demonstrating a tight grip on financial management ensures that the current financial position is sustainable. For the last five years, the revenue position on operating activities has been better than budget. We planned to bridge the revenue gap by drawing on £26m of reserves set aside in the previous couple of years for 2014-15 and ensuring our position is within a 2.5% tolerance of expenditure. In fact the position improved by £13m (1.0% of income).

In setting the 2014-19 Medium Term Financial Plan (MTFP), Cabinet required the Chief Executive and me to establish a mechanism to track and monitor progress on the sustainability of the five year budget. This led to support sessions with senior leaders focused on the areas of the MTFP presenting the biggest risk. Combining the rigour of the support sessions and the services' savings plans have over achieved the planned savings (£73m) by £1m ensuring that the services delivered meet residents' value for money expectations.

Continuously drive the efficiency agenda

Alongside the budget and savings monitoring achievements has been the significant improvement in the timeliness and quality of the external monitoring information. The 2014-15 final financial monitoring position was reported formally to Cabinet a month earlier than for 2013-14 (respectively April 2015, May 2014). Consistent reporting schedules and processes, continuous monitoring and regular reporting combined with an efficient and effective closing programme enabled this step change in improvement.

10 The Government set up an award to reflect that organisations (and parts of organisations) that are efficient, effective, excellent, equitable and empowering – with the citizen always and everywhere at the heart of service provision. With this in mind Customer Service Excellence ® was developed to provide organisations practical tools to drive customer-focused change within their organisation. In March 2015, Finance team achieved this accreditation demonstrating that our Finance team puts its customers whether resident or internal at the heart of our service provision. It is a fantastic achievement and to attain it on the first attempt is a real testament to the high levels of customer focus within the finance service.

Maintain a prudent level of general balances and apply reserves appropriately
In addition to meeting on-going demand and funding pressures, the council ensures it is prepared for emergencies, such as severe weather and flooding. In previous years, our general reserves increased and now are being used to meet austerity measures and assist whilst sustainable operations are implemented. The council maintained £21m in general balances throughout 2014-15.

Maximising our investment in Surrey
The council planned to spend £209m (2014-15) on capital investments. The actual spend was over 90% of plan (£191m). Timing delays such as archaeological digs, vehicle deliveries and re-phasing of IT and premises works resulted £18m being redistributed across the existing life of the programme.

Forward planning to reduce the reliance on council tax or central government grants by generating other income from the capital investment (eg: rental properties) commenced in 2013-14 when we invested £40m on long term capital assets and have added a further investment of £8m (2014-15). Therefore the actual total 2014-15 capital spend including the redistribution and investments was £217m.

Another way of generating more income and maximising our in investment in Surrey is through two local authority trading subsidiaries:

- S.E. Business Services Ltd - set up for the provision of business services and was incorporated on 20 June 2013.
- Surrey Choices Ltd - 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 and began trading in August 2014.

Both trading companies results are incorporated within our statement of accounts.

Continuously reviewing potential issues
The main risks facing the authority at the moment are: ensuring financial resilience through the MTFP and Comprehensive Spending Review; and Adult's and Children's Social Care demand and policy changes. We are heavily reliant on central government policies and partnership working for mitigating these key risks. Cabinet and Statutory Responsibility Network (led by Chief Executive) monitor and update and act to manage these risks as far as is possible. Keeping ahead of the strategic risks facing the council ensures it strives to fulfil its purpose to ensure Surrey residents remain healthy, safe and confident about their future.

Looking forward to 2015-16 and beyond
Despite a new majority government, the financial pressures and uncertainty of central government funding remain. In February 2015 we set out our revised five year financial plan. Austerity and unprecedented growth and volatility in demand for the council's services makes planning for financial sustainability and resilience challenging. Together with operational processes (the service support sessions, regular robust and timely monitoring and experience of working under these conditions) and assured financial resilience (earmarked reserves), I believe that the corporate strategy goals - residents experience, wellbeing and economic prosperity goals are achievable and sustainable.

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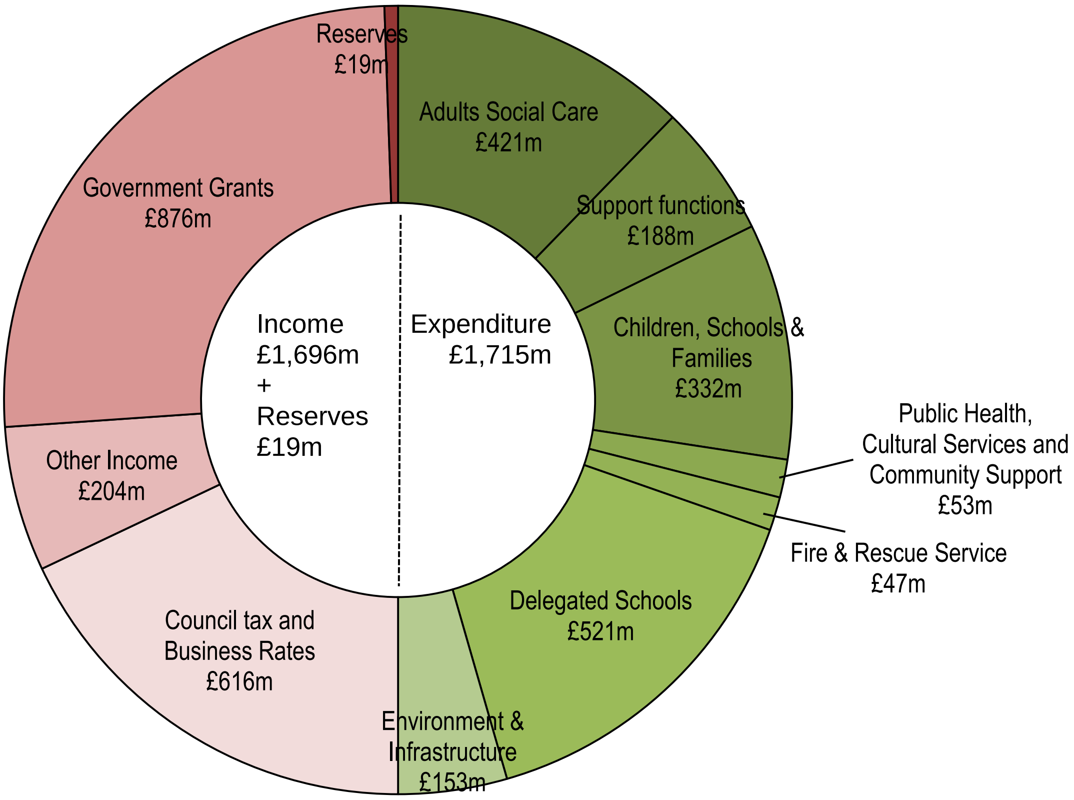
Financial Results

Overall revenue position

2014-15 Actual revenue income and expenditure across the council balanced by funding sources



The net revenue outturn position over the last five years

	2010-11 £m	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m
Planned Net position	0	-12	-17	-23	-26
Actual Net position	38	-5	3	-10	-19
% Actual v Income	2.3%	-0.3%	0.2%	-0.6%	-1.0%

Revenue savings

The revenue savings over the last five years

	2010-11 £m	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m	2010-15 £m
Planned Savings	61	59	71	68	73	**332**
Actual Savings	67	61	66	62	74	**330**
Over- -Under achievement	**6**	**2**	**-5**	**-6**	**1**	**2**

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Capital Expenditure

The 2014-15 Capital programme position

	Revised full year budget £m	Actual £m	Full year variance £m	Revised carry forwards £m	Full year variance £m
Adult Social Care	2	1	-1	0	-0
Children, Schools & Families	11	9	-2	1	-1
Fire & Rescue service	5	2	-3	3	0
Environment & Infrastructure	76	68	-8	9	+1
School Basic Need	54	58	+4	-4	0
Support functions	49	44	-5	5	0
Superfast Broadband	12	9	-3	3	0
Total service programme	**209**	**191**	**-18**	**18**	**0**
Long term investment assets	0	8	+8		+8
Total overall	209	199	-10	18	+8

How we manage our principal strategic risks

The principal strategic 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 Statutory Responsibility Network on a monthly basis. Formally, the risk register is regularly reviewed by Audit & Governance Committee (every meeting) and Cabinet (quarterly).

The prinicipal strategic risk are in order of inherent risk ratings.

Principal strategic risk (linked to corporate goals) — **Key controls**

Wellbeing — Economic Prosperity — Resident experience

Medium Term Financial Plan 2015-20 (MTFP)

Failure to achieve the MTFP as a result of not achieving savings, additional service demand and/or over optimistic funding levels lowers financial resilience.

- Monthly reporting to Continuous Improvement and Productivity Network and Cabinet
- Budget support meetings (Chief Executive and Director of Finance) to review and challenge delivery plans
- Clear management action taken and reported promptly
- Formal review of MTFP
- Necessary decisions made by Members to implement action plans

Safeguarding - Children's Services

Avoidable failure in Children's Services, through action or inaction, including child sexual exploitation, leads to serious harm, death or a major impact on well being.

- Work with the frameworks established by the Children's Safeguarding Board
- Timely interventions by professionals
- Actively respond to feedback from regulators
- Robust quality assurance and management systems in place
- Develop the Multi-Agency Safeguarding Hub

Safeguarding - Adult Social Care

Avoidable failure in Adult Social Care, through action or inaction, leads to serious harm, death or a major impact on wellbeing

- Work with the frameworks established by the Surrey Safeguarding Adults Board
- Develop the Multi-Agency Safeguarding Hub
- Ensure feedback and recommendations from case reviews inform learning and social work practice
- Actively respond to feedback from regulators
- Embed agreed changes resulting from Care Act consultation

National policy development

Continuing national policy changes puts additional pressure on demand for all public services

- Effective horizon scanning
- Welfare reform programme with districts and boroughs
- Take opportunities to influence central government
- Work in partnership to maximise opportunities for communities

Integration of health and social care

Failure in partnership working reduces the ability to integrate services, improve health outcomes and develop a financially sustainable model.

- Robust partnership governance arrangements
- Regular monitoring of workstream progress and risks
- Continued focus on building and maintaining strong relationships
- Clear leadership and prioritisation of resources

Comprehensive Spending Review (CSR) 2015

CSR 2015 reduces available funding further and introduces a revised distribution mechanism which lowers financial resilience.

- Contribute to Local Government Commission to review funding and develop scenarios
- Sustain pro-active horizon scanning
- Cabinet fully consider implications

Principal strategic risk (linked to corporate goals) | **Key controls**

Wellbeing | Economic Prosperity | Resident experience

Senior Leadership Succession Planning

A significant number of senior leaders leave the organisation within a short space of time and cannot be replaced effectively

- Transparent and effective succession plans
- High Performance Development programme to increase skills, resilience and effectiveness
- Career conversations built into appraisal process looking forward five years

Waste

Failure to deliver the key elements of the waste strategy leads to negative financial and reputational impact

- Monitoring by the Waste Programme Delivery Board and Strategic Waste Board
- Strong resourcing and project management
- Collaborative working with Districts and Boroughs
- Support from external strategic advisors assists management and mitigation of risks

Future Funding

Ability to increase Council Tax in real terms is constrained by current Government policy leads to reduction in financial resilience.

- Ensure Government understanding of Council Tax strategy
- Member decisions on funding made in a timely manner
- Development of alternative / new sources of funding

Reputation

A significant failure to deliver within the organisation leads to loss of confidence and trust

- Active learning, strong corporate values and a robust governance framework
- Regular monitoring of effectiveness of processes

Staff Resilience

Scale of public service transformation and budget challenge leads to loss of productivity, increased sickness and staff turnover.

- Communication, consultation and engagement with staff
- Training and development courses offered along with trained coaches
- Promotion of support mechanisms for staff

Business Continuity, Emergency Planning

Failure to respond effectively to a known event or major incident results in an inability to deliver key services.

- Business continuity plans are in place and regularly reviewed and moderated
- Close working between services to update plans and share learning
- External risks assessed through the Local Resilience Forum

Supply chain / contractor resilience

Supply chain failure leads to increased costs, time delays and failure to promote service delivery.

- Required standards for critical contract business continuity plans
- Consistent management of supply chain risks
- Regular supplier intelligence reporting

Information Governance

Loss of protected data by the council leads to financial penalties, safeguarding issues and erosion of public trust.

- Secure data environment
- Communications campaigns and staff training
- Information Governance Board oversees controls and processes

Strategic Director Environment & Infrastructure - Environmental Sustainability Report

Further reading links on pg 55

Trevor Pugh

Trevor Pugh is the Strategic Director for Environment and Infrastructure and responsible for the council's annual environmental sustainability statement

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 Department of Communities and Local Government sets out the requirements for local authority emissions and consumption reporting and Internal Audit reviews our submission to ensure we have provided the information as required. 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 are excluded from our reporting. We will continue to work with all Surrey schools on energy saving initiatives such as Eco-schools.

Further information on our greenhouse gases emission reporting via our external website. The link can be found at the back of this document.

Sustainable Procurement

The delivery of social value, including environmental sustainability, is a key element of our procurement approach. All major procurements are assessed to identify opportunities for driving greater sustainability.

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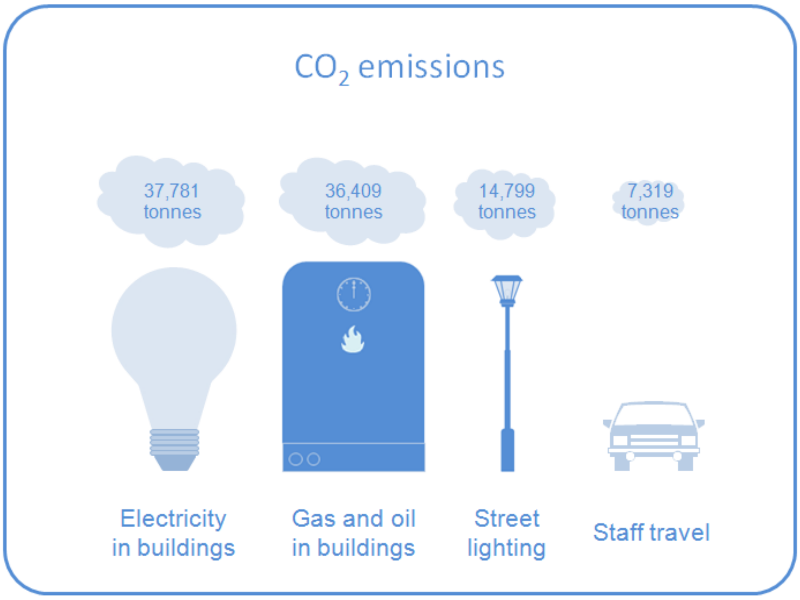
Corporate Environment Sustainability Headlines

Green house gas emissions including CO_2 (tonnes $CO2_{equivalent}$)

Carbon emissions have reduced by X% from 60,000 tonnes in 2013-14 to 60,000 in 2014-15.

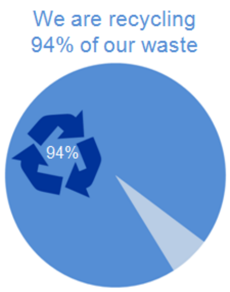


Some of the recent projects

Energy efficiency schemes like installing LED lighting and replacing inefficient gas boilers are contributing to energy, carbon and cost savings throughout the estate. We also installed voltage optimisers at our largest sites, for more efficient use of electricity.

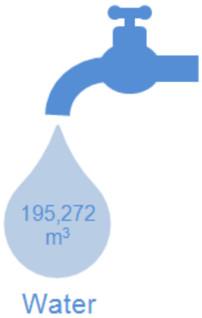
We have continued to facilitate schools to install solar panels to help reduce emissions and energy costs and we have replaced a fossil fuel boiler with carbon neutral wood fuel at a Highways depot.

Waste Consumption – from our buildings



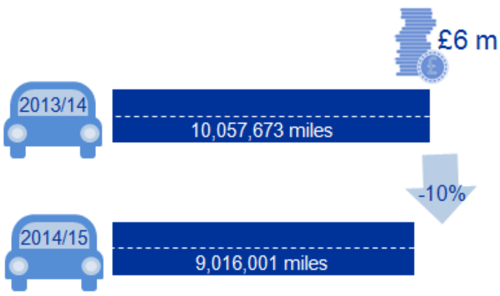
From our direct contract, we had 750 tonnes of waste (2014-15). We are diverting 94% of our waste from landfill. This is through recycling 35% and sending 59% for use in an energy from waste plant for electricity generation.

Water Consumption and Business Travel



Water usage excludes schools but includes gypsy and care home usage.

Staff travel is miles driven for business, including out of county visits such as visiting children in care.



(Note: GHG, waste and travel infographics will be updated and this page tabled at the meeting. The GHG figures will not be ready until 27 July 2015).

Director of Legal & Democratic Services - Governance Review

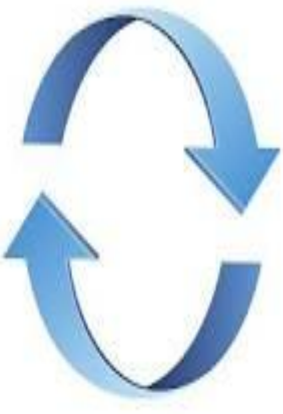
Ann Charlton

Further reading links pg 55

Ann is Director of Legal and Democratic Services. She is the council's senior legal adviser and ensures that the council acts within its powers and is legally compliant. She also holds the statutory position of Monitoring Officer (Local Government and Housing Act 1989 section 5) and will investigate any concerns about the actions undertaken by council officers or elected Members on behalf of the council, including possible conflicts of interest.

Overview of Governance

Surrey County Council is split into two distinct parts.



Political administration: Surrey County Council is, composed of 81 councillors (or “Members”) elected every four years. Councillors are democratically accountable to residents (electors) in their electoral divisions. The Leader of the Council – David Hodge - and his appointed cabinet set policies that determine the delivery of services to residents. The Chairman of the Council, currently Sally Marks, is the council’s civic leader.

Operational: Surrey County Council is led by a Chief Executive Officer, who is the head of the paid service. The Chief Executive Officer and other senior officers determine the best way for the organisation to operate to deliver the corporate strategy and policies set by the administration.

10

Summary of Annual Governance Statement

We have a responsibility 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. We are required to prepare an Annual Governance Statement (AGS) under the Accounts and Audit (England) Regulations 2011.

The council is committed to fulfilling its responsibilities in accordance with the highest standards of good governance to support its Corporate Strategy "Confident in Surrey's future" and the council has adopted a Code of Corporate Governance through which good governance is evidenced. The AGS outlines the council's governance arrangements and achievements during 2014-15 and highlights areas to continue to strengthen governance in 2015-16.

During 2014-15 concerns emerged regarding performance in Children's Services. As a result an Improvement Board was established chaired by the Deputy Leader and comprising the Lead Member for Children and representatives from the Liberal Democrats, Independents and UKIP. This Board will continue in 2015-16 to provide oversight of a detailed improvement programme.

Governance arrangements have been strengthened through the implementation of Management Action Plans in all the areas highlighted in the 2013-14 AGS, which were information governance, social care debt and children in care health and dental checks. Improvements have also been made in the procedures for profiling and monitoring capital spend.

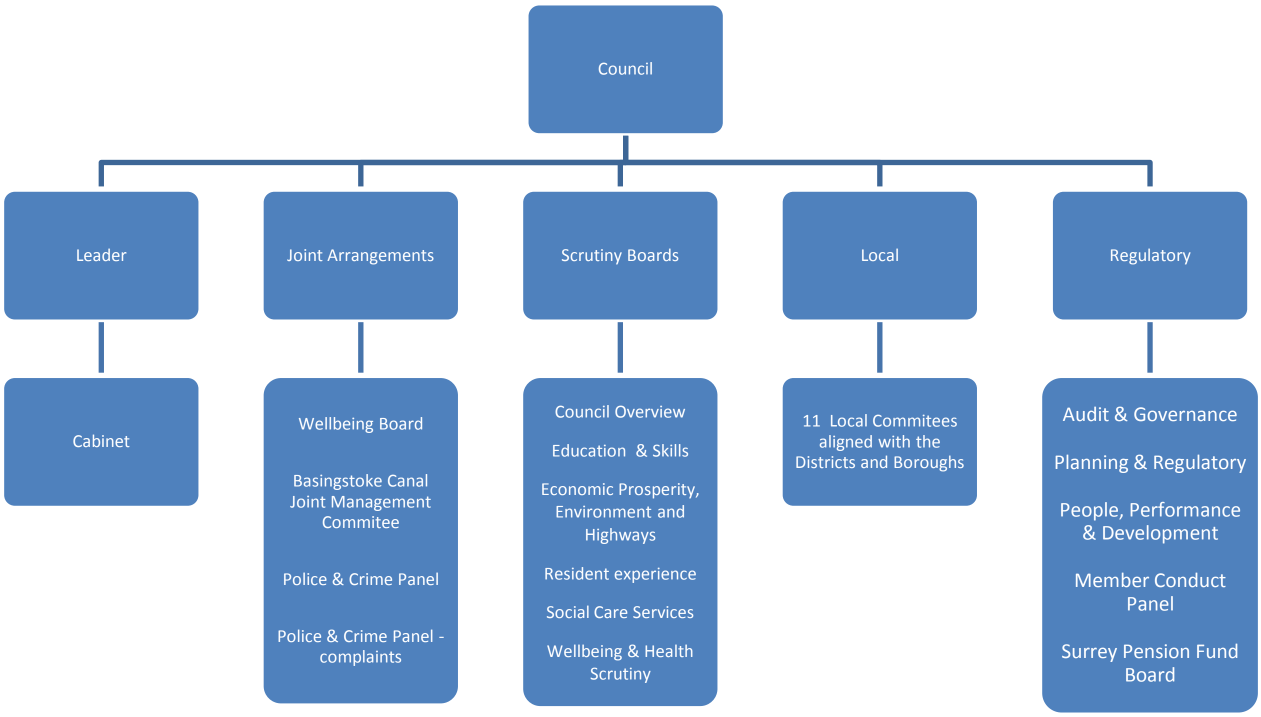
There are a number of areas where there is a need to enhance the governance arrangements during 2015-16, in particular:

- **Children's and Safeguarding Service**
    - There is a need to reduce reliance on long term agency resource particularly in management/supervisory roles;
    - As the number of children in receipts of direct payments increases, the council must ensure it has robust systems in place to demonstrate that social care reviews are conducted in a timely manner in line with stated policy; and
    - The council needs to improve its administration of looked after children's personal finances to ensure it meets its statutory duty as the corporate parent.
- **Contract Management –** there is a need to ensure that the council's central contract management system contains key information on significant contracts to enable effective contract monitoring and timely procurement.

The annual review of governance is overseen by the Governance Panel. The panel comprises of myself (Director of Legal and Democratic Services [chair]), the Director of Finance, 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 Statutory Responsibilities Network and the Audit and Governance Committee. The 2014-15 review has provided a satisfactory level of assurance on the governance arrangements for the year.

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. After the general election, there have been some constitutional committee changes. For simplicity, the structure below and details reflect these changes.



Member Attendance

The attendance record of the senior member leadership during the year is set out below. The senior leadership may have other meetings to attend like Select Committees or their local committees as well as Cabinet and Council. Note that 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.

Member	Position	2014-15	2013-14
Mr David Hodge	Leader	30/30	31/32
Mr Peter Martin	Deputy Leader	26/30	27/30
2014-15 Cabinet Members			
Mrs Mary Angell	Children and Families	19/31	23/29
Mrs Helyn Clack	Community Services	18/22	23/24
Mr Mel Few	Adult Social Care	26/33	22/25
Mr John Furey	Highways, Transport & Flooding	24/24	25/25
Mr Michael Goodman	Environment & Planning	20/22	25/27
Mr Michael Gosling	Public Health & Health and Wellbeing Board	20/24	22/24
Mrs Linda Kemeny	Schools & Learning	24/25	24/25
Ms Denise Le Gal	Business Services	28/34	29/34
2014-15 Civic Leadership			
Mr David Munro	Chairman	12/12	13/13
Mrs Sally Marks	Vice Chairman	11/12	14/16

10

Details of Member Responsibilities

2015-16 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: Sally Marks

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 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.

2015-16 Regulatory

The Council appoints these committees with terms of reference within the Constitution. Council appoints chairmen for each:
Audit & Governance: Stuart Selleck; **Planning & Regulatory:** Tim Hall; **People, Performance & Development:** David Hodge; **Member Conduct Panel:** Sally Marks; **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.

2015-16 Scrutiny boards

There are six select & scrutiny boards.

Council appoints chairmen for each:
Council Overview: David Munro; **Education and skills:** Mark Brett-Warbuton; **Economic Prosperity, Environment and Highways:** David Harmer; **Resident Experience:** Colin Kemp; **Social Care Services:** Keith Witham; **Wellbeing and Health Scrutiny**: Bill Chapman

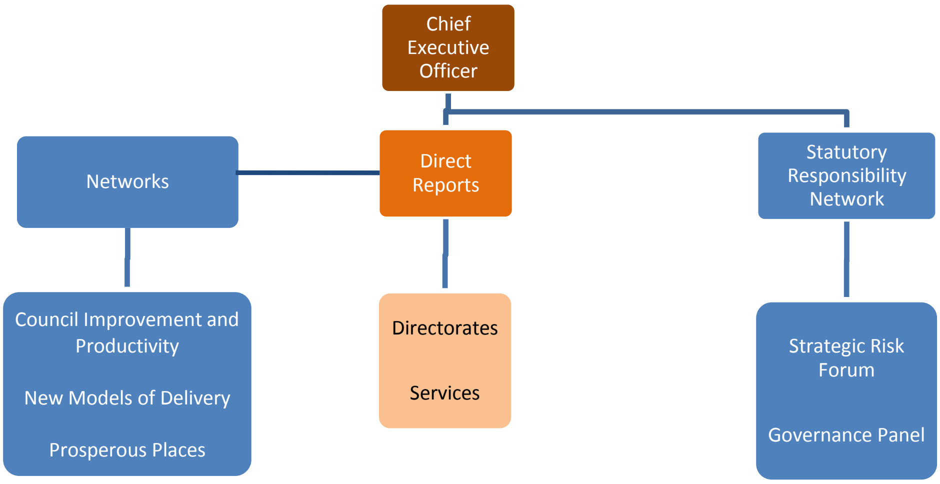
Role:
To provide challenge to the Cabinet and to strengthen their policy development and review role

2015-16 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:** Keith Taylor; **Mole Valley:** Tim Hall; **Reigate and Banstead:** Dorothy Ross-Tomlin; **Runnymede**: Yvonne Lay; **Spelthorne**: Denise Saliagopoulos; **Surrey Heath:** David Ivison; **Tandridge**: Nick Skellett; **Waverley:** Pat Frost; **Woking:** Liz Bowes

Officer Governance

The Council appoints the Chief Executive, the Director of Legal & Democratic Services and the Director of Finance as statutory officers. The People Performance and Development Committee appoints other Chief Officers and Heads of Service with the appointment of a Director of Public Health being made jointly with the Secretary of State for Health. The Constitution delegates responsibility as set out below for a number of different functions.



Details of Officer Committees:

Statutory Responsibility Network: 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 Statutory Officers (Strategic Directors of Adult Social Care & Children, Schools & Families), Chief Fire Officer and the Directors of Finance, Legal & Democratic Services and Public Health, and Chief Internal Auditor.

Strategic Risk Forum meets on a bi-monthly basis and membership includes Director of Finance (chair), strategic risk leads, Chief Internal Auditor, Head of Emergency Management and Risk and Governance Manager.

Governance Panel (chaired by Director of Legal and Democratic Services) and reports to the Statutory Responsibility Network and the Audit and Governance Committee. The panel provides robust scrutiny and appraisal of governance.

Continuous Improvement and Productivity Network 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

New Models of Delivery Network looking ahead and developing innovative responses to the inexorable growth in demand that key services face over the foreseeable future

Prosper Places network work with partners across Surrey to ensure every place can be prosperous and sustainable.

Review from People, Performance and Development Committee Chair – David Hodge

Further reading links pg 55

I am please to present the Council's leadership remuneration report for 2014-15. This report combines the senior officer's remuneration and the members' allowances.

The People, Performance and Development Committee's remit includes policies on staff pay & conditions, arrangements for consultation with unions, resolving disputes and promoting development and training. The Committee is also responsible for appointing and dismissing chief officers. The Council's Constitution sets out the terms of reference for the Committee, detailing their remit in greater detail.

Over the last two years the committee has agreed an affordable two year pay award for officers, taking into consideration the economic climate and the need to ensure the council can continue to recruit and retain scarce skills and top talent. The committee has endorsed the Equality, Fairness and Respect Strategy of the organisation, to enable the council to grow a talented, inclusive and diverse workforce which better reflects the diversity of Surrey. Over the last two years, a priority for the committee has been to champion staff wellness, wellbeing and health and safety at work. The committee has also endorsed a programme of leadership development to ensure the council can continue to shape a customer focused and values-driven council to ensure you, the resident, receives great service from skilled, motivated and engaged staff.

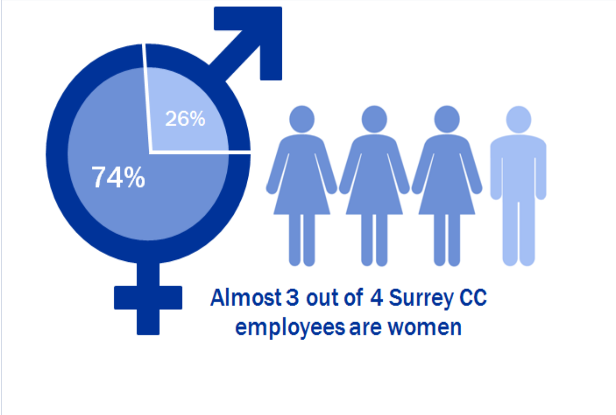
Employment costs

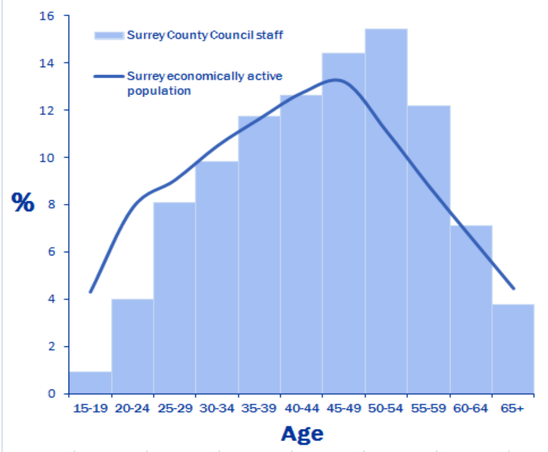
For three years the employment costs have reduced through operating new models of delivery, and embedding continual Improvement culture and sustainable savings programmes.

	2015-16 Estimate	Change %	2014-15 Actual	Change %	2013-14 Actual
Staffing cost (excl Schools)	£301m	-0.3%	£302m	-1.6%	£307m
Staffing cost (incl Schools)	£699m	-0.1%	£700m	-4.1%	£730m
Surrey Contracted FTEs (excl Schools)	7,285		7,267	-1.2%	7,357

*

Equalities





The Council has very positive attraction and retention of women employees, with family friendly policies, benefits and good training and development. The Equality, Fairness and Respect Strategy is working towards the workforce reflecting our local population. It is focussing in particular on disabled and younger people (under 24), currently at 2.7% and 5.5% where we have some way to go still to reflect Surrey's population. There is a programme of activity and community engagement underway, to improve and make further progress.

Wellbeing - The Council has a very popular workplace wellbeing offer, including flexible working, a Benefits programme, volunteering, employee assistance programmes and various health initiatives. An example includes on site comprehensive NHS Health Checks, which so far 719 employees have completed.

Senior Officers remuneration

Remuneration includes salary/ wages, expenses, allowances and benefits (chargeable to UK income tax), compensation for loss of office and employer pension contributions even though these are excluded from the general definition of remuneration.

Position in numerical order	2014-15 £	2013-14 £
Chief Executive Officer	246,970	246,109
Strategic Director - Children, Schools & Families	166,977	166,116
Strategic Director - Environment & Infrastructure	162,557	153,010
Strategic Director - Customer & Communities *	149,683	149,913
Strategic Director - Business Services	147,920	145,813
Strategic Director - Adult Social Care **	146,540	181,986
Assistant Chief Executive Officer	135,791	132,888
Director of Finance	134,930	121,516
Chief Fire Officer	129,982	126,195
Director of Public Health	116,548	97,607
Director of Legal & Democratic Services	116,337	115,776
Total remuneration for senior officers	1,654,534	1,636,929
Compensation for loss of office		89,329
Total Senior Officers	1,654,534	1,726,258
% of total employment costs	0.6%	0.6%

* Position is full time but 80% is seconded to Mole Valley District Council

** In 2013/14 Strategic Director - Adult Social Care left and was replaced.

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Officers pay index and multiplier

The minimum Surrey Pay rate paid on grade S1/2 is currently set at £8.01 per hour as at 1 April 2015, this compares with the statutory National Minimum Wage of £6.50 per hour and the “UK Living Wage”, of £7.85 per hour, which is advocated by the Living Wage Foundation.

Based on existing salaries as at April 2015 it is estimated that the council will have the following ratios, between the lowest and highest paid staff on Surrey Pay, for the 2015-16 financial year. This is unchanged and comparable within local government

Surrey Pay Salary Ratios 2015-16

Salary	Amount per annum £’s	Ratio to the highest salary
Highest Basic Salary	211,900	n/a
Median Basic Salary	24,040	8.81:1
Lowest Basic Salary	15,039	14.09:1

Members’ allowances and 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.

Summary Member allowances and travel & subsistence expenses

	Allowances		Travel & Subsistence expenses	
	2014-15	2013-14	2014-15	2013-14
	£	£	£	£
Current members	1,754,816	1,314,649	92,869	87,542
Stood Down members and Standard Committee	12,492	41,869	0	2,254
Employer NI & pension contributions	333,682	226,316		
Total actual expenditure	**2,100,991**	**1,582,834**	**92,869**	**89,796**
One off payment for previous year (note 1)	-227,084	227,084		
Adjusted expenditure for one off payment	1,873,906	1,809,919	92,869	89,796

Note 1: Council approves a scheme of members’ allowances having taken account of recommendations from the Independent Remuneration Panel. At its meeting on 6 May 2014, Council approved a new scheme that is payable from 2014-15. The new allowances related to 2014-15 until 2017-18 and a clear intention that the amended scheme should take effect from 21 May 2013, a one-off payment , equivalent to any increase that the Member would have been eligible for, be made to each Member.

2014-17 Member Allowances

Annual allowance	£
Basic Allowance	£12,418
Special responsibility allowances:	
Leader of the Council *	£43,000
Deputy Leader *	£31,250
Cabinet Member	£22,500
Cabinet Associate	£12,500
Planning & Regulatory Committee Chairman & Council Overview Board	£12,000
Scrutiny Board Chairmen	£10,000
Audit & Governance Chairman	£9,000
Lead Member for Scrutiny of the Police & Crime Commissioner	£8,000
Local Committee Chairmen	£8,000
Pension Fund Board Chairman	£8,000
Pension Fund Board Vice-Chairman	£1,500
Committee Vice-Chairmen	£1,500
Opposition Group Leader *	£5,000
Officers of Political Groups (per member of the group)	£170
Members of the Adoption and Fostering Panels	£1,000
Chairman of Council	£18,000
Vice-Chairman of Council	£8,000

* The Leader and Deputy Leader have declined the published allowance but receive the Independent Panel recommended allowance of £35,548 and £30,333 respectively. The Residents Association Leader chose not to take the opposition Group Leader allowance £5,000.

Member Diversity

Currently there are 81 current members.

	Number	Male	Female
	81	**62%**	**38%**

Financial highlights

Further reading links pg 55

Presented here is an overview of financial information for the council for the year ended 31 March 2015.

Full financial information can be found in the audited Statement of Accounts for 2014-15.

Changes in accounting policies (restatement)
In the 2014-15 accounts there has been a change in the accounting policy for foundation schools. In line with guidance produced by CIPFA for recognising school non-current assets, the council has determined that foundation schools meet the recognition requirements in the code for Property, Plant and Equipment and has recognised these assets on the balance sheet in the 2014-15 accounts. Previously these assets were not included on the county council's balance sheet. This change in accounting policy has lead to the restatement of the balance sheet for 2013-14 so the accounts presented here are produced on a consistent basis between financial years.

The main elements of the Statement of Accounts and explanatory notes of that have been used are:

- Movement in reserves statement
- Comprehensive income & expenditure statement
- Balance sheet
- Cashflow statement
- Selected notes to the accounts
    - Note a – Earmarked usable reserves
    - Note b – Unusable reserves

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 2014-15 was -£163m (-£189m 2013-14). 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 overall deficit is the writing off of -£34m of assets in relation to schools which have transferred to academy status and -£50m adjustment for the current service cost of pensions required under International Accounting Standard 19 compared to actual employer pension contributions paid

Summarised income & expenditure statement

	2014-15	**2013-14 Restated**
	£m	**£m**
Income:		
Income from local taxation (council tax)	616	600
Formula grant	191	208
Schools & other general and specific grants	723	734
Fees, charges & other service income	166	165
Total income	**1,696**	**1,707**
Net directorate revenue expenditure:		
Staffing	-701	-730
Non staffing	-1,014	-987
Total net directorate revenue expenditure	-1,715	**-1,717**
Outturn deficit	-19	**-10**
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)	-144	-179
	-144	**-179**
Total expenditure	**-1,859**	**-1,896**
Gross deficit before accounting adjustments	**-163**	**-189**
Accounting adjustments:		
Deficit on revaluation of non-current assets (e.g.: buildings)	305	85
Actuarial losses on pension assets / liabilities	-243	-96
Net deficit on income and expenditure statement	**-101**	**-200**

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Balance sheet as at 31 March 2015

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 £199m, 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.

Balance sheet as at 31 March 2015

	As At 31.03.2015 £m	Restated 31.03.2014 £m
Property, plant & equipment	1,725	1,463
Investment property	31	29
Heritage assets (historical collections and notable paintings)	1	1
Intangible assets (IT software & licences)	5	4
Long term investments	0	0
Long term debtors	15	11
Long term assets	**1,777**	**1,508**
Short term investments	108	74
Intangible assets (eg carbon reduction credits)	1	0
Assets held for sale	34	6
Inventories (e.g.: salt and grit store)	1	1
Short term debtors	119	124
Cash & cash equivalents	17	7
Current assets	**280**	**212**
Short term borrowing	-33	-51
Short term creditors	-188	-212
Short term provisions (e.g.: redundancy provision)	-3	-5
Receipts in advance (capital and revenue)	-0	-1
Other current liabilities (eg: PFI Lease, liabilities repayable within 12 months)	-7	-6
Current liabilities	**-231**	**-275**
Long term provisions (e.g.: insurance)	-22	-9
Long term borrowing (e.g.: capital loans to fund capital expenditure)	-398	-238
Other long term liabilities (e.g.: pension fund & PFI and lease liabilities)	-1,605	-1,296
Long term liabilities	**-2,025**	**-1,543**
Net liabilities	**-199**	**-98**
Funded by:		
Usable reserves (e.g.: general balances, earmarked reserves)	-268	-278
Unusable reserves (e.g.: pension, capital financing & revaluation reserves)	467	376
Net reserves	**199**	**98**

Cashflow statement

This shows the changes in cash and cash equivalents during the financial year. The total increase in cash and cash equivalents for the council during 2014-15 was £9m (2013-14 an decrease of -£107m) 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.

Increased investments into asset infrastructure and financial sustainability (-£221m) offset against non cash adjustments like depreciation (£210m) and reallocation of expenditure from revenue to capital (£31m) accounts for the small increase in cash.

Cash flow statement for 31 March 2015

	2014-15	Restated 2013-14
	£m	£m
Net deficit (-) on the provision of services	-163	-189
Adjustments to net deficit on the provision of services for non-cash movements (e.g.: Depreciation)	228	264
Adjustments for items included in the net deficit on the provision of services that are investing and financing activities (e.g.: Revenue funded capital items)	32	42
Net cash flows from operating activities	**97**	117
Investing activities (e.g.: purchasing property, plant and equipment)	-223	-186
Financing activities (e.g.: Public Financing Initiative (PFI) payments)	135	-38
Net increase/ (-) decrease in cash & cash equivalents	**9**	-107
Cash and cash equivalents at the beginning of the reporting period	8	114
Cash and cash equivalents at the end of the reporting period	**17**	7

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Movement in reserves

Movement in the reserves statement shows the movement during the 2014-15 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 increase in the council's reserves during 2014-15 is £101million (a decrease of £10m in usable reserves, and a decrease of £91m in unusable reserves). This increase is predominately due to increases in the revaluation reserve -£298m and the pensions liability of +£293m & decrease in the Capital Adjustment Account +£103m offset including school assets in relation to schools which have transferred to academy status and an increase.

Summarised movement in reserves as at 31 March 2015

	Balance 1 Apr 2014	**Movement a**	**Balance 31 Mar 2015**
	£m	**£m**	**£m**
General fund balance (GFB)	-21	0	-21
Earmarked reserves (ER) (further details in note b)	-200	26	-174
Capital receipts reserve (CRR)	-20	-10	-30
Capital grants and contributions unapplied (CGCU)	-36	-6	-42
Total usable reserves	**-278**	**10**	**-268**
Total unusable reserves (UR) (further details in note c)	**376**	**91**	**467**
Net reserves	**98**	**101**	**199**

Note a: Details of the net movements:

	GFB	**ER**	**CRR**	**CGCU**	**UR**
	£m	**£m**	**£m**	**£m**	**£m**
Gross deficit before accounting adjustment	163				
Other accounting adjustments					-61
Total comprehensive income & expenditure	**163**				**-61**
Adjustments between accounting basis and funding basis under regulations	-137		-10	-6	152
Net increase/ (-) decrease before transfers to earmarked reserves	**26**		**-10**	**-6**	**91**
Transfers to/from earmarked reserves	-26	26			
Increase/decrease in year	**0**	**26**	**-10**	**-6**	**91**

Selected notes to the accounts

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.

List of earmarked usable reserves

	Opening balance 1 Apr 2014 £m	Transfers from reserves £m	Transfers into reserves £m	**Closing balance 31 March 2015 £m**
Earmarked revenue reserves				
Budget equalisation reserve	**33**	16	-33	**16**
Business rate appeal reserve		1		**1**
Child protection reserve	**3**		-1	**2**
Economic downturn reserve	**6**	2	-4	**4**
Economic prosperity reserve		3		**3**
Eco park sinking fund	**15**	6	-5	**16**
Equipment replacement reserve	**3**	2	-3	**2**
Financial investment reserve	**2**		-2	**0**
General capital reserve	**8**	0	0	**8**
Insurance reserve	**9**	2		**11**
Interest rate reserve	**5**		-4	**1**
Investment and renewals reserve	**13**		-3	**10**
Pension stabilisation reserve		1		**1**
Public Health unapplied grant		3		**3**
Revenue grants unapplied reserve	**26**	18	-26	**18**
Revolving Infrastructure fund	**20**	1		**21**
Schools balances	**45**	10	-10	**46**
Street Lighting PFI sinking fund	**6**		0	**6**
Vehicle replacement reserve	**5**	1	-1	**5**
Waste site contingency reserve	**0**		0	**0**
Total earmarked reserves	**200**	**66**	**-92**	**174**

Note: Zero depicts entries that are less than £1m.

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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 £8m service budget carry forwards into 2015-16.

Business rate appeals reserve: As part of the localisation of business rates the council is liable to refund businesses for its share of business rates if it is determined that a business has been overcharged rates. This reserve will be used to fund any successful appeals.

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.

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

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). During 2014-15 the council sold the remaining Icelandic debt at auction and the balance on the reserve was utilised in year.

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 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.

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

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 2014-15 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.

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.

List of unusable reserves

Unusable reserves	**Balance at 1 April 2014**	Movement	**Balance at 31 March 2015**
	£m	£m	**£m**
Revaluation reserve	-331	-298	-629
Capital adjustment account	-501	103	-398
Financial instruments adjustment account	0	0	0
Pensions reserve	1,203	293	1,496
Collection fund adjustment account	-7	-5	-12
Accumulated absences account	12	-2	10
Total unusual reserves	376	91	467

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

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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. 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.

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.

Further reading and references

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Member Governance .... *http://tinyurl.com/SurreyConstitution*

Member Attendance – Details of each member's attendance is available for any period from 20 October 2012 .... *http://tinyurl.com/Surrey-Memattend*

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2014-15 audited Statutory Statement of accounts....................... *http://tinyurl.com/SCCSOA*

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