Notice of Meeting

Audit and Governance Committee

Date & time	Place	Contact	Chief Executive
Wednesday, 18 January 2023 at 10.00 am	Surrey County Council, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF	Angela Guest angela.guest@surreycc.gov.uk	Joanna Killian We're on Twitter: @SCCdemocracy

Members
Victor Lewanski (Chairman), Stephen Cooksey, Joanne Sexton, Richard Tear (Vice-Chairman), Mark Sugden and Saj Hussain

Independent Member:
Terry Price

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING - 28 NOVEMBER 2022 (Pages 1 - 8)

The Committee are asked to approve the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

(i) Any disclosable pecuniary interests and / or

(ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

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 (*12/01/2023)*.
2. The deadline for public questions is seven days before the meeting (*11/01/2023)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER AND WORK PLAN (Pages 9 - 16)

To review the Committee's recommendations tracker and draft workplan for 2023.

6 INTERNAL AUDIT - INDEPENDENT EXTERNAL ASSESSMENT REPORT (Pages 17 - 36)

The purpose of this report is to present to the Audit and Governance Committee the final report from the Chartered Institute of Internal Auditors (IIA) following its independent external assessment of Orbis Internal Audit

(Orbis IA) against Public Sector Internal Audit Standards (PSIAS).

7 HOME TO SCHOOL TRANSPORT - AUDIT UPDATE (Pages 37 - 40)

The Committee requested a service update whilst awaiting further Audit report at its September 2022 meeting.

8 TREASURY MANAGEMENT STRATEGY STATEMENT 2023/24 (Pages 41 - 86)

This report sets out the Council's Treasury Management Strategy for 2023/24, as required, to ensure compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code).

9 STATEMENT OF ACCOUNTS 2021/22 - TO FOLLOW

The purpose of this report is to receive the Council's Statement of Accounts.

10 REPORT OF CENTRE FOR GOVERNANCE AND SCRUTINY - BEHAVIOURAL AND CULTURAL GOVERNANCE REVIEW (Pages 87 - 106)

To present to members the findings of the Centre for Governance and Scrutiny (CfGS) following a review of Council governance using their Governance Risk and Resilience Framework which considers good governance through the behavioural and cultural characteristics of an organisation.

11 2021/22 AUDIT REPORTS AND ANNUAL STATEMENT OF ACCOUNTS FOR HENDECA GROUP LTD, SURREY CHOICES LTD, HALSEY GARTON RESIDENTIAL LTD, AND HALSEY GARTON GROUP LTD (Pages 107 - 300)

This report provides the Audit & Governance Committee with the outcome and findings of the external audits of the 2021/22 financial statements of Hendeca Group Ltd, Surrey Choices Ltd, Halsey Garton Residential Ltd, and Halsey Garton Property Ltd.

12 EXTERNAL AUDIT: ANNUAL AUDIT LETTER - TO FOLLOW

The Council's external auditors present their Annual Audit Letter.

13 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 8 March 2023.

Joanna Killian
Chief Executive
Published: Tuesday, 10 January 2023

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

Those attending for the purpose of reporting on the meeting may use social media or mobile devices in silent mode to send electronic messages about the progress of the public parts of the meeting. To support this, County Hall has wifi available for visitors – please ask at reception for details.

Anyone is permitted to film, record or take photographs at council meetings. Please liaise with the council officer listed in the agenda prior to the start of the meeting so that those attending the meeting can be made aware of any filming taking place.

Use of mobile devices, including for the purpose of recording or filming a meeting, is subject to no interruptions, distractions or interference being caused to the PA or Induction Loop systems, or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

MINUTES of the meeting of the **AUDIT AND GOVERNANCE COMMITTEE** held at 10.30 am on 28 November 2022 at Surrey County Council, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

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

Elected Members:

Stephen Cooksey
Victor Lewanski (Vice-Chairman, in the Chair)
Joanne Sexton
Richard Tear
Mark Sugden
Terry Price (Independent Member)

Members in Attendance

David Lewis, Cabinet Member for Finance and Resources

55/22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

The Chairman gave thanks to the work of David Lewis the outgoing Chairman of Audit and Governance Committee, who had joined the Cabinet.

The Chairman welcomed Mark Sugden and Saj Hussain as new Members on the Committee.

56/22 MINUTES OF THE PREVIOUS MEETING [28 SEPTEMBER 2022] [Item 2]

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

57/22 DECLARATIONS OF INTEREST [Item 3]

There were none.

58/22 QUESTIONS AND PETITIONS [Item 4]

There were none.

59/22 RECOMMENDATIONS TRACKER AND WORK PLAN [Item 5]

Key points raised during the discussion:

1. It was noted that the date of the next meeting on the workplan was incorrect.

Action/Further information to note:
Committee Manager to update the workplan with 2023 committee dates.

RESOLVED:
That the action tracker and workplan be noted.

60/22 UPDATE ON THE SURREY COUNTY COUNCIL LEARNING POINTS FOR THE BUSINESS CONTINUITY ASPECTS OF THE COVID-19 RESPONSE AND RECOVERY [Item 6]

Speakers:
Ian Good, Head of Emergency Management and Resilience Team
Ashley Field, SLRF Business Support Team Lead

Key points raised during the discussion:

1. The Head of Emergency Management and Resilience Team introduced the report and highlighted the following:
    a. The partnership response to Covid had now stood down and was business as usual
    b. A debrief report was finalised and attached as appendix 1 to the submitted report
    c. The Team continued to work closely with the Local Resilience Forum and other bodies.
    d. Policies and diversity was to be improved going forward and that there was a need to review and monitor the impact of decisions on residents.
    e. Latest risks included flu, avian flu and strikes. These were being closely monitored.
2. A Member asked about the communication and learning with boroughs and districts. The Head of Emergency Management and Resilience Team responded that information at the local level was good and mostly complaints about central government.
3. The Head of Emergency Management and Resilience Team would take away comments made by one Member about mixed messages coming out of boroughs and districts.
4. In response to a Member question around planning around cost of living crisis and inflation the Head of Emergency Management and Resilience Team reported that the Director was leading on this work and the impact on frontline services and how to support but this was not an emergency response at this stage.

Action/Further information to note:
None.

RESOLVED:
It is recommended that:

1. The Audit and Governance Committee note and discuss the detail contained in the report.
2. That the Audit and Governance Committee note the RAG Progress contained in the report as appendix 1.
3. The Audit and Governance Committee provide direction for any further reporting on the progress of SCC response arrangements in line with learning from incidents as they occur.

61/22 INTERNAL AUDIT PROGRESS - Q2 [Item 7]

Speakers:
Russell Banks, Chief Internal Auditor
David John, Audit Manager
Anna D'Alessandro, Director - Corporate Finance and Commercial

Key points raised during the discussion:

1. The Audit Manager introduced a report that detailed all the audit work undertaking in Q2 and highlighted the two partial assurances detailed within the report.
2. A Member asked for clarification around the school's audits being done either remotely or in-person. He also requested that future reports provide more specific details on the names and locations of the schools listed in the report, as there could be several of the same name within the county and it was requested the type of school also be given. The Audit Manager confirmed that schools' audits were mainly done through MS Teams with the agreement of the schools, though some physical visits had taken place by exception. Investigation work was undertaken in-person if needed.
3. A Member asked if there was a timeline for which it was expected that officers would have completed e-learning. The Audit Manager would need to find out about the e-learning timeline and in response to a further query about e-learning the Chief Internal Auditor explained that the system records activity and confirms when e-learning has been completed. It was possible for someone to start an e-learning session and come back to it later to complete it.
4. The Chief Internal Auditor confirmed that action plans arising from individual audits were available for Members to view but were not published as a matter of course simply because of volume or sometimes due to sensitivity.
5. In response to a question from a member, the Chief Internal Auditor also explained that Internal Audit grant certification work would only focus on successful grant applications where certification by the Chief Internal Audit was required. Internal Audit would not know about unsuccessful applications. It was Internal Audit's role to certify expenditure according to grant conditions.
6. In response to a Member query regarding planning actions the Audit Manager stated that he thought they may be actioned by Q3 and also that the Chairman of the Planning and Regulatory Committee was considering taking the planning audit report to that committee for discussion.
7. In response to a Member query regarding the timeline for Pensions the Director - Corporate Finance and Commercial, confirmed that the turnaround programme was going as fast as it could and described the strong working relationship between Pension and Internal Audit Teams. She explained that there was to be a Continuous Improvement Team set up in Pensions with much work to be done.

Action/Further information to note:
None.

RESOLVED:
That the report be noted.

62/22 HIGHWAY & TRANSPORT BUDGETS - FOLLOW UP REPORT [Item 8]

Speakers:
Richard Bolton, Assistant Director – Highways Operations & Infrastructure
Amanda Richards, Assistant Director – Highways - Network & Asset Management

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Paul Millin, Assistant Director – Strategic Transport

Key points raised during the discussion:

1. The Assistant Director – Highways Operations & Infrastructure introduced the submitted report to provide more in-depth information surrounding the governance and process for decision making for Highway budgets in the Capital Maintenance Programme (Horizon) and Integrated Transport Schemes (ITS). He also detailed the flowcharts and information contained within the annexes to that report.
2. A Member asked about divisional Members getting information on defects within their divisions especially how and when these would be rectified. This information was not available to Members online and asked if the proposed new IT system would provide this. The Assistant Director – Highways - Network & Asset Management explained that currently, information was dealt with on a borough/district level but hoped that the new system could give more information on a divisional level. Members could also login to the “report it” page to find logged information on defects logged and fixed.
3. A Member asked for officers to review the current weekly communication to Members. It was not very helpful to use with residents as it just created more questions. She offered to speak with officers outside of the meeting regarding her views on this.
4. An issue was raised regarding Project Horizon and used an example to show that some items may be on the list for many years with no timelines and no indication of whether it will ever be done. Other Members confirmed that they too had issues with this. The Assistant Director – Highways - Network & Asset Management explained the process around Project Horizon and stated that if something was on the public map then it should be done within the next five years. It was recognised that communications are needed to improve understanding for residents.
5. A Member asked for information on quality audits of work undertaken and whether the new policy on the prioritisation of Community Infrastructure Levy (CIL) bids had been agreed and how Members could feed into that. The Assistant Director – Highways - Network & Asset Management explained that the Council had a highway laboratory and post work had a snagging process that the council undertook with contractors. New treatment processes could be audited over a five year period to check the suitability of treatments over time. It was further explained that all jobs are snagged and on average 10% of jobs would be audited by the laboratory and any problems identified would be addressed with the contractor. The Assistant Director – Highways Operations & Infrastructure assured the Member that he would have a more appropriate officer contact him regarding his questions around CIL.
6. There was some discussion around utility repairs and that utility companies should be held more accountable for the work they do. It was recognised that legislation was probably not strong enough. The Assistant Director – Highways - Network & Asset Management explained that utilities could make a temporary repair for up to six months and then after that must replace like for like. She urged members to report where temporary fixes had not been replaced after six months.
7. A Member asked for future reports to show data points that show progress, completion, inspection and other things that need to happen before something is signed off. The Assistant Director – Highways Operations & Infrastructure would take that suggestion away to look at.

Action/Further information to note:
None.

RESOLVED:
1. That the report be noted.
2. That officers take up their unfilled responses with Members outside of the meeting.

63/22 ANNUAL COMPLAINTS PERFORMANCE REPORT [Item 9]

Speakers:
Sarah Bogunovic, Head of Customer Strategy
Jessica Brooke, Team Manager Customer Relations

Key points raised during the discussion:
1. The Head of Customer Strategy introduced a report that provided an overview of the Local Government and Social Care Ombudsman's annual letter for the year 2021/22 and an update on complaint handling across the council.
2. In response to a Member query regarding complaints about highways it was explained that this report dealt with those complaints that led to the LGO which tended to be around Adults and Children. It was also confirmed that a learning review was undertaken after each complaint and that communication was key.
3. A Member pointed out that the council did fall down on communication which was poor and stated that the website was not easy to navigate. She also asked if there was a plan of action and any timelines around this. With regard to the website the Head of Customer Strategy explained the following:
   - That there was support and training for staff around difficult conversations and this was an ongoing training package
   - A web development roadmap was being undertaken which would have a good report for accessibility
   - Webchat was being launched
   - Chatbox was to be rolled out
   - Members would be kept informed around the timelines for these elements.
4. In response to a Member query regarding how complaints were analysed by departments and whether there were targets for reducing the number of the complaints the Head of Customer Strategy explained that:
   - There was regular analysis of complaints across the three teams
   - Targets were not to reduce the number of complaints but to reduce the escalation of complaints and to increase those dealt with at point of contact.
5. A Member queried the comparison made, in the submitted report, with Kent County Council and asked what they were doing differently. The Head of Customer Strategy undertook to investigate that and include it in the annual report when it comes to committee.

Action/Further information to note:
None.

RESOLVED:
That the report be noted.

At 12.27pm the Committee adjourned for a five-minute break.

64/22 MID-YEAR REPORT - REVENUE EFFICIENCIES [Item 10]

Speakers:
Nikki O'Connor, Strategic Finance Business Partner

Key points raised during the discussion:

1. The Strategic Finance Business Partner introduced a report that provided an update on the Council's 2022/23 forecast revenue position as at 30 September 2022, specifically an update on progress in delivery of the revenue efficiencies included in the 2022/23 budget. She highlighted that as part of the annual budget planning process, each Directorate had a financial envelope to work within to ensure affordability. Efficiencies were required to be identified each year to offset unavoidable pressures (including demand pressures, policy changes and inflation. £35.8m of efficiencies had been identified for 2022/23 and at the end of September £11m were flagged as unachievable. These related mainly to the Adult Social Care and Children, Families & Lifelong Learning Directorates..
2. In response to questions the Strategic Finance Business Partner explained that:
    - within the £11m was £5.1m for home to school travel assistance
    - this financial year was particularly challenging due to the levels of inflation above what was assumed in the budget
    - Directorates that were forecasting an overspend for the financial year had been tasked to action in-year budget recovery plans to identify ways to offset the forecast overspends.
    - c£6m of Covid funding form priori years was currently held by the Council and would likely be utilised this financial year.
    - The use of corporate contingencies would only be considered towards the end of the financial year.

Action/Further information to note:
None.

RESOLVED:
That the progress as at 30 September 2022 on delivering the revenue efficiencies in the 2022/23 budget be noted.

65/22 CAPITAL PROGRAMME GOVERNANCE [Item 11]

Speakers:
Nikki O'Connor, Strategic Finance Business Partner
Anna D'Alessandro, Director - Corporate Finance and Commercial

Key points raised during the discussion:

1. The Strategic Finance Business Partner introduced a report that had been requested by the Committee and detailed the capital governance arrangements.
2. In response to a Member query regarding the size of the two capital programmes the Strategic Business Partner confirmed that the service-based capital programme over 5 years was £1.9 billion and that there was

currently no additional planned spend in relation to the investment programme.

3. The Director for Corporate Finance and Commercial explained further how the capital budget was set out and explained that the investment programme was separate to that. She also confirmed that there was no new commercial investments proposed at this time.

Action/Further information to note:
None.

RESOLVED:
That the report be noted.

66/22 TREASURY MANAGEMENT MID YEAR REPORT 2022/23 [Item 12]

Speakers:
Rishi Sharma, Strategic Capital Accountant

Key points raised during the discussion:
1. The Strategic Capital Accountant summarised a report that set out the Council's treasury management activity during the first half of 2022/23, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. Highlights from the report included:
    - Annex 1 contained commentary from Arlingclose, the Council's Treasury Management advisors, on the external context for Treasury Management activity and Annex 2 provided their economic outlook for the remainder of 2022/23
    - Economic and political factors leading to high inflation
    - Bank rates now stood at 3% and was expected to rise further
    - Borrowing and investment activity
    - Treasury performance
2. A Member requested that in future the annexes be dated as to when they were produced.

Action/Further information to note:
None.

RESOLVED:
That the report be noted.

67/22 ANNUAL GOVERNANCE STATEMENT HALF YEAR UPDATE [Item 13]

Speakers:
Paul Evans, Chair of Governance Panel, Director of Law and Governance

Key points raised during the discussion:
1. The Director of Law and Governance introduced a report that was a six-month update on the Annual Governance Statement that was approved in June 2022.
2. The Committee were happy with the succinct statement in the report.

Action/Further information to note:
None.

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RESOLVED:
That the Committee confirmed it was satisfied with the progress made so far.

68/22 EXTERNAL AUDIT PROGRESS REPORT 2021/22 [Item 14]

Speakers:
Ciaran McLaughlin, Director - Internal Audit, Grant Thornton

Key points raised during the discussion:
1. A verbal update was given by Grant Thornton who explained that there were several reasons why the report was not ready including outstanding information from district and borough councils. The report was expected to be presented the January 2023 committee meeting.
2. Grant Thornton would be discussing with the Finance Team how things could be improved for next year.

Action/Further information to note:
None.

RESOLVED:
That the update be noted.

69/22 DATE OF NEXT MEETING [Item 15]

The date of the next meeting will be on 18 January 2023.

Meeting ended at: 1.11 pm

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Chairman

Audit & Governance Committee
18 January 2023

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RECOMMENDATIONS TRACKER AND WORPLAN

PURPOSE OF REPORT:

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

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 workplan is attached as Annex B.

RECOMMENDATION:

The Committee is asked to:

1. Monitor progress on the implementation of recommendations from previous meetings in Annex A.
2. Note the workplan and any changes to it.

REPORT CONTACT: Angela Guest, Committee Manager
angela.guest@surreycc.gov.uk

Sources/background papers: None

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Annex A

Audit & Governance Committee Action Tracking

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A3/22	26 June 2022	Draft Annual Governance Statement	To look at the governance around the Surrey Forum and the strategic boards once they had matured.	Committee Manager/Dir Law & Governance	Workplan updated and item put in for March 2023. To liaise with Exec Dir Prosperity, Partnerships & Growth/Leader for report
A4/22	28 Sept 2022	Internal Audit Progress	That the Home to School Service Manager (Gerry Hughes) be invited to the January 2023 meeting of this committee to give an update.	Committee Manager	Nov 2022: Service Manager has been invited and accepted invitation to January Committee meeting.

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

A8/21	29 November 2021	A&G administration Discussed outside of meeting	a) Review report template – to include executive summary and have a limit to length of reports	Committee Manager	Nov 2022 – *An officer working group regularly reviews all committee templates, including legal requirements. An executive summary is included in reports for all committees, normally under the introduction or background sections. Report authors have been requested to limit the length of their reports and this is monitored. Propose to close the action.*

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AUDIT & GOVERNANCE COMMITTEE: DRAFT WORK PLAN 2023

18 January 2023		
EXTERNAL QUALITY ASSESSMENT BY THE CHARTERED INSTITUTE OF INTERNAL AUDITORS	To update the committee on the outcome of the assessment.	Chief Internal Auditor
Deferred from Nov REPORT OF CENTRE FOR GOVERNANCE AND SCRUTINY – BEHAVIOURAL AND CULTURAL GOVERNANCE REVIEW		Dir Law & Governance
CAPITAL, INVESTMENT & TREASURY MANAGEMENT STRATEGY 2023/24	This report sets out the council's treasury management strategy for 2023/24, as required to ensure compliance with CIPFA's Code of Practice for Treasury management.	Finance Manager
HOME TO SCHOOL TRANSPORT – AUDIT UPDATE	Requested at September 2022 meeting – to invite service manager (Gerry Hughes) to give service update whilst awaiting for Audit report.	
Deferred from Nov EXTERNAL AUDIT FINDINGS REPORT FOR ALL SCC TRADING COMPANIES	Dec 2016 Committee requested that annual accounts also be presented. To include Surrey Choices as well as Halsey Garton & S E Business Services.	Grant Thornton
Deferred from Nov EXTERNAL AUDIT: ANNUAL AUDIT LETTER	The Council's external auditors present their Annual Audit Letter	Director – Corp Finance Grant Thornton
Deferred from Nov STATEMENT OF ACCOUNTS 2021/22		Chief Accountant

8 March 2023		
New item SURREY FORUM AND STRATEGIC BOARDS	Requested item from A&G Committee in June 2022 to look at the governance around the forum and the strategic boards once they had matured	Exec Dir Prosperity, Partnerships & Growth/Leader
INTERNAL AUDIT PROGRESS Q3	The purpose of this progress report is to inform Members of the work completed by Internal Audit during Q3.	Audit Manager
EXTERNAL AUDIT – AUDIT PLAN	The Council's external auditors to present their Audit Plan in respect of Surrey County Council and for the Surrey Pension Fund.	Audit Manager/Engagement Lead (Grant Thornton)
INTERNAL AUDIT PLAN FOR 2022/23		Audit Manager
ETHICAL STANDARDS ANNUAL REVIEW	To enable the Committee to monitor the operation of the Members' Code of Conduct over the course of the last year.	Monitoring Officer
RISK MANAGEMENT	To receive an update on Risk Management (Mar & Sept)	Strategic Risk Business Partner

10 May 2023		
DRAFT ANNUAL GOVERNANCE STATEMENT	This report presents the draft Annual Governance Statement, which summarises the council's governance arrangements for the financial year.	CEX to present Service Improvement and Risk Manager, Finance
INTERNAL AUDIT ANNUAL REPORT AND OPINION (including Quarter Four progress report)	This report summarises the work of Internal Audit, identifying the main themes arising from the audit reviews and the implications for the County Council.	Audit Manager
COUNTER FRAUD ANNUAL REPORT		Audit Manager

INDEPENDENT EXTERNAL ASSESSMENT OF INTERNAL AUDIT	To give approval to put a bid to the Institute of Internal Auditors for them to conduct our External Quality Assessment for the purpose of compliance with professional standards	Audit Manager
TREASURY MANAGEMENT OUTTURN REPORT	This report summarises the council's treasury management activity, as required to ensure compliance with CIPFA. The report will include the latest risk register for Treasury Management.	Strategic Finance Manager
SURREY COUNTY COUNCIL ACCOUNTS AND EXTERNAL AUDIT'S AUDIT FINDINGS REPORT SURREY PENSION FUND LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS	The purpose of this report is to receive the Council's Statement of Accounts, as well as to inform the Committee of the result of the external audit of the council's Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation.	Strategic Finance Manager – Corporate Audit Manager/Engagement Lead (Grant Thornton) Senior Manager (Mamon Zaman)
COUNCIL COMPLAINTS – ANNUAL REPORT	To give the Audit & Governance Committee an overview of the Council's complaint handling performance in 2022/23 and to demonstrate how feedback from customers has been used to improve services.	Customer Relations & Service Improvement Manager

12 July 2023		

13 September 2023		
RISK MANAGEMENT	To receive an update on Risk Management (Mar & Sept)	Strategic Risk Business Partner
INTERAL AUDIT PROGRESS – Q1	The purpose of this progress report is to inform Members of the work completed by Internal Audit during Quarter 1.	Chief Internal Auditor/ Audit Manager

22 November 2022		
LGSC ANNUAL LETTER AND COMPLAINTS UPDATE	To give the Audit & Governance Committee an overview of the Local Government and Social Care Ombudsman's annual letter for the year 2022/23 and an update on complaint handling across the council.	Head of Customer Strategy
COUNCIL COMPLAINTS – HALF YEARLY UPDATE	To receive a half year update report on the operation of the Council's complaints procedures.	Customer Relations & Service Improvement Manager
ANNUAL GOVERNANCE STATEMENT HALF YEAR UPDATE	This report provides an update on progress on the improvement areas identified in the 2021/22 Annual Governance Statement.	Dir. Law & Governance/Cex
EXTERNAL AUDIT UPDATE REPORT	To receive an update from the council's external auditors.	Grant Thornton
TREASURY MANAGEMENT HALF YEAR REPORT	This report summarises the council's treasury management activity.	Director – Corp Finance
INTERNAL AUDIT PROGRESS – Q2	To report on Internal Audit progress during quarter 2.	Audit Manager

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AUDIT & GOVERNANCE COMMITTEE
18 January 2023

Internal Audit – Independent External Assessment Report

SUMMARY AND PURPOSE:

The purpose of this report is to present to the Audit and Governance Committee the final report from the Chartered Institute of Internal Auditors (IIA) following its independent external assessment of Orbis Internal Audit (Orbis IA) against Public Sector Internal Audit Standards (PSIAS).

RECOMMENDATIONS:

The Committee is asked to note the findings from the report, including those areas identified where opportunities for further improvement may exist for the future. No specific decisions are required in respect of this report.

BACKGROUND:

1. Earlier this year Resources DLT and the Audit Committee approved the appointment of the IIA to carry out the independent external assessment of Orbis Internal Audit against PSIAS. These Standards require such an assessment to be undertaken at least once every five years, with the scope including assessment of compliance, benchmarking against best practice and assessment of Internal Audit's profile and impact within client organisations.

Supporting Information

2. The review was completed during the Autumn 2022 and incorporated a full validation of the service's own comprehensive self-assessment, interviews with key stakeholders from across all the Orbis partner councils and discussions with Internal Audit team members. A copy of the assessor's full report is attached as Appendix A, with the key headlines summarised below.

Conclusion and Recommendations

3. It is pleasing to report that Orbis IA have been assessed as achieving the highest level of conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising. In summary, the service was assessed as:

- **Excellent** in:
  - Reflection of the Standards
  - Focus on performance, risk and adding value
- **Good** in:
  - Operating with efficiency
  - Quality Assurance and Improvement Programme

- **Satisfactory** in:
    - Coordinating and maximising assurance

4. In order to provide some further context to this outcome, of the nineteen assessments carried out by the IIA in 2021/22 (covering both public and private sectors), only two others were assessed as 'Excellent' against the standards. In summarising their findings, the assessors commented that Orbis IA:

6 *'...are an established internal audit service, highly valued by the key stakeholders we spoke to in this EQA review';*

'...team members have diverse professional backgrounds, qualifications, experience and skills, making them a flexible and effective service';

'…can tackle a wide range of assurance and investigatory challenges and there is considerable ongoing investment in learning, development and upskilling';

'Key stakeholders are very confident in their competence, organisational knowledge, plans and reporting. Individual comments were very supportive, with no material areas for improvement identified'.

5. As explained above, in conducting this review the assessors undertook interviews with a wide range of stakeholders from across the Orbis partner authorities and external clients, which included Chief Executives, Chief Officers/Executive Directors, Chief Finance Officers and Chairs of audit committees. It is extremely pleasing to report that the feedback received was overwhelmingly positive with high degrees of customer satisfaction throughout. Summaries of this feedback are provided from page 14 within the assessor's report attached as Appendix A.

6. Whilst no formal recommendations in relation to the Standards were raised, the assessors did take the opportunity to highlight some areas which could support the future development of the service. These have been summarised in Appendix B to this report, along with a response and commentary in relation to each area.

IMPLICATIONS:

7. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report.

WHAT HAPPENS NEXT:

8. See Recommendations above.

REPORT AUTHOR: Russell Banks, Orbis Chief Internal Auditor
David John, Audit Manager (Surrey County Council)

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telephone: 07768 235586 e-mail: david.john@surreycc.gov.uk

Sources/background papers: Chartered Institute of Internal Auditors External Quality Assessment Report (Appendix A).

Chartered Institute of
Internal Auditors

REPORT

Setting the standards together

External Quality Assessment (EQA)

A report for Orbis Internal Audit

Orbis Internal Audit

Prepared by John Chesshire, approved reviewer for
The Chartered Institute of Internal Auditors

07 November 2022

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1.1 Background and Scope

The Orbis Partnership is a Public Sector Partnership between Surrey County Council, East Sussex County Council and Brighton and Hove City Council. Orbis was formed to provide high quality services to its customers and retain public sector money and expertise within the partnership.

In April 2017, internal audit began working across East Sussex County Council, Surrey County Council and Brighton and Hove City Council, along with a number of external fee-paying clients. In the following year, a complete restructure took place and a fully integrated service was launched with effect from April 2018. At the same time, Orbis Internal Audit took over delivery of internal audit services to Horsham District Council. At 400 days per annum, Horsham immediately became Orbis Internal Audit's biggest external client, with the arrangement also involving the TUPE transfer of three staff members.

The Orbis Internal Audit headcount is now 35, with an FTE of approximately 33.5. The service is made of six teams, three sovereign teams focussing on each partner council, a general partnership team delivering to Horsham and across all partners, and two specialist teams in the areas of ICT audit and counter-fraud.

The Orbis Chief Internal Auditor (CIA) reports functionally to each of the audit committees (or their equivalent) across the partnership. Orbis Internal Audit previously had an external quality assessment in 2018, undertaken by SWAP. We are delighted that Orbis Internal Audit have commissioned us to undertake this subsequent external quality assessment.

Our review included a full validation of the Orbis Internal Audit team's own comprehensive internal self assessment, interviews with key stakeholders across the partnership, and discussions with Orbis internal audit team members.

We conducted this EQA in a hybrid format - both remotely and in-person in Autumn 2022.

1.2 Key Achievements

Orbis Internal Audit are an established internal audit service, highly valued by the key stakeholders we spoke to in this EQA review.

The governance framework over the internal audit service is mature, with audit committee (or equivalent) oversight, regular meetings, reporting and performance monitoring.

A very well-regarded CIA leads Orbis Internal Audit, directly supported by experienced colleagues, and with specialist teams undertaking ICT audits and counter-fraud work. Orbis Internal Audit team members have diverse professional backgrounds, qualifications, experience and skills, making them a flexible and effective service. They can tackle a wide range of assurance and investigatory challenges and there is considerable ongoing investment in learning, development and upskilling. The CIA has a budget for bringing in external, specialist expertise if required.

Engagement with key stakeholders is regular and effective, with the CIA viewed as a respected, objective, trusted, credible and professional leader.

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The Orbis Internal Audit team undertake a range of diverse assurance engagements. These include coverage of key systems and processes, a number of emerging areas of risk, such as climate change, and topical aspects of governance and control.

We received positive responses to our questions about Orbis Internal Audit from those we interviewed. Key stakeholders are very confident in their competence, organisational knowledge, plans and reporting. Individual comments were very supportive, with no material areas for improvement identified.

Orbis Internal Audit develop and deliver annual risk-based audit plans. Key stakeholders felt engaged in the design of these. The CIA and their managers actively monitor team performance using their MKI audit management software, and have implemented appropriate engagement-level quality assurance checks, as well as cold file/ peer reviews. We believe that the team's supporting operational, engagement-level procedures, documentation and associated templates are professional and fit for purpose.

1.3 EQA Assessment Conclusion

Orbis Internal Audit conforms with the vast majority of the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the PSIAS and the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard of quality in Internal Auditing.

To summarise, we are pleased to report that Orbis Internal Audit are excellent in their:

• Reflection of the Standards

• Focus on performance, risk and adding value

We believe that Orbis Internal Audit are good in their:

• Operating with efficiency

• Quality Assurance and Improvement Programme

We believe that Orbis Internal Audit are satisfactory in their:

• Coordinating and maximising assurance

The need to consider how best to map assurance provision, as well as relying on and coordinating with other assurance providers remains an emerging area of internal audit practice. It depends as much on the nature and effectiveness of the other assurance providers as it does on internal audit, and Orbis Internal Audit are refining their approach in these areas.

There is scope for further evolution in a few areas as summarised in Section 2.2 below.

We are pleased to report that our overall opinion is that the internal audit team "generally conforms" to the IIA Standards (See Appendix A1 for our Grading definitions).

1.4 SWOT Analysis

Strengths
What works well

- The CIA is experienced, respected and key stakeholders have confidence in their knowledge, skills and leadership
- The Orbis IA team have a very good reputation and standing across the partner organisations, both with members and officers
- The risk-based annual plans cover a number of relevant, emerging areas of risk and topical governance subjects
- Orbis IA are a diverse, knowledgeable team with many different professional certifications and areas of specialism
- Stakeholders value Orbis IA plans and flexibility to accommodate additional requests and ad hoc work
- High investment in qualifications, learning and development
- Well-established QAIP with cold file and peer reviews

Weaknesses
What could be done better

- Some engagements have a lengthy elapsed time from start to draft report

Opportunities
What could deliver further value

- Data analytics strategy development and further ICT upskilling
- Stakeholders would value further sharing of cross-organisational good practices by Orbis IA
- Further cross-consortium reviews could add further value
- Enhancing an appropriate approach to assurance mapping and potential formalising of reliance on second line teams, where appropriate, could improve risk-based coverage
- Occasional CIA review of the Orbis IA structure and the overall partnership model to ensure it remains the best fit for adding value to the partners

Threats
What could stand in your way

- Failure to retain Orbis IA staff could threaten service resilience and delivery, with particular succession challenges in respect of the CIA
- Emerging risks and increasing complexity in the external environment could threaten Orbis IA's ability to deliver insight and add value in specialist service areas
- Ensuring Orbis IA remuneration remains competitive in a challenging market to ensure appropriate employee recruitment, engagement and retention
- Lessened desire for the wider Orbis partnership could result in a rethink of how the internal audit service is delivered, and on what basis

1.5 Conformance Opinion

The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that internal audit activity conforms to 61 of the 64 relevant principles. Three of the principles were not relevant to Orbis Internal Audit as they relate to situations that have not occurred to date.

This is an excellent result and is summarised in the table below.

Summary of conformance	Standards	Generally conforms	Partially conforms	Does not conform	Not relevant	Total
Definition of IA and Code of Ethics	Rules of conduct	12				**12**
Purpose	1000 - 1130	8				**8**
Proficiency and Due Professional Care (People)	1200 - 1230	4				**4**
Quality Assurance and Improvement Programme	1300 - 1322	6			1	**7**
Managing the Internal Audit Activity	2000 - 2130	11			1	**12**
Performance and Delivery	2200 - 2600	20			1	**21**
Total		**61**	**0**	**0**	**3**[1]	**64**

We have also reviewed Orbis Internal Audit's conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that Orbis Internal Audit generally conform with both the PSIAS and LGAN.

[1] These relate to circumstances which prior to the external quality assessment were deemed not relevant, most obviously the Disclosure of Non-conformance and Engagement Disclosure of Non-conformance, which have not been necessary to date.

1.6 Further Improvement Opportunities

There is scope for further improvement and development in just a few areas as summarised below:

Enhancing internal audit proficiency

- Additional in-house focus on data analytics and ICT audit could help Orbis Internal Audit deliver further valuable insight as the partnership organisations become ever more digitalised and ICT-enabled.

Internal Assessments

- Consider revisiting the current Orbis Internal Audit Key Performance Indicators (KPIs) to ensure they meet the needs of the service and its primary stakeholders, particularly in terms of internal audit efficiency.

Planning

- When risk management matures, consider how best to further rely on management's view of risk, documented in risk registers, as a potential alternative - to maintaining a separate internal audit universe.

Resource Management

- Formalising a high-level Orbis Internal Audit 'career pathway' from internal auditor to audit manager, covering knowledge, skills, experience, qualifications and responsibilities (et al) could be useful for supporting recruitment and retention.
- Consider establishing a team to deal with unplanned requests and ad hoc tasks, while other team members focus on delivering planned work, with rotation through as appropriate
- Consider offering clients a more 'agile' internal audit engagement approach, where appropriate, compared to the longer, more methodical engagement option.

Policies and Procedures

- Including direct referencing of the IIA Standards in relevant sections of the 'Undertaking an Audit' document could help demonstrate to internal audit staff why particular activities, actions and steps are required.

Coordination and Reliance

- Further enhancing a proportionate approach to assurance mapping and potential formalising of reliance on second line teams, where appropriate, could improve the team's risk-based coverage.

1.7 Acknowledgement

We would like to thank the Orbis Internal Audit team, for their time, assistance and support during this EQA, and all of those who took part in the review, for their cooperation, together with their open and honest views.

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Supporting continuous improvement

The Chartered Institute regards conformance to the IPPF as the foundation for effective internal audit practice. However, our EQA reviews also seek feedback from key stakeholders and we benchmark each function against the diversity of professional practice seen on our EQA reviews and other interviews with chief audit executives/heads of internal audit, summarised in an internal audit maturity matrix.

We then interpret our findings into suggestions for further development based upon the wide range of guidance published by the Chartered IIA.

It is our aim to offer advice and a degree of challenge to help internal audit activities continue their journey towards best practice and excellence.

In the following pages we present this advice in two formats:

- A matrix describing the key criteria of effective internal audit, highlighting the level of maturity the internal audit team has achieved and the potential for further development, recognising that effective internal audit goes further than purely conformance with internal auditing standards. *(See 2.1)*
- A series of improvement opportunities and suggestions which the internal audit team could use as a basis for an action plan. *(See 2.2)*

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2.1 Internal audit matrix

Assessment levels	IIA Standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
Excellent	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally Conforms in all areas.	IA alignment to the organisation's objectives risks and change. IA has a high profile, is listened to, and is respected for its assessment, advice, and insight.	IA is fully independent and is recognised by all as a 3rd line. The work of assurance providers is coordinated with IA reviewing reliability of.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise, and produced promptly.	Ongoing efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
Good	The IIA Standards are fully integrated into the methodology – mainly Generally Conforms.	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value-added dimension.	Coordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC
Satisfactory	Most of the IIA Standards are found in the methodology with scope to increase conformance from Partially to Generally Conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change, but criteria and role require clarity.	The 3 lines model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness, but further consistency is needed. Reports are informative and valued.	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising
Needs improvement	Gaps in the methodology with a combination of Non-conformances and Partial Conformances to the IIA Standards.	Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagement go beyond deadline and a number are deferred	QC not consistently embedded across the function. QA is limited / late or does not address root causes
Poor	No reference to the IIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks, and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

Note: The maturity level of the function will depend on a number of factors, including the maturity and the risk appetite of the organisation. Consequently, not all audit functions will aspire to being "Excellent" across the board.

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Supporting continuous improvement

2.2 Further improvement opportunities

This section of the report details additional feedback and observations which, if addressed, could further strengthen the impact of internal audit. These observations are not conformance points but support internal audit's ongoing evolution and development.

These suggestions do not require a response; they will not form part of any subsequent follow up if undertaken.

Opportunity A: Standard 1200 Proficiency and Standard 1220 Due Professional Care

	Improvement opportunity
1	Additional in-house focus on data analytics and ICT audit could be useful and help Orbis Internal Audit continue to deliver valuable insight. Given the prevalence and criticality of ICT to every organisation, the CIA should continue to consider how best to develop further ICT audit capability. We also believe that the CIA should also consider how best to further enhance awareness and capability in the use of data analytics across the team to enhance the depth and breadth of assurance provided. Some leading internal audit teams have moved to a methodology position of having to justify why data analytics should not be employed on an engagement. The expectation is that use of data analytics is the default position for every engagement.

Opportunity B: Standard 1311 Internal Assessments

	Improvement opportunity
2	Consider revisiting the current Orbis Internal Audit Key Performance Indicators (KPIs) to ensure they meet the needs of the service and its primary stakeholders, particularly in terms of internal audit efficiency. Orbis employ a small number of KPIs and these could usefully be reviewed to assess their ongoing value and usefulness. We have shared some additional guidance on KPIs as part of this EQA review.

Opportunity C: Planning

	Improvement opportunity
3	When risk management matures, consider how best to further rely on management's view of risk, documented in risk registers, as a potential alternative - to maintaining a separate internal audit universe. Internal audit has reviewed risk management at the three sovereign teams in recent years, delivering two reasonable and one substantial assurance opinions.

Opportunity D: Standard 2030 Resource Management

	Improvement opportunity
4	Developing an Orbis Internal Audit ‘career pathway’ from internal auditor to audit manager, covering knowledge, skills, experience, qualifications and responsibilities (et al) could be useful for supporting recruitment and retention. If potential, or new, recruits can see a clear, documented career pathway mapped out, with opportunities for progression and additional remuneration, then may foster increased engagement. Audit managers, and potentially principal auditors, could consider seeking the CMIIA designation via the Chartered by Experience route (see https://events.iia.org.uk/cmiia-workshops/chartered-by-experience-cbe-assessment/) Consider establishing a team to deal with unplanned requests and ad hoc work, while other team members focus on delivering planned work, with rotation through as appropriate. This would help ensure plan delivery is not impacted by additional requests and may help reduce the elapsed time from start to draft report on a proportion of the engagements. Consider offering clients a more ‘agile’ internal audit engagement approach, where appropriate, compared to the longer, more methodical engagement option. This alternative could help reduce elapsed engagement time and be more beneficial on some engagements. It would require internal audit and the client to block out calendar time to enable the engagement to be undertaken over a shorter horizon.

Opportunity E: Standard 2040 Policies and Procedures

	Improvement opportunity
5	Including direct referencing of the IIA Standards in relevant sections of the ‘Undertaking an Audit’ document could help demonstrate why particular activities, actions and steps are required. This may be of value to new team members, showing how the approach maps to the PSIAS/IPPF.

Opportunity F: Standard 2050 Coordination and Reliance

	Improvement opportunity
6	The CIA should further develop a proportionate, light-touch and value-adding approach to assurance mapping and placing reliance on the work of other internal assurance providers, to enhance team planning, delivery and the effectiveness of assurance provided to key stakeholders.

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A1 Global Grading Definitions

The following rating scale has been used in this report:

Generally Conforms (GC)	The reviewer has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.
Partially Conforms (PC)	The reviewer has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.
Does Not Conform (DNC)	The reviewer has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The reviewer must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a "generally conforms" rating.

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A2 Stakeholder Interviews and feedback

We interviewed the following individuals as part of the review.

Stakeholders	Title /Position
Philip Baker	Assistant Chief Executive, ESCC
Dominic Bradley	Director of Resources, HDC
Ian Gutsell	Chief Finance Officer, ESCC
Joanna Killian	Chief Executive, SCC
Victor Lewanski	Audit Committee Vice Chair, SCC
David Lewis	Audit Committee Chair, SCC
Nigel Manvell	Chief Finance Officer, BHCC
Ros Parker	Chief Operating Officer, ESCC
Geoff Raw	Chief Executive, BHCC
Stuart Ritchie	Audit Committee Chair, HDC
Colin Swansborough	Audit Committee Chair, ESCC
Leigh Whitehouse	Executive Director of Resources, SCC
Internal Audit Function	**Title /Position**
Russell Banks	Chief Internal Auditor, Orbis
Reem Burton	Principal Auditor, SCC
Nigel Chilcott	Audit Manager, ESCC (Sovereign)
Paul Miller	Audit Manager, Partnership

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Internal Audit Function	Title /Position
Liam Pippard	Senior Auditor, ESCC
Deb Read	Auditor, SCC
Carolyn Sheehan	Audit Manager, BHCC (Sovereign)
Mark Winton	Audit Manager, IT

Feedback from stakeholder interviews

Working with the business

“Internal audit is genuinely independent, but it listens to its stakeholders.”

“I value internal audit’s competence and the way they work well with the other departments.”

“They are very constructive and not perceived as a wrecking ball! They are supportive and professional but can deliver hard messages.”

“They are very supportive, very responsive and helpful.”

“They are very well respected in the organisation - so they get the engagement they need.”

“I value internal audit’s competence and the way they work well with the other departments. The team are very competent, dedicated and loyal to the service.”

“Russ has built a strong team and can deploy the right combination of skills to help us better manage risks.”

“We have a grown-up relationship with internal audit and they look at the right sort of things, in the right sort of way for us.”

Communication

“They are good communicators at audit committee meetings.”

“The reports are good - the team are really competent and produce very useful reports.”

“Their presence with the audit committee is well-received, professional and their reports are very clear.”

“Their reports are thorough and presented well. Internal audit is respected and trusted by members and senior officers.”

“They have got reporting down to a fine art, with succinct reports that have definitely improved over the years.”

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Internal audit plans and coverage

"I'm always consulted on the annual audit plan and internal audit visit all the DMTs to help put the plan together."

"There is a very sensible audit plan, focused on the highest risks."

"There is sufficient flex in the plan to deal with ad hoc requests and internal audit are involved in lessons learned reviews."

"The internal audit plans are drawn from the strategic risk framework and our judgement and instinct."

"Conversations cover what topics are covered in the plan, and importantly, what is not covered too."

Value

"They are good at delivering and are a very flexible and responsive service."

"Russ and the Orbis team have been fundamental in strengthening our corporate governance and risk management practices."

"The quality in their work and approach is always there. I would rate them overall as a well-performing team."

"My only concern is the challenge of resourcing, but they are creative and flexible in filling vacancies."

"I value the increased resilience that the Orbis partnership brings and the perspective and experience of different organisations, as well as the wider expertise to draw upon."

"Russ is really well regarded. He has established really good relations with senior colleagues and has positioned internal audit as a service that can help the organisation improve."

"Internal audit really are our eyes and ears on the ground."

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Disclaimer: This review was undertaken in Autumn 2022 by John Chesshire on behalf of the Chartered Institute of Internal Auditors. This report provides management and the partnership and client Audit Committees (or equivalent) with information about Orbis Internal Audit as of that date. Future changes in environmental factors and actions taken to address recommendations may have an impact upon the operation of Internal Audit in a manner that this report cannot anticipate.

Considerable professional judgment is involved in evaluating. Accordingly, it should be recognised that others could draw different conclusions. We have not re-performed the work of Internal Audit or aimed to verify their conclusions. This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or part, without the prior written consent of the Chartered Institute of Internal Auditors.

The table below summarises those areas where the external assessors believe there may be opportunities for further development of the Orbis Internal Audit Service, along with our response to each.

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As explained in the assessors' report, these cover additional feedback and observations only, which are intended to help support Orbis Internal Audit's ongoing evolution and development.

Improvement Opportunity	Orbis IA Response	Timescale
Additional in-house focus on data analytics and ICT audit could help Orbis Internal Audit deliver further valuable insight as the partnership organisations become ever more digitalised and ICT-enabled.	This is an already ongoing area of development for our service with continued investment in ICT audit training and a new Data Analytics Audit Strategy recently finalised.	Ongoing
Consider revisiting the current Orbis Internal Audit Key Performance indicators (KPIs) to ensure they meet the needs of the service and its primary stakeholders, particularly in terms of internal audit efficiency.	Agreed. Important to note that the service already has a number of other measures which are not formally published in our committee reports given that they relate to operational service delivery.	March 2023
When risk management matures, consider how best to further rely on management's view of risk, documented in risk registers, as a potential alternative to maintaining a separate internal audit universe.	As referenced, the extent to which Internal Audit are able rely on organisational risk registers in full for audit planning purposes depends entirely on the risk maturity of the partner organisations. This is an area of ongoing development and improvement for all the councils. However, it is our view that there will always be a place for this information to be supplemented with other sources when planning our work, including our own knowledge and experience of the organisations.	Ongoing
Formalising a high-level Orbis Internal Audit 'career pathway' from internal auditor to audit manager, covering knowledge, skills, experience, qualifications and responsibilities (et al) could be useful for supporting recruitment and retention.	We will look to further enhance this area although important to highlight that we have an extensive training and development programme already in place for all staff, aligned directly to the IIA's own skills and competencies matrix. This is supplemented with a significant increase in financial investment in training and development over recent years.	Ongoing
Consider establishing a team to deal with unplanned requests and ad hoc tasks, while other team members focus on delivering planned work, with rotation through as appropriate.	This is something we have considered but do not believe is in the best interest of our clients or staff at this time. One of the significant benefits of the way in which we currently work is that we allocate	N/A

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Improvement Opportunity	Orbis IA Response	Timescale
	auditors to each activity based on their knowledge, skills and abilities, regardless of which team they work within. This not only allows each partner to benefit from our collective experience but also enables all of our staff the opportunity to work with different organisations and clients.	
Consider offering clients a more 'agile' internal audit engagement approach, where appropriate, compared to the longer, more methodical engagement option.	Agreed. As part of planning and scoping on individual audits we will in future offer clients this opportunity.	Immediate
Including direct referencing of the IIA Standards in relevant sections of the 'Undertaking an Audit' document could help demonstrate to internal audit staff why particular activities, actions and steps are required.	Agreed.	March 2023
Further enhancing a proportionate approach to assurance mapping and potential formalising of reliance on second line teams, where appropriate, could improve the team's risk-based coverage.	Assurance mapping is something that ideally should be developed and owned by the wider organisation, rather than internal audit. In the absence of this, we have an existing workstream in place to develop something within Orbis Internal Audit which will further strengthen our audit planning process.	Ongoing

Home to School Transport

Progress update to the Audit and Governance Committee
18 January 2023

Purpose of update:

- To revisit the key findings from the Internal Audit of H2STA in May 22
- To update Committee on improvement work and progress across the system of H2STA since the Audit
- To provide a verbal update to Committee on the live progress against the specific 14 actions/findings

Home to School Transport: current context

In May ‘22 an audit of Home to School Transport agreed 14 findings and recommendations with the team to improve the control environment and the processes within it. The key findings reported are summarised below:

- Where high volumes of applications were received, these were not always reviewed (with an outcome letter sent to parent or guardian) within the statutory time period;
- The dual impacts of Brexit and Covid-19 had created a risk in the supply chain for transport provision with the potential to increase costs;
- Transport providers submitted bids on route contracts through the ‘ADAM' portal. However, the process in ‘ADAM' did not always facilitate value for money because where a transport provider was the sole bidder they could increase their bid amount, ultimately driving up overall costs;
- If no bids were submitted on a route, contracts were directly awarded. There was no formal record of this or a formal procedure to ensure consistency and transparency;
- The appeals process mirrored the two-stage process outlined in the Statutory Guidance. However, in some instances the same officer could be responsible for successive stages so there was not always appropriate separation of duties;
- The Transport Policy did not define and clarify the eligibility and provision for those in post-16 years education; and
- Newly introduced systems had not been fully documented.

These findings were reported at a similar time to the 2022 policy change, the development of a new transformation and improvement programme, as well as a number of BAU and service changes. Significant work is underway to transform the service and the experience of parents, carers, children and young people in-year and in preparation for the 23/24 school year and beyond.

Action taken to date on Audit findings

New programme and governance arrangements underway:

- **New SRO appointed** for end to end improvement and independent of serice BAU
- **H2ST Oversight Board meeting** monthly, scrutinising service and finance updates, transformation progress, risks and KPIs including applications, appeals and complaints.

A **new team structure** implemented from 1 December, designed to:

- **Centre ownership and improve workflow** between assessment of children and young people (CYP's) eligibility for transport and delivering an appropriate and timely transport solution
- **Enable more flexible and resilient resourcing** across peak periods by training staff to flex across functions, to ensure statutory time periods are met, even at peak periods
- **Appropriately segregate duties and decision-making**, including across appeals
- **Ringfenced resource for internal and external stakeholder liaison** and ensuring effective communication, particularly with parents

Documentation of processes and procedures to ensure consistent practice and policy application, e.g.:

- **Process maps** have been completed across the service and will be finalised by end January. These will be reviewed for further opportunities to streamline families', transport provider and SCC effort in 'to-be' maps as part of the Single View of a Child programme
- **Documentation of procedure, decision-making and escalation levels** around the majority of In Year and Summer Review of travel arrangements and route contract awards
- **Costing matrices** to ensure consistent calculation of costs for any routes, including CYP with SEN

Improvements to systems, data and reporting including:

- **Applications process** for parents and carers, clarifying eligibility and ensuring necessary information is requested and submitted once
- **Record-keeping**, including around decision-making for parents, ensuring they are routinely informed of the reason for a decision
- **Procurement**, full audit of the dynamic purchasing system (ADAM) and changes made to ensure audit recommendations were addressed

Clearer and increased information and communication with parents:

- **End to end improvement of the customer journey**, including all communications, advice, guidance and documentation
- **Clarification of the policy**, including defining the eligibility criteria and provision for those in post-16 education
- **A parent guide**, including an online home to school transport eligibility checker they can use prior to submitting an application for under 16 year olds

Next steps on action on Audit findings, recommendations and improvement overall

- **Complete improvement plan and transformation programme including** full implementation of Internal Audit recommendations
- **Continue to report progress** to monthly Oversight Board
- Plans underway to **utilise Internal Audit expertise as a critical friend** on specific elements of our improvement plan at agreed points
- Follow-up full internal **audit report assessment tbc**

SURREY COUNTY COUNCIL

SURREY
COUNTY COUNCIL

Audit & Governance Committee
18 January 2023

Treasury Management Strategy Statement 2023/24

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Purpose of the report:

This report sets out the Council's Treasury Management Strategy for 2023/24, as required, to ensure compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code).

Recommendations:

It is recommended that:

1. The Audit and Governance Committee approves the Treasury Management Strategy Statement (TMSS) – Part 4 of the Capital, Investment and Treasury Strategy - for 2023/24 including the Prudential Indicators.

Introduction:

2. The Audit and Governance Committee is asked to approve the Treasury Management Strategy Statement (TMSS) for 2023/24 including the Prudential Indicators.

3. The TMSS is a key part of the Council's overall financial strategy and has been developed alongside the 2023/24 Revenue Budget, the Medium-Term Financial Strategy and Capital Programme, with advice from the Council's Treasury Management Advisor, Arlingclose.

4. The TMSS sets out the approach taken by the Council to managing cash flows and associated risks, particularly our borrowing strategy and the safeguarding of our investments. The TMSS ensures that the full costs of funding the capital programme are prudent, sustainable and affordable and that our cash balances are safeguarded whilst delivering an investment return.

5. The Final TMSS, part 4 of the appendix, is due to be approved by Council on the 7th February 2023.

Overview of Treasury Management:

Summary

6. Treasury Management covers two main areas; borrowing and investment. Together, these manage the Council's overall cash position. The Council's cash position is dictated by three factors:

- Past and projected borrowing;
8 - The level of reserves; and
- The timing of income and expenditure.

7. The Council works proactively with Arlingclose to set the strategy and ensure that the best balance is struck between minimising cost, safeguarding investments and managing risk.

8. The Council's approach to treasury management is supported by key prudential and treasury indicators, which are set out in Annex 1 to the TMSS.

Borrowing

9. Managing the cost of the Council's borrowing is at the heart of the strategy.

10. The Council only borrows to fund capital expenditure after the application of grants, contributions and capital receipts. However, the level of external debt, has historically been substantially less than the underlying borrowing requirement. This is because the Council is able to use its internal resources (reserves and cash surpluses) to minimise the need to borrow externally.

11. Where external borrowing is required, a balance must be struck between taking advantage of lower interest rates for short-term borrowing and the certainty that comes with long-term fixed rate loans. The Council continually monitors prevailing economic conditions against its borrowing requirement and seeks regular advice from Arlingclose on the best balance between short and long-term debt.

12. At present, a continued focus on short-term borrowing has been determined to represent the best balance between cost minimisation and risk management, but this is kept under constant review and long-term borrowing is considered where appropriate.

13. The TMSS sets limits on the level of overall external debt – an operational boundary. This sets an indication of the expected maximum debt at any given time and an authorised limit which is an absolute legal cap on our total debt, set according to statute.

14. The TMSS includes the Minimum Revenue Provision (MRP) Policy, which sets out arrangements for ensuring that debt can be repaid when it falls due. The Council is required by statute to make a prudent provision for the repayment of its debt and 'have regard' to Government guidance on how this is calculated. The full MRP Policy Statement can be found in Annex G to the TMSS.

Investment

15. The Council usually receives income (for example from Council Tax, Business Rates and Government Grant) in advance of incurring expenditure, leading to surplus cash balances. These are used in the first instance to minimise external borrowing as in the prevailing external environment, the cost of borrowing exceeds available returns from investment. However, the Council needs to maintain a prudent level of liquidity (ability to access cash) and so a level of investment activity is required. 8

16. The Council maintains relatively low levels of cash balances as it has the ability to access cash quickly and cheaply via borrowing from other Local Authorities. As such the focus for investment is on security and liquidity, rather than high interest rate returns. Security is of paramount concern, particularly given current uncertain economic conditions.

17. The TMSS sets out the approach to investment, including approved limits for investment counterparties, set according to their credit limit, and maximum amounts to be invested with any one counterparty.

Conclusion:

18. The TMSS sets out the Council's strategy for managing its borrowing and investments to deliver best value for money and a balanced approach to managing risk. The TMSS has been set out according to the legal framework and best practice and supports the delivery of the Council's budget, Capital Programme and Medium-Term Financial Strategy.

Financial and value for money implications

19. The impact of this strategy on the interest paid and interest receivable budgets are included within Appendix 1 and have also been factored into the Medium-Term Financial Strategy for 2023/24.

Equalities and Diversity Implications

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

Risk Management Implications

21. The Authority measures and manages its exposures to treasury management risks using indicators outlined in Annex 1 of Appendix 1.

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Next steps:

22. The Treasury Management Team will monitor borrowing and cash investments and will continue to update this Committee as appropriate.

23. A full-year outturn report for 2022/23 and a half-year monitoring report for 2023/24 will be presented to this committee.

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Contact details: nicola.oconnor@surreycc.gov.uk

Sources/background papers:

- CIPFA Code of Practice for Treasury Management in the Public Services (2021 Edition)
- 2023/24 Final Budget and Medium-Term Financial Strategy, Council, 7 February 2023 [To be published]

Surrey County Council

Capital, Investment and Treasury Management Strategy 2023/24

1. INTRODUCTION

1.1 The Capital, Investment and Treasury Management Strategy provides an overview of the three main components of capital planning. We have chosen to amalgamate the strategies into a single document because the Capital Programme, our Investment Strategy and our approach to Treasury Management cannot operate independently of one another. They are parts of an overall approach:

- **Capital expenditure and investments:** the Capital Programme; supporting Corporate and Directorate priorities and the Investment Programme; generating income and supporting economic growth;
- **Financing our capital plans, and maintaining liquidity:** the Treasury Management Strategy; setting out how the capital programme will be financed and how cash investments will be managed; and
- **Repaying our debt in a prudent way:** the Minimum Revenue Provision (MRP) Policy, setting out how we use the revenue budget to repay debt.

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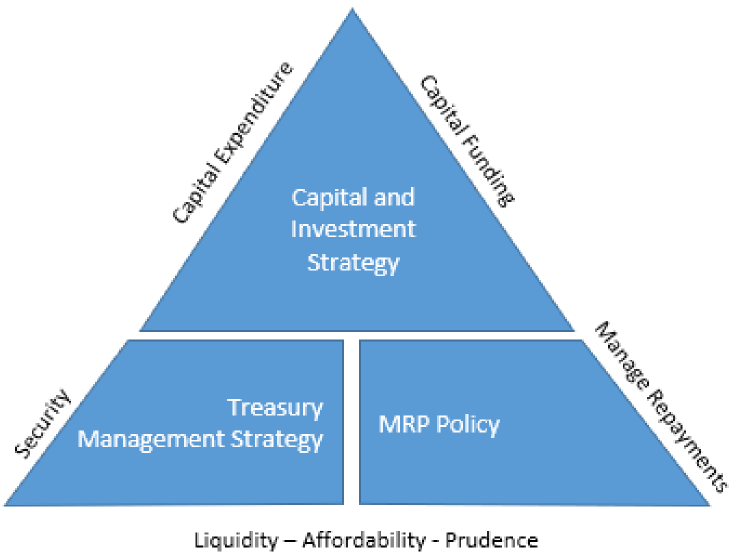

This report sets out a high-level overview of how capital expenditure, capital financing, investments and treasury management activity contributes to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2 The strategy sets out a clear picture of the ambition of the Council regarding capital expenditure and investment plans, within the financial constraints, risk appetite and regulatory framework that the Council operates.

1.3 The strategy is presented in the following elements, that set out the Council's approach to capital, investment and treasury management:

a. **Capital Overview** - asset management, capital expenditure planning, risk management and long-term sustainability of capital expenditure plans **(Section 2)**

b. **Investment Overview** – setting out investment plans focusing on the approach to service and commercially led investment **(Section 3);**
c. **The Treasury Management Strategy Statement (TMSS)** – setting out how we borrow and invest to support our capital financing requirement **(Section 4)**
d. **The Minimum Revenue Provision (MRP) Policy** – setting out how we repay capital borrowing **(included as the final page of this document, Annex G to the Budget)**

1.4 Decisions made this year on capital, investment and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

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1.5 Our strategy will:
- Set out how we ensure that capital expenditure contributes to the achievement of corporate priorities and the organisation strategy;
- Explain how the Capital Programme is financed and demonstrate that it is affordable and sustainable;
- Explain the Council's approach to investments; and
- Set out and fulfil the Council's regulatory requirements in respect of Borrowing, Treasury Management and Investment.

2. CAPITAL OVERVIEW

Capital Expenditure and Financing:

2.1 The Council incurs two types of capital expenditure:
- the service delivery Capital Programme
- the Capital Investment Programme

2.2 The Council's capital expenditure and financing plans over the medium-term provides an overview of the governance arrangements for approval and monitoring of expenditure and, in relation to commercial investment activities, sets out the due diligence process and the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

2.3 This section includes a projection of the Council's capital financing requirement and how this will be funded and repaid. It links to the Council's borrowing strategy and sets out the Council's statutory duty to make an annual revenue provision for the repayment of debt, detailed in the MRP Policy (Annex G to the Budget).

Capital Expenditure

2.4 Capital expenditure refers to Local Authority spending on assets such as infrastructure, property or vehicles that will be used for more than one year. In Local Government this includes spending on assets owned by other bodies and loans and grants to other bodies, enabling them to buy assets.

2.5 In the 2023/24 Budget and 5-year Medium Term Financial Strategy to 2027/28, the Council has a total capital expenditure requirement of £1.98bn as summarised in Table 1. Our capital expenditure can be broken into three categories:

- Approved Capital Budget of £1,202m
- Capital Pipeline of £748m, schemes that represent the capital ambitions of the Council but are subject to further detailed business cases and Member approval.
- Capital Investments of £31m, split by investment in existing assets (£1m) and investment in new assets within Surrey (£30m).

Table 1 - Estimates of Capital Expenditure

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	2021/22 Actual	2022/23 Forecast	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	Total Budget
	£m	£m	£m	£m	£m	£m	£m	£m
Capital Programme - Budget	162	218	309	329	222	164	178	**1,202**
Capital Programme - Pipeline	0	30	108	221	217	158	44	**748**
Sub-total Capital Programme	162	249	416	551	439	323	221	**1,950**
Capital investment in existing assets	0	0	0	1	0	0	0	**1**
New growth and service led investments in Surrey	3	1	26	1	3	0	0	**30**
Sub-total Investment Strategy	3	1	26	2	3	0	0	**31**
TOTAL	**166**	**250**	**443**	**552**	**442**	**323**	**221**	**1,981**

2.6 Our medium-term approach to financial planning means we can deliver an ambitious Capital Programme of c£1.95bn over the next 5 years if all pipeline proposals are approved. The revenue implications of this proposed programme are integrated and factored into the financial planning over the Medium-Term Financial Strategy (MTFS) period.

2.7 In developing the capital expenditure estimates, we have ensured that borrowing costs remain in line with the revenue budget envelopes set out in the 2023/24 Budget and MTFS. This has been achieved through a combination of refining the borrowing requirement for pipeline schemes and through identifying a number of schemes that will generate income or efficiencies sufficient to cover their borrowing costs.

2.8 Planned capital investment will deliver significant investment in:

- The development of a greener future through the Net Zero 2030 and 2050 carbon reduction schemes and other projects contributing to the carbon and green agenda such as solar farms, electric charging points, low emission buses and vehicles;
- A reconfirmed commitment to Surrey's sustainable future and that of its residents and businesses, through significant investment in flood alleviation works; a once in a generation opportunity to build flood defences, country parks and green space;
- Community led projects in our towns and high streets with £60m available over the next 4 years through the Your Fund Surrey scheme;
- Developing Farnham town centre and surrounding infrastructure;

- Creating a number of sites to look after our vulnerable older adults, through building Extra Care and Independent Living accommodation where residents can live independently for longer and integrate into the community;
- Delivering additional local places for children with Special Educational Needs and Disabilities – a key part in containing costs within the revenue budget;
- Providing additional capacity in schools, to provide a rich education with Schools Basic Needs funding;
- Increasing sufficiency of provision for special education needs and disability in schools across Surrey;
- Investment in County PRU places and improvements for improved pupil support
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- Investment in libraries across the County;
- Maintaining and developing our road infrastructure to help grow a sustainable economy, deliver safer and greener routes; and
- Accelerating our Property Rationalisation and Agile Corporate Estate Programme.

2.9 Capital projects are subject to a rigorous governance process to ensure they are aligned with the Council's priorities:

- Growing a sustainable economy so everyone can benefit;
- Tackling health inequality;
- Enabling a greener future; and
- Empowering communities.

2.10 Fundamentally, they are approved on the principles of strategic fit, value for money, affordability and deliverability. Projects need to demonstrate value for money and that they are capable of being delivered within expected timescales.

2.11 Strategic Capital Groups (SCGs) for Infrastructure, Property and IT develop projects throughout the budget setting process which are scrutinised and approved by Capital Programme Panel (CPP); a group of senior officers from across the organisation, including the Council's Deputy S151 officer and senior service representatives. Projects approved by CPP are then included in the budget when approved by Cabinet and Council. Fig 1, below summarises this process.

Fig 1: Capital Approval Process

	Strategic Mandate	Business Case	Delivery
Capital Strategy Groups	Strategic Mandates are developed and submitted to CPP	Approve Low Governance Schemes already in the budget where: Up to £1m and already been to Cabinet OR Up to 250k if not already been to Cabinet	Approve variations in scheme cost up to 10% and £250k
Capital Programme Panel	CPP approve Strategic Mandates	Approve Medium Governance Schemes where: Been to Cabinet and already in budget OR Up to £1m	Approve variations in scheme cost up to 10% and £500k
Cabinet		Approve High Governance Schemes or over £1m	Approve variations in scheme cost over 10% and £500k

Capital Funding

2.12 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiatives). The planned financing of the expenditure set out in Table 1 is as follows:

Table 2 - Capital Financing

	2021/22 Actual	2022/23 Forecast	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	Total budget
	£m	£m	£m	£m	£m	£m	£m	£m
Grants and Contributions	79	108	145	153	174	110	75	657
Revenue budgets	6	6	7	6	6	6	6	31
Capital receipts	62	0	41	20	13	2	0	76
Borrowing	19	135	250	373	249	205	141	1,217
TOTAL	**166**	**250**	**443**	**552**	**442**	**323**	**221**	**1,981**

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2.13 Additional borrowing of £250m for 2023/24 consists of £224m to fund the Capital Programme (detailed in the Capital Budget – See Annex C to the 2023/24 Budget and MTFS to 2027/28) and £26m to fund capital investment in existing assets and new growth and service led expenditure (set out in Table 1).

2.14 This table shows the planned usage of capital receipts for capital expenditure. £76m of capital receipts from the sale of Council assets are assumed for financing expenditure from 2023/24 onwards. Receipts are only included as sources of financing when there is a high level of confidence over the value and timing of their delivery. This approach is taken to ensure a prudent estimate of borrowing is factored into capital plans and included in the revenue budget for finance costs.

2.15 Borrowing is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP).

2.16 Alternatively, proceeds from selling capital assets (known as capital receipts) may currently be used to replace debt finance. No use of receipts is currently assumed to repay existing debt.

2.17 Planned MRP is set out in the following table:

Table 3 - Repayment of Debt Finance through Minimum Revenue Provision

	2021/22 Actual	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
	£m	£m	£m	£m	£m	£m	£m
MRP	21	24	29	38	45	51	56

2.18 The Council's full MRP policy can be found in Annex G.

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2.19 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure on service delivery and on investments and reduces with MRP and capital receipts used to replace debt.

2.20 The CFR is expected to increase by £216m during 2023/24. Based on the above figures for expenditure and financing, the Council's estimated CFR over the medium-term is as follows:

Table 4 - Prudential Indicator: Estimates of Capital Financing Requirement

As at 31st March	2021/22 Actual	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
	£m	£m	£m	£m	£m	£m	£m
Capital Programme	888	1,004	1,202	1,540	1,745	1,904	1,992
Investment Programme	451	443	460	452	446	437	427
TOTAL CFR	**1,339**	**1,446**	**1,662**	**1,992**	**2,190**	**2,340**	**2,420**

2.21 Our capital plans lead to a £974m increase in the estimated CFR over the five-year period, from £1.45bn to £2.42bn. The revenue implications of this are set out below in section 2.26 and in the TMSS section 4.

2.22 **Asset management:** To ensure that capital assets continue to be of long-term use, the Council has an Asset and Place Strategy. This sets out the Council's approach to the strategic management of its assets, how the sale of assets to fund capital expenditure will support service delivery and provide the income to promote growth and place shaping within Surrey.

2.23 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council currently has no plans to use flexible use of capital receipts from 2023/24 onwards.

2.24 The Council plans to receive £76m of capital receipts from 2022/23 onwards:

Table 5 - Capital Receipts Receivable

	2021/22 Actual	2022/23 Forecast	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget
	£m	£m	£m	£m	£m	£m	£m
Asset sales	2	26	17	11	7	15	-

Revenue Budget Implications

2.25 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, and MRP are charged to revenue, offset by any investment income receivable. This is referred to as net financing costs.

2.26 Current projections show that net financing costs will be contained within the central income and expenditure budget projections over the MTFS, rising from £24m net in 2022/23 to £69m net in 2027/28. The gross and net costs of financing our capital plans are set out in the table, below.

Table 6 – Net Finance Cost Budget

	2021/22 Actual	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
	£m	£m	£m	£m	£m	£m	£m
MRP (not including PFI)	21	24	29	38	45	51	56
Interest Cost	17	19	24	29	29	32	35
Gross Finance Cost	**38**	**42**	**54**	**67**	**75**	**83**	**91**
Investment Income	(21)	(19)	(22)	(22)	(22)	(22)	(22)
Net Finance Cost	**16**	**24**	**32**	**45**	**53**	**61**	**69**

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2.27 The proportion of net finance cost to net revenue budget is a key indicator of direction of travel relative to medium term revenue resources and provides insight into the affordability of finance costs. Full revenue implications of net finance cost are set out in the TMSS (section 4.46 onwards)

2.28 The Council's net finance costs are increasing as a proportion of the net revenue budget, which is expected with an expanding Capital Programme, rising from c.2% in 2022/23 to 6% in 2027/28. This is increase is partially contained through schemes enabling delivery of revenue efficiencies or income generation that finance themselves and offset pressure on the central income and expenditure budget.

2.29 The below schemes are included in the Capital Programme on the basis of covering their own financing costs over the MTFS:

Approved Budget - £75m total spend over MTFS

- £29m – Children Looked After Schemes
- £24m – Independent Living (Batch 1)
- £7m - Surrey Outdoor Learning and Development - Thames Young Mariners
- £5m – Caterham Hill Library
- £5m – Unicorn Reprocurement/Replacement
- £2m - Extra Care Housing
- £2m – Greener Futures 2030 (PSDS3a)
- £1m – Various smaller schemes totalling £1m

Pipeline – £235m (to be approved after scrutiny of value for money, sustainability and assessment of deliverability)

- £60m - Extra Care Housing
- £44m – Greener Futures – Net Zero 2030 target
- £31m - Agile Office Estate Strategy (including Quadrant Court)
- £30m - Greener futures - Net Zero 2050 target

- £27m - Libraries Transformation Phase 1
- £21m - Materials Recovery Facility
- £9m - Independent Living
- £5m - Surrey Outdoor Learning & Development (SOLD)
- £3m – Children Looked After Schemes
- £2m - Electric Vehicle Infrastructure
- £2m – Surrey farms investment plan
- £1m – Various smaller schemes totalling £1m

Financial Sustainability

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2.30 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred over the MTFS will extend for up to 50 years into the future. The Section 151 Officer is satisfied that the proposed Capital Programme is prudent, affordable and sustainable because it remains proportional to the Council's overall revenue budget.

Environmental Sustainability

2.31 Capital expenditure over the next 5-year period includes c.£678m of schemes that will contribute to carbon reduction, action on climate change and enabling a greener future. Of this spend, c.£366m is included for schemes in the approved budget and a further c.£312m for schemes in the pipeline, which are subject to ongoing development, scrutiny and challenge before being approved. The Council will continue to take direct action on environmental sustainability for future generations as part of the Carbon Net Zero targets set for 2030 and 2050. The Council has brought in expertise to better understand and report on carbon impacts of the Capital Programme and to set established processes for assessing capital plans and capturing necessary information for business case scrutiny and benefits realisation.

3. INVESTMENT OVERVIEW

3.1 In addition to service-led capital expenditure, the Council has invested its money for a further three broad purposes:

- To support local public services by setting up, lending to or buying shares in other organisations (service investments);
- To earn investment income (known as commercial investments where this is the main purpose); and
- As a result of surplus cash from its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments);

Service Investments: Loans and Equity

3.2 **Overview:** The Council invests money in its subsidiaries and other organisations to support local public services and stimulate local economic growth. Subsidiaries of this nature include:

- Hendeca Group Ltd (formerly S.E. Business Services Ltd) – a Local Authority Trading Company (LATC) wholly owned by the Council for the provision of business services.
- Surrey Choices Ltd – a LATC, wholly owned by the Council to deliver day services and community support options for people with disabilities and older people.

3.3 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk and ensure that total exposure to service loans remains prudent, decisions on service loans are made in the context of their value, the stability of the counterparty and an assessment of the risk of default. The current value of service loans is set out as follows:

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Table 7 - Loans for service purposes in £ millions

Category of borrower	31.3.2022 actual			2023/24
	Balance owing £m	Loss allowance £m	Net figure in Accounts £m	Approved Limit £m
Subsidiaries	3	-	3	10

3.4 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's Statement of Accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum advanced and has appropriate credit control arrangements in place to recover overdue repayments. In the case of our service loans, these allowances are nil.

3.5 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by reference to their financial position, past experience and other factors. We wholly own our subsidiaries for service purposes and so their financial position is subject to the same rigour and control as that of the Council.

Commercial Investments: Property

3.6 **Overview:** The Council holds investments in local commercial property; office space, leisure and retail, with the intention of supporting Surrey's economy and generating a surplus that will be spent on local public services. The table below shows the value of our investments by main category, including those under construction where the ultimate use is to be determined.

Table 8 - Property held for investment purposes in £ millions

Property	Actual	31.3.2022 actual	
	Purchase cost £m	Gains or (losses) £m	Closing Value £m
Office	117	9	127
Retail	6	(3)	3
Leisure	1	0	1
TOTAL	**124**	7	**131**

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3.7 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

3.8 A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. The Council holds investment properties for long-term rental income, and short-term fluctuation in investment values can be expected. Our investment properties operate in a challenging commercial environment, with particular pressure on retail. We continue to explore mitigating actions to protect the capital invested, such as alternate uses where appropriate.

Commercial Investment – Equity Investments and Loans

3.9 **Overview:** The Council wholly owns Halsey Garton Property Ltd (HGP) which has a portfolio of national investment properties used to generate a return to the Council. The Council also wholly owns Halsey Garton Residential Ltd (HGR), which holds a portfolio of Surrey-based residential properties. The financial return from both companies takes the form of interest on the outstanding loan and dividend payments (where possible). The total value of our investment in HGP and HGR as at 31st March 2022 is set out below.

Table 9 - Equity and Loans to HGP and HGR in £ millions

Category of Investment	31.3.2022 actual		
	Balance outstanding	Loss allowance	Net figure in Accounts
	£m	£m	£m
Equity Shares	97	0	97
Loans	241	(1)	240

3.10 Accounting standards require the Council to set aside loss allowance for investments, reflecting an assessment of risk. The figures in the Council's Statement of Accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum advanced and has appropriate credit control arrangements in place to recover overdue repayments.

3.11 The Council also holds shares at a £0.5m initial cost in the UK Municipal Bonds Agency (UKMBA) whose aim is to reduce the long-term borrowing costs of Local Authorities who join together to issue local authority bonds. The Council does not currently have a bond-issue with UKMBA but is taking regular advice from its Treasury advisors, Arlingclose on the most appropriate source of finance for its long-term capital spending plans. The share value has been written out of the Council's balance sheet because the UKMBA set out a material uncertainty in its November 2020 accounts that would cast doubt on the company's ability to continue as a going concern.

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Managing the debt used to finance subsidiary loans

3.12 In previous financial years, the Council has borrowed money to lend on to Halsey Garton Property, in order that Halsey Garton Property can invest in property to generate a revenue income for the Council to support service delivery. Alongside the equity shares, these loans are set out in Table 9, above.

3.13 The Council's MRP policy for 2021/22 was to charge MRP on individual properties where the market value had fallen below the outstanding loan, ensuring that the debt coverage was maintained. This was deemed a prudent approach and therefore compliant with current legislation because, despite individual properties carrying a market value below the debt, the value of the portfolio overall still exceeded the outstanding loans.

3.14 In November 2021, the Government issued a consultation on proposed changes to capital finance regulations. The potential change in stance arising from this consultation would have dictated that local authorities charge MRP on all subsidiary loans, to ensure the money is set aside to repay debt without relying on the subsidiary selling assets or negotiating new debt.

3.15 In anticipation of these changes coming into force for the 2023/24 financial year, as per the government's proposed timetable, the Council took the decision to adopt the regulations early and amended its MRP policy for 2022/23 to provide MRP on capital loans in full as it does for any other asset. This policy was approved by Full Council on 8th February 2022.

3.16 In June 2022, the Government issued an interim response to the consultation, which included an amended proposal in respect of capital loans. The amended proposal is that, where an authority has made a capital loan for service purposes, MRP need only be made to cover the expected credit loss required by IFRS 9. Zero MRP is acceptable if the outstanding CFR on the loan is no greater than the outstanding principal, less any expected credit losses.

3.17 The Council's current policy of providing for MRP in full means it is compliant with both the original and revised proposals. A full response to the consultation has not yet been issued and therefore there is not yet complete certainty over the final nature and timing of any changes, if indeed they are introduced.

3.18 Given these circumstances the Council considers it prudent to continue with the current policy of providing MRP in full on loans to subsidiaries in 2023/24, as outlined in the 2023/24 MRP Policy (Annex G). This will ensure that the Council's debt in relation to the loan to Halsey Garton is serviced over the life of the asset. When the subsidiary repays its loans, any resulting surplus would be recognised as gain (a capital receipt) at the point of repayment.

Security

3.19 The value of property owned by Halsey Garton Property Ltd at 31st March 2022 was assessed as being £38m lower than cost, representing an 12% reduction, largely due to pressures on the retail environment.

3.20 Halsey Garton is holding the assets for long-term rental income and short-term variations in fair value do not currently affect the value of the Council's investment. Over the long term, we would expect asset values to recover.

Risk Assessment and Liquidity

3.21 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property or subsidiary investments through a thorough analysis of the market and economic conditions using external advisors where necessary. Separately, the Council has a comprehensive risk management strategy to mitigate risks of over-spend or income shortfalls to the base budget position.

3.22 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. The Council is not reliant on investments in property to maintain its liquidity and manages liquidity through other investments and borrowing. The Council has Reserves and Contingencies to maintain stability in the event of a period of lower returns from its investment portfolio.

Loan Commitments and Financial Guarantees

3.23 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

3.24 We do not currently extend financial guarantees to other organisations, however if we chose to be part of a joint bond issue with UKMBA, we would be liable for defaults of other Local Authorities in proportion to the total amount of the bond. It is highly unlikely that another Local Authority would default and so the risk is theoretical rather than a practical reality.

Proportionality

3.25 The Council's revenue budget includes an element of profit generating investment activity to support services. Table 10 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the MTFS. Investment activity is forecast to remain around 2% of the Council's net revenue budget over the medium-term. Should we fail to achieve the expected net return, the Council would manage the impact on budget through use of contingency in the current financial year and a re-assessment of financial plans for the remainder of the medium-term.

Table 10 - Proportionality of Investments

Investments net return	**2021/22 Actual £m**	**2022/23 Forecast £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**
Service investments	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Commercial investments: Property	6.2	**3.6**	5.2	6.2	6.4	6.4	6.4
Commercial investments: Shares and Loans	15.1	**14.9**	14.9	14.9	14.9	14.9	14.9
Total Net Income from Investments	**21.3**	**18.5**	**20.1**	**21.1**	**21.3**	**21.3**	**21.3**
Proportion to Net Revenue Budget (%)	**2.1%**	**1.8%**	**1.8%**	**1.9%**	**2.0%**	**2.0%**	**2.0%**

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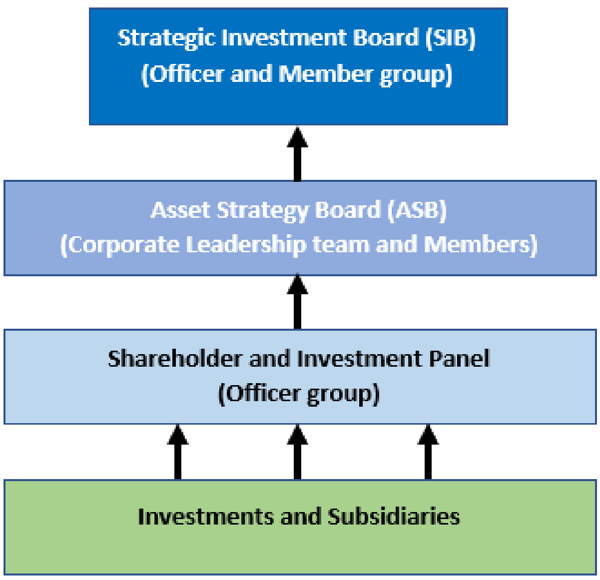
Commercial Governance

3.26 Commercial investments are taken through a rigorous Officer and Member led process to ensure that decisions are taken with an adequate level of scrutiny. The diagram, below, shows the governance groups charged with delivering commercial investments:

Fig 2: Commercial Governance



3.27 At officer level, oversight is provided by the Shareholder Investment Panel (SHIP) with representation from Finance (Chair), Land & Property and Legal.

3.28 The Member led Strategic Investment Board (SIB) monitors the Council's investment properties and subsidiary companies to ensure satisfactory performance and effective risk management. The financial returns delivered by trading and investment help to ensure that we continue to deliver quality services to our residents.

3.29 SIB provides effective oversight, ensuring alignment with the strategic objectives and values of the Council. SIB safeguards the Council's interests and takes decisions in matters that require the approval of the Council as owner or as a shareholder of a company.

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Investment Indicators

3.30 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

3.31 **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 11 - Total investment exposure in £millions

Total investment exposure	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
	£m	£m	£m
Treasury management investments	141	20	50
Service investments: Loans	3	3	3
Commercial and Economic Growth investments: Property	131	132	158
Commercial investments: Loans	241	241	241
Commercial investments: Shares	97	97	97
TOTAL INVESTMENTS	**613**	**493**	**549**

3.32 **How investments are funded:** Government guidance states that our indicators should include an analysis of how investments are funded. Councils, including SCC, do not generally associate borrowing with individual assets, since we borrow as required to fund the whole portfolio of capital spend. However, the following investments could be described as being funded from capital sources, including borrowing and receipts. The remainder of the Council's investments are funded by Usable Reserves and income received in advance of expenditure.

Table 12 - Investments funded by borrowing in £millions

Total investment exposure	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
	£m	£m	£m
Commercial and Economic Growth investments: Property	131	132	158
Commercial investments: Loans	241	241	241
Commercial investments: Shares	97	97	97
TOTAL INVESTMENTS	**469**	**470**	**496**

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3.33 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complexity of the Local Government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 13 - Investment rate of return (net of all costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast	2022/23 Forecast
	£m	£m	£m	%
Service investments	0.0	0.0	0.0	0%
Commercial investments: Property	6.2	3.6	5.2	3%
Commercial investments: Shares and Loans	15.1	14.9	14.9	4%
ALL INVESTMENTS	**21.3**	**18.5**	**20.1**	**4%**

External context

3.34 In 2018, following concerns from the sector regarding the adoption of International Financial Reporting Standard 9 (IFRS 9) into the Code of Practice on Local Authority Accounting (the Code), the government introduced a statutory override to mitigate the risks highlighted by the sector. At that time, authorities had expressed concern that reporting changes brought in by IFRS 9 would mean that the fair value movements in certain assets would need to be reflected in budgets. This would have particularly affected investments in pooled investment funds, a type of investment widely held in the sector. Authorities argued that the increased volatility to budgets could impact service delivery or place undue burdens on council taxpayers.

3.35 The statutory override mitigates these putative risks by requiring authorities to remove the impacts of the fair value movements of pooled investment funds from their budgets and record them in an unusable reserve. The statutory override was time-limited to five years, from 1 April 2018 and ending 31 March 2023. At that time, the government said that it would keep use of the statutory override under review but made no further commitments.

3.36 In August 2022, the Government launched a consultation on whether to extend the override, make it permanent or allow it to lapse. The aim of this consultation was to collect the views of authorities and other stakeholders, and to collect additional information needed to understand the financial risks associated with both continuing the statutory override or allowing reversion to the Code of practice on local authority accounting. The responses to the consultation have now been considered, and Ministers have decided to extend the existing IFRS 9 statutory accounting override for a further 2 years until 31 March 2025. A full government response is expected in early 2023.

4. Treasury Management Strategy Statement 2023/24

Introduction

4.1 Treasury management at Surrey County Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

4.2 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. A full set of Prudential Indicators is set out in Annex 1 and a number of Treasury limits and indicators are set out below. 8

4.3 Treasury management is the management of the Council's cash flows, borrowing, investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

4.4 The Council tends to be cash rich in the short-term as revenue income (e.g. Council Tax, Business Rates and Government Grants) is typically received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

4.5 Managing the cost of the Council's borrowing is at the heart of the Treasury Management Strategy (TMS) and we work proactively with our Treasury Management advisor, Arlingclose on a continual basis, to ensure that our approach represents the best balance between minimising cost and managing the risk of interest rate changes. Regular meetings with Arlingclose coincide with Bank of England Monetary Policy Committee meetings, however our strategy is under constant review throughout the year, and we can call on Arlingclose's expertise whenever required.

4.6 **Interest rate risk mitigation:** The increases to interest rates made by the Bank of England, and anticipation of further rises in the immediate future also have an impact on the affordability of the capital programme. The Council is looking to maximise its internal and short-term borrowing strategy to reduce the need to enter into long term borrowing at higher rates of interest over the short term. The Bank of England and other market intelligence suggests that interest rates will be high over the next 18-24 months and then will need to reduce, as inflation and growth reduces, due to a projected period of recession. Therefore a balance needs to be made between increasing the base budget for high interest rates, resulting in a larger required efficiency target, and managing a short term peak in interest rates through other strategies as follows:

- Our borrowing strategy requires us to maximise internal borrowing by utilising internal balances held for the medium term
- Our borrowing strategy also enables us to borrow short term at cheaper rates to avoid 'locking' in long term interest charges when interest rates are high
- Historic trends suggest that pipeline conversion and capital programme spending will be less than the current profiling in the draft budget.
- The Council holds an interest rate risk reserve of £1.6m if interest payable in the year exceeds the revenue budget available, after the mitigations set out above.

Interest rate volatility has effectively been managed throughout 2022/23 to-date through this strategy and higher than forecast cash levels. Cash levels have benefited from significant grant income received upfront in the financial year and, more significantly, £50m of long term borrowing taken out in March 2022 (at 1.98%) before rates began to rise.

4.7 The Treasury Management Strategy is supported by four TMS annexes:

1. Prudential indicators – a Code requirement which supports our approach to borrowing, managing risk and highlighting our capital financing requirement.
2. Detailed external context – a detailed summary from Arlingclose of the current and future economic climate, risks and opportunities along with detailed interest rate forecasts.
3. Investment & Debt Portfolio Position as at 30 November 2022 – to highlight the current range of debt and investments.
4. Glossary of Terms

External Context – as at November 2022 (Bank Rate update is as at December)

4.8 **Economic background:** The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Council's treasury management strategy for 2023/24.

4.9 The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6 3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

4.10 The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

4.11 The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

4.12 CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR. 8

4.13 The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

4.14 Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

4.15 Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

4.16 **Credit outlook:** Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

4.17 CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

4.18 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

4.19 There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

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4.20 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

4.21 **Interest rate forecast (December 2022):** The Council's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

4.22 While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

4.23 Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

4.24 A more detailed economic and interest rate forecast provided by Arlingclose is attached in the TMS Annex 2.

4.25 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 3%, and that new borrowing will be sourced at an average rate of 4% for 2022/23 and 2023/24, 3% in 2024/25 and 2% for the remainder of the MTFS period.

Local Context:

4.26 On 31 March 2022 the Council held £722m borrowing (£496m of long-term borrowing and £226m short-term borrowing) and £141m of cash investments. By 30th November 2022, this had dropped to £594m borrowing (£483m of long-term borrowing and £111m of short-term borrowing), with £100m of investments.

4.27 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

4.28 Internal borrowing allows the Council to utilise its internal cash balances (i.e. working capital and reserves) which are not required in the short to medium-term in order to reduce risk and keep interest costs low. Forecast changes in these sums are shown in the balance sheet analysis in Table 14 below.

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Table 14 - Balance sheet summary and forecast

	31.3.22 Actual £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
General Fund CFR	1,339	1,446	1,662	1,992	2,190	2,340	2,420
Less: PFI and lease liabilities	(91)	(87)	(82)	(77)	(73)	(68)	(63)
Net CFR (underlying need to borrow)	**1,248**	**1,360**	**1,580**	**1,915**	**2,118**	**2,273**	**2,357**
Less: External borrowing (long term)	(496)	(484)	(474)	(466)	(458)	(449)	(444)
Internal borrowing (based on projection of level of reserves, balances and working capital)	(524)	(599)	(599)	(599)	(599)	(618)	(637)
Projected additional external borrowing requirement	**228**	**277**	**507**	**850**	**1,061**	**1,205**	**1,276**

4.29 The Council has an increasing CFR over the period to 31 March 2028, due to the proposed Capital Programme and approved investment strategy projects. The maximisation of internal borrowing leads to a borrowing requirement above the Council's ability to utilise its internal resources to fund this capital expenditure. It will therefore be required to raise additional external borrowing over the forecast period.

4.30 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 14 shows that the Council expects to comply with this recommendation across the medium-term.

4.31 Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 14 above, but that cash and investment balances are kept to a minimum level of £50m at each year-end to maintain sufficient liquidity but minimise credit risk.

4.32 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus

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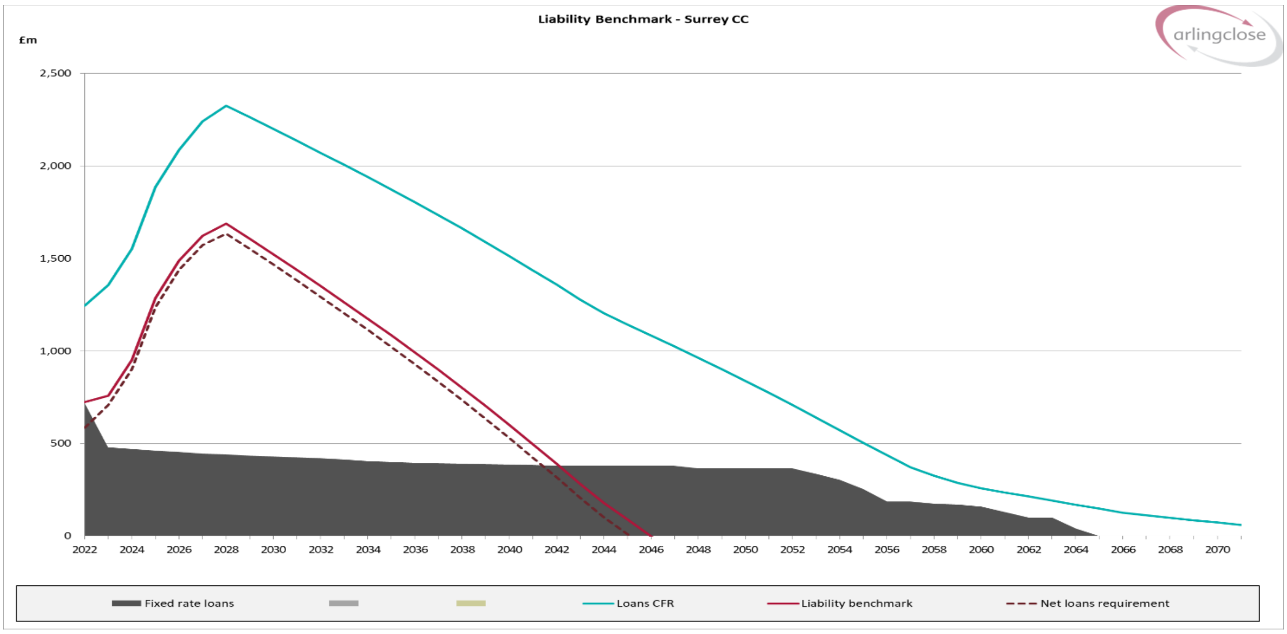
and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 15 – Liability Benchmark

Position at 31 March	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Projected	← --------------------		Estimated		-------------------- →
	£m	£m			£m		
Loans CFR	1,248	1,360	1,580	1,915	2,104	2,258	2,342
External borrowing	(725)	(484)	(474)	(466)	(458)	(449)	(444)
Internal (over) borrowing	523	876	1,106	1,449	1,647	1,808	1,898
Balance sheet resources	(662)	(649)	(649)	(649)	(649)	(669)	(690)
Net investments / (new borrowing)	138	(227)	(457)	(800)	(998)	(1,139)	(1,208)
Treasury investments	138	50	50	50	50	51	53
New borrowing	0	277	507	850	1,048	1,190	1,260
Net loans requirement	587	711	930	1,266	1,455	1,589	1,652
Liquidity allowance	50	50	50	50	50	51	53
Liability benchmark	**637**	**761**	**980**	**1,316**	**1,505**	**1,640**	**1,705**

Graph 1: Liability benchmark



4.33 The long-term liability benchmark assumes:

- Capital expenditure funded by borrowing as per the 2023-28 Capital Programme, with no further assumed expenditure factored in beyond the MTFS period;
- Projects included in the Capital Programme (Budget and Pipeline) and approved investment strategy spend are included;

- Minimum Revenue Provision (MRP) on new capital expenditure is based on the attached MRP policy;
- Reserves and Balances are based on proposed and approved use over the life of the Medium-term Financial Plan (MTFS) and increase by inflation thereafter; and
- The benchmark is based on our assumptions on capital expenditure and the external loans requirement may not ultimately reduce to zero as future capital expenditure is approved.

4.34 Overall, the liability benchmark shows that we are currently borrowing exactly what we need, because the amount of external debt (grey shaded are) matches the liability benchmark (red line). As we progress over the medium term, the gap between total external debt and the liability benchmark grows, meaning that we need to borrow more money to meet our financing requirement. We aim to avoid a scenario where our external debt exceeds our liability benchmark, as it indicates that we are borrowing more than we need – i.e. borrowing to invest, carrying with it an increased risk of investment returns. 8

4.35 The difference between the CFR (underlying need to borrow – represented by the blue line) and actual external borrowing is funded from Reserves and Balances (internal borrowing). The current strategy to internally borrow continues to support the Council's financial position in the short to medium-term.

4.36 As shown, the Council's current debt portfolio is long dated and there are no significant repayments until the 2050s. An alternate strategy would be to increase our long-term fixed rate borrowing now. The liability benchmark illustrates that if we were to do so, it would be for a reasonably modest amount over a period of up to 20 years (to avoid a significant amount of fixed-rate debt exceeding our liability benchmark).

Borrowing Strategy

4.37 **Objectives:** The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. To achieve this, the key aim is to maximise internal borrowing and use short-term borrowing to manage cashflow shortfalls, striking a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher. The authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

4.38 **Strategy**: The Council is facing unprecedented financial pressures, principally driven by rising need for services from residents and the increasing costs of providing such services. Given these pressures, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The Council continues to maximise the use of internal resources (internal borrowing) and borrowing short-term to fund the additional requirement based on cash flow forecasts.

4.39 By doing so, the Council is able to supress net borrowing costs (despite foregone investment income) and reduce market and credit risk in the investment portfolio. However, short-term borrowing does increase the Council's exposure to changes in interest rates as when short-term loans mature, they may need to be replaced at a higher rate of interest.

4.40 The level and mix of internal, short-term, and long-term borrowing will be reviewed on a regular basis, taking account of the overall cash position and market forecasts. Arlingclose will assist in this review with 'cost of carry' and breakeven analysis, which will support decisions on whether to take additional longer-term external borrowing at fixed rates in 2023/24.

4.41 Alternatively, the Council may arrange forward starting loans where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost without suffering a cost of carry in the intervening period. Although is unlikely to be beneficial when
8 prevailing interest rates are higher than forecast future rates.

4.42 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's Public Works Loan Board (PWLB);
- any institution approved for investments (see below);
- banks or building societies authorised to operate in the UK;
- UK Local Authorities;
- UK public and private sector pension funds (except the Surrey Pension Fund);
- capital market bond investors; and
- UK Municipal Bonds Agency plc and other special purpose companies created to enable Local Authority bond issues.

4.43 The Council has previously raised the majority of its long-term borrowing from the PWLB. For short-term borrowing, the Council has, and will continue, to use other sources of finance, such as loans from other Local Authorities, pension funds and other public bodies as these are often available at more favourable rates. These short-term loans leave the Council exposed to the risk of interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

4.44 Under the new Prudential Code, an authority must not borrow to invest primarily for financial return. It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose. Authorities with commercial land and property may invest in maximising its value, including repair, renewal and updating of the properties. This Strategy certifies that the Council's capital spending plans do not include the acquisition of assets primarily for yield.

4.45 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative (PFI)
- sale and leaseback

All such sources of finance are subject to a robust options appraisal.

4.46 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to Local Authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow through the Agency will therefore be the subject of a separate report. Our current strategy generally favours PWLB borrowing for long term debt due to ease of access to borrowing and certainty of low rates, however this is periodically reviewed with Arlingclose and when a decision for increased long-term borrowing is made all options will be scrutinised.

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4.47 **Debt rescheduling:** The PWLB allows Local Authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost efficiency or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Borrowing Costs

4.48 Gross borrowing costs include interest payable and the statutory charge on the general fund for MRP. The borrowing costs associated with the 2023/24 to 2027/28 Capital Programme increase from £42m in 2022/23 to £91m by 2027/28.

4.49 Paragraph 1.18 of Annex 1 shows the ratio of gross borrowing costs against the net revenue stream (the amount funded from council tax, business rates and general government grants). Gross borrowing costs as a proportion of net revenue stream increases over the MTFS period from 4.1% in 2022/23 to 8.4% in 2027/28.

4.50 Net borrowing costs are calculated after offsetting interest and investment income and over the same period, net borrowing costs grow from £24m in 2022/23 to £69m in 2027/28.

4.51 Paragraph 1.19 of Annex 1 shows net borrowing costs against the net revenue stream increasing from 2.3% in 2022/23 to 6.4% in 2027/28.

4.52 Offsetting the increase in borrowing costs; many of the capital schemes are crucial to delivering revenue efficiencies, cost containment or income generation. After accounting for interest, investment and rental income to be generated by pipeline projects, net borrowing costs are projected to be contained within the budget envelope for the MTFS period.

Treasury Investment Strategy

4.53 The Council holds invested funds representing income received in advance of expenditure plus reserves. For the first half of 2022/23, the Council held average balances of £135m, compared with £58m for the equivalent period in 2021/22. The average return for the first half of 2022/23 was 1.17%. Cash balances are expected to reduce during the remainder of 2022/23 and over the MTFS.

4.54 **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

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4.55 **Strategy:** Due to the continuation of the strategy to maximise internal borrowing and use short-term borrowing to manage cash flow shortfalls, investment levels are expected to reduce during 2023/24. The majority of the Council's surplus cash continues to be invested in money market funds and short-term unsecured bank deposits. Money Market Funds offer same-day liquidity, very low or no volatility and also ensure diversification to reduce the security risk of holding the majority of cash deposits with a limited number of UK banks.

4.56 While the Council's investment balances remain low (less than £150m), Money Market Funds and short-term bank deposits will be utilised, with a cash limit per counterparty/fund of £25m. If the economic situation changes, which results in a decision to undertake additional borrowing, resulting in higher cash balances, other investment counterparties may be considered and the counterparty limits set out below would apply.

4.57 **ESG policy**: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

4.58 **Business models**: Under International Financial Reporting Standards (IFRS 9), the accounting for certain investments depends on the Council's "business model" for managing them. The standard requires entities to account for expected credit losses in a timely manner; from the moment when financial instruments are first identified. These investments will continue to be accounted for at amortised cost.

4.59 **Approved counterparties**: The Council may invest its surplus funds with any of the counterparty types in Table 16 below, subject to the cash limits (per counterparty) and the time limits shown.

4.60 **Table 16 - Approved investment counterparties and limits**

Credit rating	Banks unsecured	Banks secured	Government*
UK Govt	n/a	n/a	£ Unlimited 50 years
AAA	£10m 5 years	£20m 20 years	n/a
AA+	£10m 5 years	£20m 10 years	n/a
AA	£10m 4 years	£20m 5 years	n/a
AA-	£10m 3 years	£20m 4 years	n/a
A+	£10m 2 years	£20m 3 years	n/a
A	£10m 13 months	£20m 2 years	n/a
A-	£10m 6 months	£20m 13 months	n/a
None	£1m 6 months	n/a	n/a
Pooled Funds	£25m per fund		

* UK Local Authorities

This table must be read in conjunction with the notes below.

4.61 **Minimum credit rating:** Treasury investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

4.62 **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

4.63 **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the

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collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

4.64 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and Local Authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

8 4.65 **Pooled funds:** Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

4.66 **Bond, equity and property funds** offer enhanced returns over the longer term but are more volatile in the short-term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

4.67 **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB - and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1m where practical. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The Council's bank, HSBC, has a credit rating of AA-.

4.68 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteri a then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

4.69 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.70 **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis. No investments will be made with an organisation if there are substantive doubts about its credit quality. 8

4.71 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills or with other Local Authorities.

4.72 **Investment limits**: The Council's revenue reserves and balances available to cover investment losses are forecast to be approximately £102m on 31st March 2023, consisting of the Budget Equalisation Reserve, the Revolving Investment and Infrastructure Fund and the Interest Rate Reserve. There are currently no plans to draw down on these reserves in 2023/24. In practice, a default is highly unlikely. In order that no more than 30% of available reserves will be put at risk in the case of a single default, the maximum that will be invested with any one organisation (other than the UK Government) will be £20m and the limit for any one pooled fund will be £25m.

Table 17 – Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£20m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management (including Money Market Funds)	£25m per manager
Money Market Funds (Total)	Unlimited
Unsecured investments with Building Societies	£10m in total

4.73 **Liquidity management:** The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Treasury Management Prudential Indicators

4.74 The Council measures and manages its exposures to treasury management risks using the following indicators.

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4.75 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	60%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

Time periods start on the first day of each financial year. The maturity date of borrowing is the date of the loans are due to be repaid.

4.76 **Long-term treasury management investments:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£40m	£20m	£10m	£40m

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Other Items

4.77 There are a number of additional items that the Council is obliged by CIPFA and DLUHC to include in its treasury management strategy.

4.78 **Policy on the use of Financial Derivatives:** Local Authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over Local Authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

4.79 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy. 8

4.80 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

4.81 **Markets in Financial Instruments Directive**: The Council has opted in to "professional client status" with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

4.82 **Treasury Management Advice:** Surrey County Council has appointed Arlingclose Limited as Treasury management advisers and receives specific advice on investments, debt and capital finance matters.

4.83 **Treasury Management Training**: Member and Officer training needs are assessed regularly as part of the staff appraisal process. Additional training will be provided as and when there is a change in roles and responsibilities. The Council also benefits from the Orbis partnership Centre of Expertise, which provides a robust Treasury team providing day to day treasury management operational activities to Surrey County Council, Brighton & Hove City Council and East Sussex County Council.

Knowledge and Skills

4.84 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council pays for officers to study towards relevant professional qualifications including CIPFA.

4.85 All officers involved in the treasury and investment management function have access to relevant technical guidance and training to enable them to acquire and maintain the appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them. The Council currently employs treasury management advisors through Arlingclose (who commenced a new four-year contract from 1st January 2022) and seeks external legal and property related advice and due diligence as required. The Council's investment Strategy is supported by guidance from our advisors, Montagu Evans. The Council's Treasury Management and borrowing strategies are supported by guidance from our advisors, Arlingclose. Both are on hand to guide key decisions and provide proactive advice in response to emerging market trends.

4.86 Those charged with governance (Members of the Audit and Governance Committee and the Resources and Performance Select Committee) recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The Section 151 Officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

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4.87 The Orbis partnership enables the creation and development of specialist resources. Centres of Expertise have been established for key areas of finance, and central teams of pooled expertise have been created to provide robust services which are resilient to meet the changing service needs of partners.

4.88 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Financial Implications

4.89 The budget for cash investment income in 2023/24 is £1.5m, based on an average investment portfolio of £50m at an interest rate of 3%. The budget for debt interest paid in 2023/24 is £24.8m, which is based on a mix of short-term borrowing and the existing long-term fixed rate debt portfolio.

4.90 The CIPFA Code does not prescribe any particular treasury management strategy for Local Authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

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Prudential Indicators 2023/24

1.1 The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Local Authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

1.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice.

Estimates of capital expenditure

1.3 The Council's planned capital expenditure and financing is summarised in table 1. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1 - Actual and estimated capital expenditure	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Projected	**← -------------------- Estimated**			**------------------------ →**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital programme expenditure (incl pipeline)	249	416	551	439	323	221
Approved investment strategy spend	1	26	2	3	0	0
Financed By:						
- Government grants and third party contributions	108	145	153	174	110	75
- Capital Receipts	0	41	20	13	2	0
- Revenue and reserves	6	7	6	6	6	6
Net financing need for the year*	**135**	**249**	**373**	**248**	**206**	**141**

*Capital expenditure to be met by borrowing

The Council's borrowing need (the capital financing requirement)

1.4 Table 2 sets out the Council's estimated capital financing requirement (CFR). The CFR represents capital expenditure funded by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR therefore measures a Council's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from locally determined resources will increase the CFR. The CFR will reduce by the Minimum Revenue Provision (MRP).

1.5 The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage.

1.6 The CFR includes any other long-term liabilities, e.g. PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes and they therefore do not form part of the Council's underlying need to borrow.

1.7 The CFR is increasing over the MTFS period which results in an increase in external debt (after we have maximised internal borrowing) and therefore an increase in the revenue cost of borrowing.

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1.8 This is reflected in an increased Operational Boundary and Authorised Limit as shown in Tables 4 and 5. Table 6 - Ratio of financing costs to net revenue stream, shows that the revenue cost of debt is an increasing but remains a relatively low proportion of our overall budget. The impact of funding the Capital Programme is built into the revenue budget and MTFS.

Table 2: Capital Financing Requirement (CFR)

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Projected	← ----------		Estimated	----------	→
	£m	£m	£m	£m	£m	£m
Opening CFR	1,339	1,446	1,662	1,992	2,190	2,340
Movements:						
- Minimum revenue provision	(24)	(29)	(38)	(45)	(51)	(56)
- Application of capital receipts to repay opening CFR	0	0	0	0	0	0
- PFI & finance leases	(4)	(5)	(5)	(5)	(5)	(5)
- Net financing need	135	249	373	248	206	141
	107	215	331	198	150	79
Closing CFR	**1,446**	**1,662**	**1,992**	**2,190**	**2,340**	**2,420**

Gross borrowing and the capital financing requirement

1.9 In order to ensure that over the medium-term borrowing will only be for a capital purpose, the Council should ensure that its debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next 2 financial years. This allows some flexibility for early borrowing in advance of need, but ensures that borrowing is not undertaken for revenue purposes. This is a key indicator of prudence.

1.10 Total debt is expected to remain below the CFR during the forecast period.

The Council's operational boundary for external debt

1.11 Table 4 sets out the Council's operational boundary. The operational boundary is an indicator against which to monitor its external debt position. It is based on the Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the CFR and cash flow requirements and is a key management to for in-year monitoring.

1.12 Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. Other long-term liabilities comprise finance lease, PFIs and other liabilities that are not borrowing but form part of the Council's debt position.

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1.13 The operational boundary is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached. The operational boundary increases over the MTFS period to reflect an increasing underlying need to borrow linked to the Capital Programme. We monitor against the indicator throughout the year.

Table 4: Operational Boundary							
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Agreed	**Agreed**	**← ---------------------------**		**Estimated**	**--------------------- →**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	833	908	1,150	1,510	1,688	1,819	1,876
Other long term liabilities	91	87	82	77	73	68	63
Total	**924**	**994**	**1,232**	**1,588**	**1,761**	**1,887**	**1,938**
Estimated external debt	724	761	981	1,316	1,519	1,655	1,720

The Council's authorised limit for external debt

1.14 Table 5 sets out the Council's authorised limit for external debt. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It is the maximum amount of debt that the Council can legally owe.

1.15 The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised since the introduction of the Prudential Code.

1.16 The Authorised limit provides headroom over and above the operational boundary for unusual cash movements and potential additional borrowing to meet the ambitions of the Council in respect of its investment strategy.

1.17 As with the operational boundary, the limit separately identifies borrowing from other long-term liabilities such as finance leases and PFIs. The authorised limit increases over the MTFS period to reflect an increasing underlying need to borrow linked to the Capital Programme.

Table 5: Authorised Limit	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Agreed	Agreed	← --------------------	Estimated	------------------------		→
	£m	£m	£m	£m	£m	£m	£m
Borrowing	941	1,054	1,320	1,705	1,858	1,984	2,031
Other long term liabilities	91	87	82	77	73	68	63
Total	**1,032**	**1,141**	**1,402**	**1,782**	**1,930**	**2,052**	**2,094**
Estimated external debt	724	761	981	1,316	1,519	1,655	1,720

Estimated ratio of gross financing costs to net revenue stream

1.18 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.

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	2021/22 Actual	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Ratio of Gross Financing Costs to Net Revenue Stream	3.7%	4.1%	4.9%	6.0%	6.9%	7.7%	8.4%

Estimated ratio of net financing costs to net revenue stream

1.19 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet net financing costs (net of investment income).

	2021/22 Actual	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Ratio of Net Financing Costs to Net Revenue Stream	1.6%	2.3%	2.9%	4.0%	4.8%	5.6%	6.4%

1.20 The revenue implications of potential, yet to be identified, investment opportunities that meet the Council's long-term capital strategy criteria, will be funded from the investment returns of such investments. If there is a delay in the realisation of sufficient returns, then costs will be funded from the Council's Revolving Infrastructure & Investment Fund reserve.

Net income from commercial and service investments to net revenue stream

1.21 This is an indicator of affordability and highlights the net financial impact on the authority of its entire non-treasury investment income.

	2021/22 Actual	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Total net income from service and commercial investments	21.3	18.5	20.1	21.1	21.3	21.3	21.3
Proportion of net revenue stream	2.1%	1.8%	1.8%	1.9%	2.0%	2.0%	2.0%

TMS Annex 2
Arlingclose Economic & Interest Rate Forecast – December 2022

2.1 **Underlying assumptions:**

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast:

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

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	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

8

TMS Annex 3

Investment & Debt Portfolio Position as at 30 November 2022

	Actual Portfolio £m	**Interest Rate %**
External borrowing:		
Public Works Loan Board	458	3.60
Market	10	5.00
Local Authorities (Incl. Surrey Police)	111	1.89
Other	15	0.00
Total external borrowing	**594**	
Other long-term liabilities:		
Private Finance Initiative	91	
Total other long-term liabilities	**91**	
Total gross external debt	**685**	
Treasury investments:		
Banks & building societies (unsecured)	-	
Government (incl. Local Authorities)	-	
Money Market Funds	100	2.93
Total treasury investments	100	
Net debt	**585**	

TMS Annex 4

Glossary of Terms

CFR – Capital Financing Requirement

CIPFA – Chartered Institute of Public Finance Accountancy

CPI – Consumer Price Index

DLUHC – Department for Levelling Up, Housing and Communities

DMO – Debt Management Office

ECB – European Central Bank 8

GDP – Gross Domestic Product

LB – Liability Benchmark

MMF – Money Market Fund

MPC – Monetary Policy Committee

MRP – Minimum Revenue Provision

PWLB – Public Works Loan Board

TMSS – Treasury Management Strategy Statement

8

Annual Minimum Revenue Provision (MRP) Policy Statement 2023/24

1. The Council is required by statute to make a prudent provision for the repayment of its debt. It is also required to 'have regard' to guidance on how to calculate this provision, issued by the Department for Levelling Up, Housing and Communities (DLUHC). The Council has assessed the Minimum Revenue Provision and are satisfied that the guidelines for their annual amount of MRP, set out within this policy statement, will result in their making a prudent provision.

2. Where capital expenditure was incurred before 1 April 2008, the guidance suggests writing down the remaining Capital Financing Requirement by providing MRP of 4% per annum. The Council agreed in 2016/17 to write this amount off over the next 50 years, resulting in the whole balance being provided for over a finite period and far sooner than under the 4% reducing balance method.

3. As suggested in the guidance, for capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP by charging expenditure over the expected useful life of the relevant assets, on an annuity basis. MRP will be first charged in the year following the date that an asset becomes operational.

4. For the following types of capital expenditure, the Council has determined that an alternative methodology for determining the annual MRP charge should be adopted:

   - For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability, or over the life of the asset.

   - Where loans are made to other bodies for their capital expenditure, e.g. subsidiaries of Surrey County Council, MRP is charged as with any other asset. This is a continuation of the policy adopted in 2022/23 to make MRP more prudent in response to fluctuating values of assets held within a subsidiary, following external audit recommendations and a Government consultation on potential changes to capital financing regulations.

   - MRP for investment property purchases is based on an estimated useful life of 50 years, on an annuity basis, in order to appropriately match MRP to the period of time that the assets are expected to generate a benefit to the Council. This is in recognition that these assets are held for income generation purposes and that the Council holds a saleable asset, the capital receipt from which will be used to repay any outstanding debt when sold.

   - The Council will determine MRP on equity investments based on a 20 year life. However, for equity investments in asset backed companies, a 50 year life will be assumed to match the Council's policy for investment assets.

5. The Council reserves the right to determine alternative MRP approaches in particular cases, in the interests of making prudent provision, where this is material, taking account of local circumstances, including specific project timetables and revenue-earning profiles.

6. Each year a new MRP statement will be presented.

SURREY
COUNTY COUNCIL

Audit & Governance Committee
18 January 2023

Centre for Governance and Scrutiny review of behaviour and cultural governance

Purpose of the report:

To present to members the findings of the Centre for Governance and Scrutiny (CfGS) following a review of Council governance using their Governance Risk and Resilience Framework which considers good governance through the behavioural and cultural characteristics of an organisation.

Recommendations

1.To consider the feedback and findings of the CfGS attached at appendix 1.

2. To agree the draft action plan attached at appendix 2 and request an update report on the implementation of the plan at the July meeting of the Committee.

Introduction

3. The CfGS's recently developed a new Governance Risk & Resilience Framework which looks at Council governance in a new way. In addition to considering systems and process, the framework looks at the culture and behaviour of an organisation against a series of criteria and positive and negative behaviours. Surrey County Council was an early adopter of this approach to establish, with the help of CfGS, where development and improvement could assist the Council's future understanding and management of risk relating to governance.

4. Some Council's suffer serious challenges in their governance. These are not issues which currently apply in Surrey. The CfGS concluded that Surrey's systems, processes, and behaviours around governance are robust. But it is still necessary for the Council to prepare to strengthen and refine systems which are currently resilient. This continuous improvement in governance is important.

5. The framework is a set of material designed to support councils to understand and act on evidence of risks to good governance. It is designed to complement and

supplement the CIPFA “Good governance in local government” framework which sits behind the Council’s Code of Corporate Governance.

Governance Risk & Resilience Framework

6. The core of the CfGS’s approach is designed to help officers and councillors to reflect on and better articulate their perceptions of where risk lies – and to talk to others about those risks. It sets out a set of positive and negative behaviours that people may hold and helps to review the extent to which those are present or absent in a council setting. These characteristics relate to seven key aspects that connect to the way that governance works in local authorities.

7. The seven characteristics invite consideration of the following points:

10 • **Extent of recognition of individual and collective responsibility for good governance**. This is about ownership of governance and its associated systems;

• **Awareness of political dynamics**. This is about the understanding of the unique role that politics plays in local governance and local government. Positive behaviour here recognises the need for the tension and “grit” in the system that local politics brings, and its positive impact on making decision-making more robust;

• **How the council looks to the future to set its decision-making priorities**. This is about future planning, and insight into what the future might hold for the area, or for the council as an institution and includes the way the council thinks about risk;

• **Officer and councillor roles**. Particularly at the top level, this is about clear mutual roles in support of robust and effective decision-making and oversight. It also links to communication between key individuals, and circumstances where ownership means that everyone has a clear sense of where accountability and responsibility lie;

• **How the council’s real situation compares to its sense of itself**. This is about internal candour and reflection; the need to face up to unpleasant realities and to listen to dissenting voices. The idea of a council turning its back on things “not invented here” may be evidence of poor behaviours, but equally a focus on new initiatives and “innovation” as a way to distract attention, and to procrastinate, may also be present;

• **Quality of local (external) relationships**. This is about the council’s ability to integrate an understanding of partnership working and partnership needs in its governance arrangements, and about a similar integration of an understanding of the local community and its needs. It is about the extent to which power and information is shared and different perspectives brought into the decision-making, and oversight process;

• **The state of member oversight through scrutiny and audit**. This is about scrutiny by councillors, and supervision and accountability overall.

8, The assessment involved CfGS supporting officers and members to reflect on their own perceptions of governance at the authority and the behaviours that surround it, through a series of interviews. CfGS bolstered these perceptions with reference to a range of council documentation, including the constitution, strategic information and management information.

9. It is important to note that this exercise has not been just about identifying where existing weaknesses might exist, but where there is the risk or potential of weaknesses emerging in the future.

10. The CfGS letter, attached at appendix 2, provides feedback on these perceptions – further to the rationale behind the framework, and largely it reflects the Council's own collective understanding of its own strengths and weaknesses, and emerging risks. 10

Next steps

Attached at appendix 2 is a draft action plan to address the areas identified by the CfGS as possible risks to good governance in the future for members consideration and comment.

If agreed it is recommended an update report on activity be provided to the Committee at its meeting of 23rd July 2023.

Implications

Financial

4 There are no direct financial implications arising from this report. Continued improvements in governance will support the delivery of the council's objectives.

Equalities

5 There are no direct equalities implications of this report.

Risk management

6 Strong governance arrangements support the council in the effective delivery of services and achievement of objectives.

What happens next

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Sources/background papers: CfGS Governance Risk and Resilience Framework. Code of Corporate Governance. CIPFA/SOLACE framework *Delivering Good Governance in Local Government.*

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[Annex 1]

Paul Evans
Director of Law and Governance
Surrey County Council

Dear Paul,

REVIEW OF GOVERNANCE USING THE CFGS GOVERNANCE RISK AND RESILIENCE FRAMEWORK: PHASE 1 FINDINGS

1. Background

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Following the publication of CfGS's Governance Risk & Resilience Framework in 2021 we had discussions on the potential benefits to assess Surrey County Council against this framework, to establish where development and improvement could assist the Council's future understanding and management of risk relating to governance.

The framework is a set of material designed to support councils to understand and act on evidence of risks to good governance. It is designed to complement and supplement the CIPFA "Good governance in local government" framework.

The core of this material is designed to help officers and councillors to reflect on and better articulate their perceptions of where risk lies – and to talk to others about those risks. It sets out a set of positive and negative behaviours that people may hold and helps to review the extent to which those are present or absent in a council setting. These characteristics relate to seven key aspects that connect to the way that governance works in local authorities:

Surrey County Council agreed to be an early adopter of this framework and to develop it into a bespoke 'Surrey Approach'. This involved CfGS supporting officers and members to reflect on their own perceptions of governance at the authority and the behaviours that surround it, through a series of interviews. CfGS bolstered these perceptions with reference to a range of council documentation, including the constitution, strategic information and management information.

It is important to note that this exercise has not been just about identifying where existing weaknesses might exist, but where there is the risk or potential of weaknesses emerging in the future.

This letter provides feedback on these perceptions – further to the rationale behind the framework, largely it reflects the Council's own collective understanding of its own strengths and weaknesses, and emerging risks.

On the basis of this information we propose to move to Phase 2 of this work, which we describe in more detail on page 15.

2. Summary of findings

Good governance is the responsibility of both Members and Officers working together.

Behavioural and cultural issues relating to governance can either support, or hinder, core legal and constitutional mechanisms. There are current examples of authorities which have been faced with extreme risks and pressures around both governance and finances which have revealed shortcomings in governance that owe their cause to poor behaviours and culture.

These are not issues which currently apply in Surrey. Surrey's systems, processes and behaviours around governance are robust. But it is still necessary to prepare to strengthen and refine systems which are currently resilient. This continuous improvement in governance is important.

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In any large organisation, there will be a range of different perspective on risks to good governance. Some of these will be shared by a wide range of elected members and officers – some not. Difficulties emerge when differences in perception of risk (and on the pressures affecting governance at the authority more generally) start to impact on how people work together day to day. There does not need to a shared corporate understanding of every issue – a "single version of the truth" – but different perceptions need to be understood and flagged, in order for risks to be tackled appropriately.

We carried out our work with the Council whilst Covid restrictions were still in place. This period has clearly illustrated the crucial role of robust governance. In particular it has highlighted the capacity needed to reorganise, repurpose and respond at a pace never previously experienced – our assessment took place alongside this experience.

The council is currently undertaking a process of improvement and transformation. It recognises the presence of historic weaknesses, and is actively trying to address these, and other matters. Through a range of conversations with councillors and officers, and through review of documentary evidence, we have mapped perceptions of strength and weakness against the "seven characteristics" of good governance set out in our "Governance risk and resilience framework".

These seven characteristics, and the behaviours that Surrey exhibits against each, is as follows.

- **Extent of recognition of individual and collective responsibility for good governance.** This is about ownership of governance and its associated systems. Recent change here has been significant, and positive. As should be expected, it is taking time to be embedded. Relationships have improved, but councillors and officers both feel there is a risk that a lag could develop in the extent to which robust and consistent systems are put in place to lend predictability to decision-making;
- **Awareness of political dynamics.** This is about the understanding of the unique role that politics plays in local governance and local government. Positive behaviour here recognises the need for the tension and "grit" in the system that local politics brings. There have been significant recent improvements here. Both members and officers feel that they may need a clearer understanding of other people's motivations and objectives. This challenge is not unusual. Given Surrey's ambition for change and improvement the need for additional resilience is perhaps more urgent than it would be elsewhere;
- **How the council looks to the future to set its decision-making priorities.** This is about future planning, and insight into what the future might hold for the area, or for the council as an institution and includes the way the council thinks about risk. The council has undertaken a fundamental shift in how it thinks about, and acts on, these issues. The

organisation is now much readier to prioritise its work. However, there is a sense within the Council that there needs to be more clarity on how it proposes to manage the delivery of life and limb services which are not "priorities" in the sense of council improvement. Expectations around risk may need to be fleshed out more – new systems for managing risk are in place but behaviours (particularly amongst members) must not lag behind;

- **Officer and councillor roles.** Particularly at the top level, this is about clear mutual roles in support of robust and effective decision-making and oversight. Both officers and members recognise the tendency to focus on operational matters – there is also an awareness from some that expectations in some quarters around the speed of decision-making could be more realistic;
- **How the council's real situation compares to its sense of itself.** This is about internal candour and reflection; the need to face up to unpleasant realities and to listen to dissenting voices. Again, here there have been significant recent improvements. Here, CfGS flags a general risk that the council's confidence about its plans for change will tip into complacency. However, particularly amongst officers, there is an understanding of this. There is also an awareness (again, principally held by officers) that the way that the council works in partnership with others (including local people) needs to be strengthened; 10
- **Quality of local (external) relationships.** This is about the council's ability to integrate an understanding of partnership working and partnership needs in its governance arrangements, and about a similar integration of an understanding of the local community and its needs. External relationships are strong but officers and members recognise that the nature of the council's ambitions means they will need to be strengthened further – in particular, in the way that the council thinks about its strategic communications functions, internally and externally.;
- **The state of member oversight through scrutiny and audit.** This is about scrutiny by councillors, and supervision and accountability overall. Scrutiny enjoys support from the council's executive. Councillors want to strengthen scrutiny and the way that they engage with it, especially the way it prioritises its work.

3. Where risks might be anticipated

3.1 Extent of recognition of individual and collective responsibility for good governance.

Behavioural issue in the framework	Perceptions by officers and members of the state of governance in Surrey, supported by documentary evidence
Relationships between principal statutory officers and the political leadership of the authority	Relationships are strong. Councillors and officers understand their mutual roles, and this is bolstered by a spirit of respect between individuals in key positions.

Effective whistleblowing systems which employees know how to use if needed	The expected formal processes in place for whistleblowing are in place. A strong recognition exists that given the steps to address wider governance shortcomings in the recent past, further work will need to be undertaken (at all levels in the organisation) to ensure that wider organisational cultures "catch up" with these changes at the top of the organisation. There is recognition that staff will need reassurance that raising difficult or problematic issues will not have a negative impact on them and their careers.
Strong audit systems	Governance of risk is taken seriously and this has strengthened over recent years. The council has experienced performance challenges in the past, and these experiences have led to a significant strengthening of internal systems and processes. The Council is now determined to do things well and tackle issues head-on. Member-led audit systems have recently been reinforced - this has been supported by the establishment of a Risk Governance Group. These improvements were made to address weaknesses identified in this area in the recent past, so work taken to embed them needs to be monitored closely; the council recognises this need.
Lines of accountability and ownership which help the council to deal with cross-cutting matters	There is a potential for inconsistency around how policies and strategies are taken to Cabinet for approval, direction or decision. This was something raised by both officers and councillors. Further work will ensure there is sufficient clarity around who is recognised as having a stake in certain decisions, who should be responsible for taking the final, legal decision on a given matter, and on what evidence. There has been discussion about improving the scheme of delegation, supported by further discussion between members and officers on their mutual roles, including who "owns" decisions at various parts of the cycle. Initial improvements led, perhaps not intentionally, to more centralisation of authority and decision-making. In some ways this has been necessary to reset the organisation's overall approach – but the council recognises that a new approach is now needed. Considerable effort is being made to ensure that decision-making is more consistently devolved and appropriate authority and empowerment embedded within the leadership group and beyond. These

	issues, and behaviours around the tendency to escalate matters to senior levels for decision, will need to be kept under review.
Corporate approach to programme and project management	There is a large programme of innovation and change and a significant degree of pace within the council. This of course carries risk, and council planning accounts for this. The extent of appropriate decision-making authority will need to be balanced and assured to ensure that the demanding pace of innovation can be maintained with clarity over where and how decisions are taken. Officers and members felt there could be refinements in the ownership of finance, performance and risk. Audit Committee, the internal audit function, the Risk Governance Group, scrutiny and Group Leaders all have some role here, but it would help if these roles were better articulated.
Debriefing from major projects and major decisions	Officers, and members, reflect on the impact and implementation of major decisions. Practice in this area has improved recently.
An understanding of where shortcomings within the council may cause problems	There is a recognition that recent improvements need time to take effect and become embedded. There is also frankness amongst senior officers – for example, in CLT – about areas where shortcomings lie and what improvements ought to look like. Capacity is recognised as a constraining factor – as is the risk of fatigue, as complex projects (such as children's services improvement) continue to move forward. There is a sense that in some areas the council has not quite got the right "balance" of governance checks and balances. There is also a high level of confidence and self-belief about the council's capacity to continue to improve. The council recognises the risk that this self-belief does not transform into complacency.

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3.2 Awareness of political dynamics.

Understanding of the role and presence of politics	While there is a high level of mutual respect between members and officers, a deeper understanding of mutual objectives and motivations – particularly the nature of members' political motivations would be beneficial.
Officers' roles supporting political decision-making	There have been significant improvements in the way that officers draw together evidence and information to support member decision-making. On the political side, councillors could develop further their understanding of the challenges and constraints under which officers operate to ensure they have expectations, or demands, which are realistic.

3.3 How the council looks to the future to set its decision-making priorities.

Effectiveness of the corporate plan	Like most councils, Surrey is grappling with the need to make challenging and difficult decisions. The council has a target to save £150 million between now and 26/27. The council's refreshed Organisation Strategy sets out a strong narrative on prioritisation, and transformation. There is a sense that further steps may need to be taken for this prioritisation to follow through to how the council manages its business day to day – although this is a natural part of embedding a recently-agreed strategy. The Council knows that prioritisation means that some services exist which are not "priorities" for the purpose of this exercise, but which are nevertheless important. There is an awareness that the management of support of these services will need to be dealt with appropriately.
Risk awareness, and risk management	As noted above, structures and systems to support risk management have been significantly strengthened. Changes in behaviours and attitudes at a senior level can be clearly evidenced. It is not yet clear whether the culture and mindset of officers and members has shifted as a result of these changes, and that the right attitudes to risk permeate the whole organisation. There is still an assumption by members that they should be quite heavily involved in understanding and acting on operational risk – but we think that this is a by-product of the difficult place the council was in, and reflects members' awareness of the challenging financial situation.

Senior people having the time and space to think about and act on the future	The refocusing of the organisation has involved significant, and meaningful, reflection by both politicians and officers about the organisation's focus and its future challenges – the Organisation Strategy reflects this. The scale of transformation activity being taken forward is significant. There is a perception that a risk could arise that this – necessary – work will make it more difficult for the council to respond to less visible, developing challenges, although this risk has not as yet emerged.
Quality of internal and external communications	The council has clearly communicated its new focus and priorities internally and externally. There is a confidence about the council's prospects for ongoing improvement. An important part of the new approach is for the council to forge a different kind of relationship with local people – members and officers feel that this should be seen as forming a foundation for a future "Surrey Model".
Thinking and action on potential long-term pressures	The council corporately has confidence that it has a good sense of the trends that are likely to have an impact on its work for the remainder of the decade, but those in senior positions are aware that there is not always a clear thread between this understanding and the way that decisions are made, and prioritised, on the ground.
Capacity in the organisation to consider strategic matters	The organisation is pursuing transformation while also tackling significant budget challenges. The risk that this leaves little headroom for ongoing thinking on priorities, and how they need to shift over time, is understood but the balancing act that this implies is likely to prove challenging. The 2021-26 plan feels to members and officers to be robust but there is a risk that changes in the coming years will not be used as a spur to refine that strategy. There may also need to be more thought put into member and officer succession planning – changes in personnel having a critical impact on the organisation's ability to deliver.

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3.4 Officer and councillor roles.

Importance of ethical behaviours	There has been a recent, renewed focus on the importance of consistent, systematic behaviours, and on frankness and candour in how members and officers engage with each other.

Councillor and officer conduct	Cross-party relationships are constructive – there is a view from some that there is the potential for more robust political dialogue and debate to surface and discuss the challenges the authority faces, although others are more cautious. Such challenge could bring more rigour to decision-making – this could be something managed through rethinking the role of the scrutiny function. Beyond this, most acknowledged that the culture and expectations around conduct are good at the top of the organisation. As noted elsewhere there is a need to ensure that similar expectations are shared throughout the whole organisation. There does continue to be a wariness on the part of some officers around councillor engagement.
Formal, and informal, methods of decision-making	As noted above, there is some uncertainty about the route that various strategies and decisions take towards a decision being made. Beyond this, there appear to be effective checks and balance (informal and formal) to strengthen the decision-making process, and officers and members are confident in those systems. For example, the "second reader" process whereby a different cabinet member provides another perspective on forthcoming reports feels effective. There are some worries about the extent to which decisions are made which are always anchored in a clear understanding of local community needs – there may be a need to re-address community involvement and engagement. We do note that this forms one of the main priorities in the Organisation Plan.
Appropriate officer and member ownership of major decisions	Some members' personal and professional backgrounds mean that they expect to make decisions quickly. While there is a general appreciation for the principles of good governance, there is sometimes a sense of impatience around the need to ensure that decision-making is robust. There is a recognition that clarity on these issues – on member leadership, particularly – will be critical in ensuring that the authority is able to tackle its financial challenges. There is an understanding of these issues and the steps necessary to resolve them at the top of the organisation, but

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	they may need to be articulated more systematically for the wider officer, and member, corps.
Clear demarcation of member/officer roles	We have seen examples of member/officer relationships which are sophisticated, and where there is mutual concern about ensuring that relationships are clear. Overall, Cabinet has a strong, strategic focus. It is never possible to have a clean-cut demarcation between the respective roles of members and officers; however, we have seen evidence of a tendency on the part of members to want to focus on operational detail. This is not unusual. More work is likely to be needed to ensure that officers and members can speak candidly to each other about their mutual expectations around roles in decision-making. The opportunity is available for members to be well-briefed on matters of importance to the authority – although we note that these briefings could be better attended.

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3.5 How the council's real situation compares to its sense of itself.

The council's sense of the experiences of local people	The council has a good understanding of local people's needs and has sought in recent months/years to ensure that its priorities are better aligned to those needs. The need is recognised that a deeper understanding of local people's experiences continue to be developed. There is a collective member and officer understanding that the council could do more.
The presence of robust performance management arrangements	There has been a step change in the way that the council tackles performance management – more robust systems are now in place (through the business planning and performance management framework), which build clearer links with the council's long-term plans. Performance management is recognised as important but its connection to wider improvement (in a strategic sense) is not universally recognised. There is a view from some that there could be clearer and more consistent links with the council's plans to enhance both audit and the treatment of risks.

	Performance information will need to be used more effectively by members, particularly through the operation of the scrutiny function.
Awareness of “nearest neighbours” / focus on the council’s sense of “distinctiveness”	Surrey continues to focus on its own distinctiveness; this focus is necessary for an organisation to be able to understand its users’ needs. In the past we know that this may have been used as an excuse not to learn from the experiences of other councils, but there is now a strong and growing understanding that the council has to look beyond its boundaries and learn from others.
Engagement with the wider sector	The council actively engages with its peers, and with the wider local government community.
Risk appetite and tolerance, and presence of risk mitigation	Councillors play an active role in setting the authorities appetite and tolerance for risk. The Council’s 2021 Risk Management Strategy sets out a systematic approach for the understanding and treatment of risks - risk registers are generally of good quality, and ownership is clear on paper. It remains to be seen exactly how these new arrangements have bedded down; there is member and officer positivity, but this will need to be tested in the 2022 Annual Governance Statement.
Understanding of possibility of failure	From recent experience, the council has an understanding of how failure can manifest itself, and how it can be managed. There is a degree of frankness and candour in how risks (both relating to service delivery and relating to governance) are discussed and dealt with. The council has real strength in understanding where pressures arise and where the possibility of failure exists – council and officers recognise this. Members discuss these issues in Audit Committee, in scrutiny and elsewhere. Internal officer-led systems (such as audit) also provide resilience and confidence here. Internal audit is planning for the current uncertainties in the aftermath of the pandemic, new pressures facing local government and the challenges of the council’s plans.

Officers working across organisational boundaries to solve problems	The council is doing work to make sure that the right decisions are being made at the right level; there is a recognition that this is as much about behaviour change as it is about the development of new protocols and work processes.
Investing in corporate capacity to change and transform	There is an understandable degree of fatigue around some of the large, multifaceted change being delivered in (for example) children's services and SEND improvement. The council is aware of this and the attendant risks; the council will need to assure itself that performance management arrangements exist which will see these kinds of risks escalated, with appropriate action taken to treat.

3.6 Quality of local (external) relationships.

Communications as a strategic function	It is not clear the extent to which communications are treated as being central to the change and transformation activity currently being undertaken. The perception that communications are a strategic function of the authority may not be widely understood, despite the quality of these functions having improved significantly.
Extent to which information on which decisions are based is published and subject to challenge	Systems around decision-making (the preparation and availability of background papers, the preparation of business cases and options appraisals, and so on) have improved. A culture is emerging whereby challenge is seen as positive and welcome. However, we have been told of recent examples of decisions which have not been accompanied by consistently high-quality evidence, and where there has been a lack of rigorous oversight. The council recognises continued risks in this area and also recognises the need to tackle the behavioural issues which lead to these shortcomings. Cultural change does not happen overnight – it is to be expected that these changes will take time to percolate through the organisation, but ongoing risks provide another reason to be alert to the risk of complacency.

Quality of council / partnership working, particularly around priorities and risks	The Council also seeks to share and to learn from others. This is illustrated well by the collaboration with East Sussex CC and Brighton and Hove City Council to establish and develop the Orbis Internal Audit Partnership. This is expected to deliver high quality and cost-effective assurance services to each partner, drawing upon the wide range of skills and experience from its constituent teams. This have provided new scale to audit resources collectively and provide for a specialist IT Audit and Counter Fraud services. This kind of learning and partnership working in audit and governance of risk is commendable and reflects the Council's clear intent to develop and strengthen its systems, capacity and expertise.

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3.7 The state of member oversight through scrutiny and audit.

Effectiveness of scrutiny, and audit	Historically, scrutiny has been seen as being in need of improvement at Surrey; more recently there have been positive changes. There is good chairing, focused questioning, and consistent officer support. In common with many councils, there is not the evidence that demonstrates clearly that scrutiny does make a difference, and the perception therefore exists that recent improvements to the function may not have been sufficient – and that financial scrutiny in particular needs improvement. There are some concerns (from both members and officers) about the level of participation of Members generally and their ability to digest and analyse the volume and technicalities of the information provided. There is a perception, supported by evidence, that the work carried out by members on the audit committee has recently improved. Questioning here appears more forensic, and members are prepared to challenge the information brought before them; we have noted in sections above an improved profile for members on risk issues.
Scrutiny / executive relationships	Relationships have recently improved; cabinet takes scrutiny seriously. Senior officers, too, have a productive and positive relationship with scrutiny. Although there is a view from some quarters that scrutiny exists mainly to keep members busy, the commitment to improve the function means that this may be receding.

Prioritisation of scrutiny work	Members do not shy away from controversial topics, but there is a tendency to focus on things that are of interest to councillors rather than things which are strategically important to the authority. Risks associated with this are more visible to officers and members. Finance, children's services, adult social care, and commercial activity are all areas (amongst others) which, though complex, would benefit from more consistent and sustained member oversight – complementing the substantial ongoing improvement work in these areas.
Training and development of scrutiny and audit chairs, and the broader councillor corps	We have not picked up any detailed issues around the need, and provision, of member training services – further discussion of the Surrey Model will identify how member development will fit into ongoing governance improvement.
Cross-party chairing and leadership arrangements	Cross-party relationships on audit and scrutiny appear positive. Chairing positions are held predominantly by members of the majority group but informal liaison between chairs and vice-chairs means that members of all groups feel that have some voice in how the scrutiny function operates, although there is not universal agreement on this point. The council has also recently appointed an independent person to sit on the Audit Committee.
Culture of scrutiny	An open and frank culture around scrutiny takes time to develop. Generally, scrutiny works well, although some areas where its focus and impact are more crucial, it could be better. We acknowledge that the council is making improvements – at the moment there are signs of progress but they may need to be articulated better as part of a clear plan centred on ongoing member and officer development.

4. Key features of a Surrey Approach

Phase 2 of this work is to translate these findings into a "Surrey Approach" – an approach to governance that accounts for the council's unique characteristics and which ensures that the authority's approach to governance is robust and resilient.

We think that some of the main features of such an approach could be:

- To emphasise the importance of individual responsibility for change and improvement, as well as collective responsibility;
- To set out (based on conversation and dialogue) consistent expectations around roles and responsibilities, as the council continues to improve;
- To ensure that, within these roles, people are able to act with frankness and candour;

- To challenge members and officers to face outwards, to the council's partners and to local people, to redefine and re-energise those relationships;
- To bring a different attitude to the attitude [?] and treatment of risk (risk relating to governance, and also risk relating to the substantive delivery of services) – including more vigorous member ownership and oversight of high risk areas;
- To anchor the confidence and ambition of the organisation into a more accurate sense of where strengths and weaknesses lie;
- To link and strengthen key corporate roles – around law and governance, finance, audit, communications – with those roles being more visible to councillors.

The development of a Surrey Approach to act on the above forms Phase 2 of this project, originally planned to last into the summer. It would involve a mix of:

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- Making practical changes to existing work processes / systems (including the constitution, and decision-making systems). CfGS has already undertaken a detailed review of the constitution to support the process so far;
- Bringing members and officers together to think and talk about behaviours, and expectations, relating to how people work together – developing scenarios to explore potential areas of tension and difficulty and understanding how risks to governance can be mitigated;
- Integrating this approach into the council's broader improvement plans, with a particular focus on strengthening the corporate core of the authority.

The development of a detailed plan for the above will be contingent upon the council's overall agreement with the analysis set out in this feedback letter.

We would welcome the opportunity to discuss this letter and its findings in a feedback workshop.

Yours sincerely,

Ian Parry,
Head of Consultancy

Centre for Governance and Scrutiny | 77 Mansell Street | London | E1 8AN
Tel: 020 7543 5627 / Mob: 07831 510381 (preferred)
Visit us at www.cfgs.org.uk
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Risk	Action	Owner
Risk -work to embed improvement in risk management needs to be closely monitored -understanding roles in acting on operational risk	**Action** The Audit and Governance Committee will receive its six-monthly update on the Risk Management Strategy in March 2023. Report to incorporate on going monitoring of risk management effectiveness and member roles in oversight of operational risks	**Owner** Strategic Risk Manager/Audit and Governance Committee
Members and officers working together - to improve understanding of others motivation and objectives, and the political motivation of members - speed of decision making and realistic demands - Shared expectations of conduct throughout the organisation -mutual expectations around roles in decision making	**Actions** -Provide development session for CLT, Cabinet Members, all Directorate Management Teams, and political groups on member/officer protocol and working together. -Refresh offer of officer development on "operating in a political environment" informed by member input from the Member Development Steering Group for a shared understanding of motivation and objectives. -Explore with the CfGS a recommended officer and member development offer with a focus on positive cultural behaviours and effective relationship building.	**Owner** Director of law and Governance/Member Services manager/ Member Development Steering Group.
Constitution and scheme of delegation -clarity of roles and evidence required in decision making -levels of delegation and the extent of decision-making authority review -articulation of roles and ownership of finance, performance, and risk	**Action** To work with the Centre for Governance and Scrutiny on their recommendations for practical changes to existing work systems and processes (including the constitution and decision-making systems) with specific reference to the clarity of roles and ownership and the scheme of delegation.	**Owner** Director of Law and Governance

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Whistleblowing - Reassurance to staff there will be no negative impact on careers -	**Action** Incorporate and emphasise in whistleblowing communications to all staff on a regular basis with monitoring through the annual whistleblowing report to the Audit and Governance Committee.	**Owner** Director of Law and Governance/ Head of Insights, Programmes & Governance
Scrutiny ongoing improvement **-**use of performance information **-**role of challenge in decision making **-**evidence to clearly demonstrate that scrutiny makes a difference **-**consistency and sustained member oversight of priority areas	**Action** Incorporate the points made in the development in the ongoing scrutiny improvement program in consultation with Scrutiny Chairs and Vice Chairs	**Owner** Scrutiny Business manager/Scrutiny Chairs.
Member development briefings and attendance	**Action** Highlight the need to monitor and address attendance as a measure of the quality of briefings and consider as a priority in the annual member development strategy 2023.	**Owner** Member Services Manager/Member Development Steering Group

SURREY
COUNTY COUNCIL

Audit & Governance Committee
18 January 2023

2021/22 Audit Reports and Annual Statement of Accounts for Hendeca Group Ltd, Surrey Choices Ltd, Halsey Garton Residential Ltd, and Halsey Garton Group Ltd

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Purpose of the report:

This report provides the Audit & Governance Committee with the outcome and findings of the external audits of the 2021/22 financial statements of Hendeca Group Ltd, Surrey Choices Ltd, Halsey Garton Residential Ltd, and Halsey Garton Property Ltd.

Recommendations:

It is recommended that the Audit and Governance Committee consider the contents of the 2021/22 Audit Reports for the entities referred to above. The Financial Statements for each company are shared as background information.

Introduction:

1) The Council has four wholly owned Local Authority Trading Companies:
   - Hendeca Group Ltd
   - Surrey Choices Ltd
   - Halsey Garton Residential Ltd
   - Halsey Garton Property Ltd

2) The oversight of these companies is provided by the Council's Shareholder and Investment Panel (SHIP), an Officer Panel) and the Strategic Investment Board (SIB), a Member-led Board). It has been established in accordance with best practice governance principles to ensure effective over-sight and alignment with the strategic objectives and values of the Council. The Board's responsibilities and powers include:
   - appointing and removing directors
   - approval of annual business plans
   - reviewing the financial and overall performance of trading companies

3) The SHIP and SIB both safeguard the Council's interest and takes decisions in matters that require the approval of the Council as owner or a shareholder of a company. Shareholder control is exercised over all

companies owned by the Council, and in relation to any shares held whether the purpose is trading, service provision, or investment. Decisions in relation to the day-to-day operation of companies are taken by the directors of each company.

4) The SIB provides an Annual and Mid-Year Report which is considered by Cabinet.

5) The Audit Reports and Financial Statements for the council's wholly owned companies are shared with the Audit & Governance Committee for information. The following documents are included:
   - Annex A – Hendeca Group audit report by UHY 21-22
   - Annex B – Hendeca Group financial statements 21-22
   - Annex C – Surrey Choices audit report by UHY 21-22
   - Annex D – Surrey Choices financial statements 21-22
   - Annex E – Halsey Garton Residential audit report by UHY 21-22
   - Annex F – Halsey Garton Residential financial statements 21-22
   - Annex G – Halsey Garton Property audit report by UHY 21-22
   - Annex H – Halsey Garton Property financial statements 21-22

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Audit Findings

6) The Directors of the companies approved the 2021/22 Financial Statements as presenting a true and fair view of their respective company's financial position as at the 31 March 2022.

7) The audit reports summarise the findings of the 2021/22 audits undertaken by Hacker Young. The reports set out a summary of the work carried out and the conclusions reached.

8) At the beginning of each audit an Audit Plan was shared with the company Directors, which identified areas of significant risk and other risks of material misstatement. The Audit Reports summarise the work completed in relation to these areas.

Conclusions:

9) The Audit Reports are presented to this Committee for information.

Financial and value for money implications

10) None

Equalities and Diversity Implications

11) There are no direct equalities and diversity implications from this report.

Risk Management Implications

12) The risk management implications are contained within the annexes of the report relating to the individual companies.

Next steps:

Identify future actions and dates.

Report contact: Neil Jarvey, Strategic Finance Business Partner – Commercial.

Contact details: neil.jarvey@surreycc.gov.uk

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UHY Hacker Young
Chartered Accountants

Report to the Board

Hendeca Group Limited

Year ended 31 March 2022

11

Helping you prosper

Contents

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The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for and is not intended for, any other purpose.

01 Introduction

Purpose of this report

The purpose of this report is to bring to your attention the salient points which have arisen from our audit of the financial statements of Hendeca Group Limited ("the Company") for the year ended 31 March 2022.

This report provides an update to the matters raised in our Audit Service Plan, which was provided to the directors on 24th May 2022, focussing on observations that are significant to the responsibility of those charged with governance to oversee the financial reporting process as required by International Standard on Auditing (UK) 260 Communication with Those Charged with Governance.

This report provides an update to matters which arose during the course of our audit.

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Audit scope

Our terms of engagement are set out in our engagement letter dated 7th April 2020. This sets out our audit responsibilities and their limitations and the responsibilities of the Directors in relation to the financial statements.

Our Audit Service Plan set out in detail the key issues and risks identified at the planning stage and the related planned audit responses. It also explained that our audit approach concentrates on areas of material risk of misstatement in the financial statements to allow us to reach our opinion in accordance with auditing standards.

Audit independence

We confirm that, in our professional judgment, UHY Hacker Young LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partners and audit staff is not impaired.

11 **Should you have any questions relating to the issue of our independence and objectivity, please do not hesitate to contact Jessica Moorghen on 020 7216 4670 or at j.moorghen@uhy-uk.com**

Limitations

We have prepared this report for your use within the Company. It is part of our continuing communication of audit matters with those charged with the governance of the Company and, accordingly, is addressed to the Board. It is not intended to include every matter that came to our attention. For these reasons, we believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy, we would not accept any responsibility for any reliance that they might place on it.

Acknowledgement

We have received full co-operation from all Hendeca Group Limited staff. We wish to thank in particular Cristina Robinson, Joe Stockwell and the entire Hendeca Group Limited team for the helpfulness and co-operation during the course of the audit process.

Section 02

Audit status

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Helping you prosper

02 Audit status

The audit of the Company is substantially complete. All matters encountered during the audit were dealt with as the audit progressed. There are, however, at the time of writing some outstanding unresolved audit matters which are set out below which may or may not have an impact on our audit opinion on the Company's financial statements:

- Signed Letter of Representation form the Directors
- Signed Directors' Report
- Signed Financial Statements
- Completion of our subsequent events review to the date of our audit report

We expect to sign our auditor's report as soon as practicable after clearing the outstanding matters and the approval of the directors' report and accounts by the directors. Our anticipated auditor's report opinion will be unmodified.

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Section 03

Our approach to materiality

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03 Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process.

It applies to monetary misstatements and also to disclosure requirements in compliance with the accountancy framework and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the Company's financial statements	£18,600	We have considered turnover to be the key driver of the business's financial performance. This is because the company does not hold any significant assets or investments. We have used a 1% benchmark which is in line with the FRC's thematic review.
Materiality for specific transactions, balances or disclosures	£1,000	Lower materiality considered for related party transactions and directors remuneration. There is no quantitative limit set for these transactions as they are qualitatively material.

Section 04

Significant matters

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04 Significant matters

Significant matters, as identified in our Audit Service Plan:

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Risks identified in Audit Service Plan	Work identified by management	Comments
Management override of controls Under ISA 240 (UK) there is a presumed risk that the risk of management override of controls is present in all entities	Management were to ensure there are appropriate procedures in place to prevent override of controls.	**We have:** • Updated our documentation around the posting of journals and formulation of key estimates and assessed the design and implementation of those controls. • Assessed and challenged accounting estimates, judgements and decisions made by management. • Tested a sample of journal entries, adjustments and accounting estimates for bias that could result in material misstatements. • Review significant transactions to ensure they were in the normal course of business. **Conclusion:** We found no indication of management bias or significant transactions outside the normal course of business.
Improper revenue recognition Under ISA 240 (UK) there is a resumed risk that revenue may be misstated due to the improper recognition of revenue	We will discuss with management and consider the reasonableness of the recognition criteria for the service contracts provided. We will substantively test your sales, accrued and deferred income balances, and confirm that the treatment is in line with accounting standards.	**We have:** • Assessed whether revenue was accounted in accordance with the accounting policy on revenue recognition. • Analytically reviewed revenues and verified significant movements against expectations • Tested a sample of transactions to agreements to supporting evidence

		• Reviewed the assessment made by management in relation to the application of the correct cut off processes **Conclusion:** We found no significant or reportable adjustments were noted based on the work performed.

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Section 05

Going concern

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05 Going concern

Management's assessment	Management were to evaluate whether the group is trading as a going concern. Management was thus required to provide a cash flow projection to December 2023 which confirmed their assessment of the going concern principle.	We inspected the cash flow protections provided by management, checking that the assumptions made were reasonable and that the calculations were accurate. We also understand that should any support be required that the parent company, Surrey County Council, would provide support to the entity. The cash balance is expected to remain positive throughout. **Conclusion:** We concur with management's assessment that the going concern principle is applicable.

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Section 06

Other matters (non-significant risks)

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06 Other matters (non-significant risks)

Other Risks identified in our Audit Service Plan	Work done by Management	Comments
Debtors recoverability	Management were to ensure that debtors were a true representation of the actual amounts that were expected to be received from customers post year-end and any provision for bad debts was complete and accurate.	Our sample items tested for recoverability overall proved adequately received post-year end leading to the conclusion that debtors are materially correct.

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Section 07

Other communication requirements

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07 Other communication requirements

Changes in accounting policies

No changes in accounting policies have been made during the course of the year.

Review of board minutes

No material or significant matters have arisen from the review of board minutes.

Significant post balance sheet events

No significant post balance sheet events identified.

Consideration of fraud

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We have discussed fraud with Joe Stockwell. It was confirmed that:

- there have been no instances of fraud during the year; and
- those charged with governance of the company consider there to be a low risk of fraud.

During the course of our work we found no evidence of fraud and corruption. We must emphasise, however, that the responsibility for the prevention of and detection of fraud lies with management, and our work does not remove the possibility that fraud and corruption may have occurred and remain undetected.

Related parties

We are not aware of any related parties or related party transactions which have not been disclosed.

Laws and regulations

We are not aware of any significant incidences of non-compliance with laws and regulations

Written representations

Following conclusion of our audit work we will issue a letter of representations to management. At the date of this report we expect to be requesting specific representations in respect of the assessment as a going concern and recoverability of debtors.

Confirmation request from third parties

Confirmations have been requested and received for all bank and loan accounts.

Disclosures

A review of disclosures has been performed as part of our review of the accounts with necessary amendments being processed.

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Section 08

Audit adjustments

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08 Audit adjustments

During the course of the audit, adjustments were necessary in order to facilitate the preparation of the statutory financial statements, consisting of fundamental underlying transactions together with matters of presentation for statutory purposes.

A schedule of audit adjustments has been provided to you for the entity. The nature of these adjustments include the following:

- Corporation tax;
- Deferred tax.

Unadjusted items

A schedule of unadjusted errors for each undertaking has been provided to you. A summary of all the unadjusted errors has been provided to Joe Stockwell. The directors have included the summary of unadjusted errors to the group letter of representation. The letter of representation states that the
11 individual amounts and aggregate total of an increase of £309 is immaterial and, accordingly, no adjustment is required.

In assessing the key areas of audit judgement we have had full regard to our assessed level of materiality. A final materiality calculation will be undertaken prior to finalisation of the group accounts.

We acknowledge the subjectivity and scope for differing viewpoints over some of our concerns. By the same token, the Board in deciding to approve the accounts as currently drafted will also be exercising subjective judgement.

Management Letter

We will discuss with management matters arising where we consider that the internal systems and procedures could be improved. A draft copy of the letter highlighting these issues will be supplied to management. We will then require formal confirmation of management's comments which will then be incorporated before we circulate the document to the full Board.

Remaining timetable

We are scheduled to be in a position to sign all statutory accounts by October 2022 in respect of the Company.

Audit report

We propose issuing an unmodified audit report on the financial statements of the company for the year ended 31 March 2022.

Hendeca Group Limited

Company Registration Number:
08578463
(England and Wales)

Report of the Directors and
Audited Financial Statements

Period of accounts
Start date: 01 April 2021
End date: 31 March 2022

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Hendeca Group Limited
Contents of the Financial Statements
for the Year Ended 31 March 2022

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Hendeca Group Limited
Company Information
for the Year Ended 31 March 2022

Directors:	J Lewis L Hobbs
Registered office:	1 Pixham End Pixham Lane Dorking Surrey RH4 1QA
Company Registration Number:	08578463 (England and Wales)
Ultimate Parent:	Surrey County Council Woodhatch Place 11 Cockshot Hill Reigate Surrey RH2 8EF
Auditor:	UHY Hacker Young LLP 4 Thomas More Square London E1W 1YW
Bankers:	HSBC 60 Queen Victoria Street London EC4N 4TR

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Hendeca Group Limited
Report of the Directors
for the Year Ended 31 March 2022

The directors present their report with the financial statements of the company for the year ended 31 March 2022.

Principal activities

The principal activities of the company in the year under review was the supply of Professional Business Services including IT managed services, data centre hosting and fire and rescue resilience services.

Directors

The directors shown below have held office during the year from 01 April 2021 to 31 March 2022.

J Lewis (full year)
L Hobbs (full year)
11 S Ruddy (resigned on 30 November 2021)
J Harris (resigned on 5 May 2021)
R Childs (resigned on 25 May 2021)
P Forrester (appointed 1 December 2021 and resigned 23 June 2022)

COVID-19

The COVID-19 outbreak continued to develop into 2021 and 2022. It has resulted in unprecedented actions being taken by Governments across the globe, which have had a significant adverse impact on large swathes of the economy.

The impact on our business and results remained limited throughout the year. Due to the nature of our business and customer base there has been limited impact on our current trading environment, and we do not foresee any long-term adverse impacts.

We will continue to follow the Government’s and relevant sector specific bodies’ policies and advice to ensure we always protect the safety and health of our employees and customers.

We also refer to note 2.1 on the company as a going concern.

Company policy on the employment of disabled persons

It is the company’s policy to give employment to disabled persons wherever practicable and to make all reasonable adjustments to enable a person with a disability to perform to their highest ability.

Directors' responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Provision of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that: 11

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing its report and to establish that the company's auditor is aware of that information.

Auditor

In accordance with the company's articles, a resolution proposing that UHY Hacker Young be reappointed as auditor of the company will be put at a General Meeting.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by part 15 of the Companies Act 2006.

This report was approved by the board of directors on 26 October 2022

And Signed On Behalf Of The Board By:

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF HENDECA GROUP LIMITED

Opinion

We have audited the financial statements of Hendeca Limited ("the Company") for the year ended 31 March 2022 which comprise the Profit and Loss Statement, the Balance Sheet, the Statement of Changes in Equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable to law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice)

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 11 have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other Information

The Directors are responsible for the other information contained within the annual report. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF HENDECA GROUP LIMITED

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Director's report have been prepared in accordance with applicable legal requirements. 11

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Director's report.

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of Directors

As explained more fully in the statement of Director's statement of responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF HENDECA GROUP LIMITED

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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Based on our understanding of the company and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to the acts by the company, which were contrary to applicable laws and regulations including fraud, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to inflated revenue and profit.

Audit procedures performed included: review of the financial statement disclosures to underlying supporting documentation, enquiries of management and testing of journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF HENDECA GROUP LIMITED

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jessica Moorghen (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young LLP

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Chartered Accountants
Statutory Auditor
Quadrant House
4 Thomas More Square
London
E1W 1YW

Date: 6 December 2022

Hendeca Group Limited
Profit and Loss Account
for the year ended 31 March 2022

	Note	2022	2021
		£	£
Turnover		1,858,679	1,807,639
Cost of sales	5	(707,782)	(1,052,890)
Gross profit		1,150,897	754,749
Administrative expenses		(314,866)	(277,152)
Operating profit		836,031	477,597
Interest payable and receivable	7	72	(550)
Profit on ordinary activities before taxation	8	836,103	477,047
Tax on Profit on ordinary activities	9	(159,601)	(90,634)
Profit for the financial year		676,502	386,413

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Hendeca Group Limited
Balance Sheet
as at 31 March 2022

	Note	2022 £	2022 £	2021 £	2021 £
Non-Current Assets	10		**29,558**		**-**
Current Assets					
Debtors	11	**194,262**		**447,424**	
Cash at bank and in hand		**1,198,805**		**554,549**	
Total current assets			**1,393,067**		**1,001,973**
Creditors: amounts falling due within one year	12	**(292,726)**		**(350,631)**	
Total current creditors			**(292,726)**		**(350,631)**
Net current assets			**1,129,899**		**651,342**
Creditors: amounts falling due after more than one year	13	**(2,055)**		-	
Net assets			**1,127,844**		**651,342**
Capital and Reserves					
Called up equity and share capital	14	**1**		**1**	
Non-distributable reserve		**220,717**		**220,717**	
Profit and loss account		**907,126**		**430,624**	
			1,127,844		**651,342**

The company's financial statements have been prepared in accordance with the provisions applicable to companies subject to small companies' regime.

The financial statements were approved by the Board of Directors on 26 October 2022

Signed on behalf of the board of directors by

Company Registration no: 08578463

Hendeca Group Limited
Statement of Changes in Equity
for the year ended 31 March 2022

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	Share Capital	Non distributable reserve	Profit and loss Account	Total
	£	£	£	£
At 31 March 2019	**1**	**220,717**	**566,674**	**787,392**
Profit and total comprehensive income for the year	-	-	377,537	377,537
Issue of shares	-	-	-	-
Dividends agreed for the year 18/19	-	-	(500,000)	(500,000)
At 31 March 2020	**1**	**220,717**	**444,211**	**664,929**
Profit and total comprehensive income for the year	-	-	386,413	386,413
Issue of shares	-	-	-	-
Dividends paid in respect of the year 19/20	-	-	(400,000)	(400,000)
At 31 March 2021	**1**	**220,717**	**430,624**	**651,342**
Profit and total comprehensive income for the year	-	-	676,502	676,502
Issue of shares	-	-	-	-
Dividends paid in respect of the year 20/21	-	-	(200,000)	(200,000)
At 31 March 2022	**1**	**220,717**	**907,126**	**1,127,845**

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2022

1. Company Information

Hendeca Group Limited is a private Company, limited by shares, domiciled in England and Wales, Company Registration no: 08578463. The registered office is 1 Pixham End, Pixham Lane, Dorking, Surrey, RH4 1QA.

2. Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 Section 1A Small Entities, and with the Companies Act 2006. There have been no material departures from this standard.

The financial statements have been prepared on the historical cost basis. 11

The Financial Statements are presented in Sterling (£).

2.1 Going Concern

Hendeca Group Limited has considerable financial resources together with contracts and new business opportunities across a range of business areas. Therefore, the directors believe that Hendeca Group Limited is well placed to manage its business risks successfully.

These contracts have not been impacted by the change in circumstances resulting from the Government's response to the COVID-19 outbreak, and the directors do not expect this to change in the future. The directors will continue to monitor and respond accordingly to the ever-changing implications of COVID-19 and the Government's response to the situation, but currently do not see this having a long-term adverse impact on the company.

After reviewing Hendeca Group Limited forecast and projections, the directors have a reasonable expectation that Hendeca Group Limited has adequate resources to continue in operational existence for the foreseeable future.

Based on the circumstances described above, the financial statements are prepared on the assumption that the entity is a going concern.

3. Accounting Policies

3.1 Turnover

The turnover shown in the profit and loss account represents revenue earned during the year, exclusive of VAT.

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2022

3.2 Recognition of income and expenditure

Revenue (income) from the sale of goods and provision of services is recognised when Hendeca Group Limited transfers the goods or completes the delivery of a service.

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.

3.3 Debtors

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Short-term debtors are measured at transaction price, less any impairment.

3.4 Creditors

Creditors are measured at transaction price, less any impairment.

3.5 Tangible fixed assets

Assets costing £500 or more are capitalised as tangible fixed assets and are initially measured at cost. They are subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

IT hardware	67% straight line
Office equipment	33% straight line
PPE	33% straight line
Training equipment	33% straight line
Right-of-use leased vehicles	50% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in the profit and loss account.

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2022

3.6 Leases

This policy is applied to contracts entered into, or changed, on or after 1 January 2019. For any new contracts entered into on or after 1 January 2019 at inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly in the contract or implicitly by being identified at the time the asset is made available to the company and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and 11
- the Company has the right to direct the use of the asset throughout the period of use. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset throughout the period in use if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

3.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial intuitions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

3.7 Non-Distributable Reserves

Reserves are created when a company sets aside specific amounts for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the Profit and Loss Account in the Statement of changes in Equity.

The Company has been able to claim group tax relief due to the surrender of losses from another company within the Surrey County Council group of companies. These losses have been deducted from the company's total profits, reducing the amount of corporation tax payable.

The Company is taking a prudent approach and is treating this tax relief benefit as a non-distributable reserve since it may be reviewed by HMRC within 3 years of the claim. The reserve will be held for a period of three years with the treatment reviewed annually.

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2022

4. Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to calculate the amount are those enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

A deferred tax liability or asset is recognised for the additional tax that will be incurred or deductible in the future based on assets and liabilities that are recognised in a business
11 combination.

Deferred tax is calculated using the tax rates and laws that have been enacted by the reporting date that are expected to apply to the reversal of the timing difference.

5. Cost of Sales and Staff Costs

	2022	2021
	£	£
Cost of Sales before staff costs	**263,482**	629,446
Social Security Costs	**28,743**	24,003
Pension Costs	**4,616**	5,230
	707,782	1,052,890

Of Hendeca Group's staff three full time employees and six part time employees are enrolled in a National Employment Savings Trust (NEST) pension scheme or Local Government Pension Scheme (LGPS). Contributions payable are recognised in the profit and loss account when due. All other employees are engaged on a part-time basis.

6. Average number of Employees

During 21/22 the average number of employees was 55 (7 full time employees and 48 who received a monthly retainer). In 20/21 this was 54 (4 full time employees and 50 who received a monthly retainer).

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2022

7. Interest Payable and Receivable

	2022	2021
	£	£
Interest receivable	**725**	-
Bank charges	**(653)**	(550)
	72	(550)

8. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after:

Auditor's Remuneration and Tax fees:

	2022	2021
	£	£
Audit Fees	**13,400**	12,500
Tax Compliance services	**1,950**	1,800
	15,350	14,300

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9. Taxation

The tax charge on the profit on ordinary activities for this year was as follows:

	2022	2021
	£	£
UK Corporation Tax	**154,530**	90,634
Deferred tax	**5,071**	-
Tax on profit on ordinary activities	**159,601**	90,634
Profit on ordinary activities before taxation	**836,103**	477,047
Rate of tax for year	**19%**	19%
Profit on ordinary activities before taxation multiplied by the rate of tax for year	**158,860**	90,639
Expenses not deductible to tax purposes	**855**	-
Fixed asset differences	**(1,289)**	-
Remeasurement of deferred tax for changes in tax rates	**1,176**	-
Adjustments in respect of prior years	**-**	57
Deferred tax not recognised	**-**	(62)
Rounding	**(1)**	-
Current tax charge	**159,601**	90,634

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2022

10. Non-current assets

	IT hardware	Office equipment	PPE	Training equipment	Right-of-use leased vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 April 2021	-	-	-	-	-	-
Additions	3,741	7,045	6,735	5,088	8,892	31,501
Disposal	-	-	-	-	-	-
At 31 March 2022	**3,741**	**7,045**	**6,735**	**5,088**	**8,892**	**31,501**
11 **Depreciation**						
At 1 April 2021	-	-	-	-	-	-
Provided in the year	192	584	717	244	206	1,943
Disposal	-	-	-	-	-	-
At 31 March 2022	**192**	**584**	**717**	**244**	**206**	**1,943**
Net book amount						
At 31 March 2022	**3,549**	**6,461**	**6,018**	**4,844**	**8,686**	**29,558**
At 31 March 2021	-	-	-	-	-	-

11. Debtors

	2022	2021
	£	£
Trade Debtors	**83,232**	438,222
Prepayments and accrued income	**111,030**	9,202
	194,262	447,424

12. Creditors

	2022	2021
	£	£
Trade creditors	**82,234**	247,326
Other creditors	**210,492**	103,305
	292,726	350,631

All amounts are payable within one year.

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2022

13. Leasing Commitments

The Company's lease activity for the year to 31 March 2022 relates to right-of-use assets for motor vehicles. The total cash outflow in respect of leases in the year is £4,371 (2021: £0).

The company's future minimum operating lease payments are as follows:

	2022	2021
	£	£
Within one year	**2,466**	-
Between one and five years	**2,055**	-

14. Called Up Share Capital

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Allotted and called up:

Class	**Number of Shares**	**Nominal Value per Share (£)**	**Total**
Ordinary	1	1	1

The authorised share capital of Hendeca Group Limited consists of 100 ordinary shares with a nominal value of £1, of which 1 ordinary share has been issued at par.

15. Post balance sheet events

Since the end of the financial year, Hendeca Group Limited purchased training materials at a cost of £40,000.

16. Related Party Disclosures

Janine Lewis is the director of Vital Business Resources Limited, the amount of £18,964 was paid to Janine Lewis for the services provided for year ending 31st March 2022.

17. Ultimate controlling party

The ultimate controlling party of Hendeca Group Limited is Surrey County Council, which owns the entire issued share capital.

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UHY Hacker Young
Chartered Accountants

Report to the Board

Surrey Choices Limited

Year ended 31 March 2022

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Helping you prosper

Contents

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The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for and is not intended for, any other purpose.

01 Introduction

Purpose of this report

The purpose of this report is to bring to your attention the salient points which have arisen from our audit of the financial statements of Surrey Choices Limited ("the Company") for the year ended 31 March 2022.

This report provides an update to the matters raised in our Audit Service Plan, which was provided to the directors on 24 May 2022, focussing on observations that are significant to the responsibility of those charged with governance to oversee the financial reporting process as required by International Standard on Auditing (UK) 260 Communication with Those Charged with Governance.

This report provides an update to matters which arose during the course of our audit.

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Audit scope

Our terms of engagement are set out in our engagement letter dated 7 April 2020. This sets out our audit responsibilities and their limitations and the responsibilities of the Directors in relation to the financial statements.

Our Audit Service Plan set out in detail the key issues and risks identified at the planning stage and the related planned audit responses. It also explained that our audit approach concentrates on areas of material risk of misstatement in the financial statements to allow us to reach our opinion in accordance with auditing standards.

Audit independence

In accordance with the requirements of auditing standards we disclose the following:

- We are auditors of the Company;
- In addition to the audit, we provided the following services in 2022:
    - End of year certificate (EOYC)

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We discussed the specific threat to you posed with our involvement in services provided and how we mitigate such threats in our Audit Service Plan. We have identified no further threats during the course of the audit.

We therefore confirm that, in our professional judgment, UHY Hacker Young LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partners and audit staff is not impaired.

Should you have any questions relating to the issue of our independence and objectivity, please do not hesitate to contact Jessica Moorghen on 020 7216 4670 or at j.moorghen@uhy-uk.com

Limitations

We have prepared this report for your use within the Company. It is part of our continuing communication of audit matters with those charged with the governance of the Company and, accordingly, is addressed to the Board. It is not intended to include every matter that came to our attention. For these reasons, we believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy, we would not accept any responsibility for any reliance that they might place on it.

Acknowledgement

We have received full co-operation from all SC staff. We wish to thank in particular Andrew Gray, Nick Ighodaro and the entire SC team for the helpfulness and co-operation during the course of the audit process.

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Section 02

Audit status

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Helping you prosper

02 Audit status

The audit of the Croup is substantially complete. All matters encountered during the audit were dealt with as the audit progressed. There are, however, at the time of writing some outstanding unresolved audit matters which are set out below which may or may not have an impact on our audit opinion on the Company's financial statements:

- Signed inter-company confirmation with Surrey County Council
- Signed Letter of Representation form the Directors
- Signed Directors' Report
- Signed Financial Statements
- Completion of our subsequent events review to the date of our audit report

We expect to sign our auditor's report as soon as practicable after clearing the outstanding matters and the approval of the directors' report and accounts by the directors. Our anticipated auditor's report opinion will be unmodified.

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Section 03

Our approach to materiality

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Helping you prosper

03 Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process.

It applies to monetary misstatements and also to disclosure requirements in compliance with the accountancy framework and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the Company's financial statements	£130,000	We have considered turnover to be the key driver of the business's financial performance. This is because the company does not hold any significant assets or investments. We have used a 1% benchmark which is in line with the FRC's thematic review.
Materiality for specific transactions, balances or disclosures	£1,000	Lower materiality considered for related party transactions and directors remuneration. There is no quantitative limit set for these transactions as they are qualitatively material.

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Section 04

Significant matters

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Helping you prosper

04 Significant matters

Significant matters, as identified in our Audit Service Plan:

Risks identified in Audit Service Plan	Work identified by management	Comments
Management override of controls Under ISA 240 (UK) there is a presumed risk that the risk of management override of controls is present in all entities	Management were to ensure there are appropriate procedures in place to prevent override of controls.	**We have:** • Updated our documentation around the posting of journals and formulation of key estimates and assessed the design and implementation of those controls. • Assessed and challenged accounting estimates, judgements and decisions made by management. • Tested a sample of journal entries, adjustments and accounting estimates for bias that could result in material misstatements. • Review significant transactions to ensure they were in the normal course of business. **Conclusion:** We found no indication of management bias or significant transactions outside the normal course of business.
Improper revenue recognition Under ISA 240 (UK) there is a resumed risk that revenue may be misstated due to the improper recognition of revenue	We will discuss with management and consider the reasonableness of the recognition criteria for the service contracts provided. We will substantively test your sales, accrued and deferred income balances, and confirm that the treatment is in line with accounting standards.	**We have:** • Assessed whether revenue was accounted in accordance with the accounting policy on revenue recognition. • Analytically reviewed revenues and verified significant movements against expectations • Tested a sample of transactions to agreements to supporting evidence

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		• Reviewed the assessment made by management in relation to the application of the correct cut off processes **Conclusion:** We found no significant or reportable adjustments were noted based on the work performed.

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Section 05

Going concern

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Helping you prosper

05 Going concern

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Management's assessment As the company is profit making, with healthy cash reserves at the year-end, going concern would not usually be considered a risk to an entity in this financial position. However, due to the ongoing economic uncertainty surrounding COVID-19, we have highlighted it as a risk to consider in detail as this may have a significant impact on the company's ability to continue as a going concern and pay back the loan to SCC as payments fall due. There is also a risk of reduced funding from the Surrey County Council going forward.	Management were to evaluate whether the company is trading as a going concern. Management was thus required to provide a cash flow projection to July 2023 which confirmed their assessment of the going concern principle.	We assessed the company's ability to continue their operations until the end of July 2023. We have reviewed the cash flow forecasts to end of July 2023 and compared actual results post year-end to those predicted in the forecast. The key assumptions made in the cash flow forecast were reviewed and deemed reasonable. We also performed a sensitivity analysis on the key assumptions to ensure that in a reasonable worst case scenario, the company would continue to have sufficient cash to continue in their operations for the 12 months from signing the audit report. We also looked through the joint strategic plan and will continue to monitor progress over the next reporting periods. The cash balance is expected to remain positive throughout. **Conclusion**: We concur with management's assessment that the going concern principle is applicable.

Section 06

Other matters (non-significant risks)

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Helping you prosper

06 Other matters (non-significant risks)

Other Risks identified in our Audit Service Plan	Work done by Management	Comments
Debtors recoverability	Management were to ensure that debtors were a true representation of the actual amounts that were expected to be received from customers post year-end and any provision for bad debts was complete and accurate.	Our sample items tested for recoverability overall proved adequate receipts have been received post-year end leading to the conclusion that debtors are materially correct.

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Section 07

Other communication requirements

Helping you prosper

07 Other communication requirements

Changes in accounting policies

No changes in accounting policies have been made during the course of the year.

Review of board minutes

No material or significant matters have arisen from the review of board minutes.

Significant post balance sheet events

No significant post balance sheet events identified.

Consideration of fraud

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We have discussed fraud with Andrew Gray and Nick Ighodaro. It was confirmed that:

- there have been no instances of fraud during the year; and
- those charged with governance of the company consider there to be a low risk of fraud.

During the course of our work we found no evidence of fraud and corruption. We must emphasise, however, that the responsibility for the prevention of and detection of fraud lies with management, and our work does not remove the possibility that fraud and corruption may have occurred and remain undetected.

Related parties

We are not aware of any related parties or related party transactions which have not been disclosed.

Laws and regulations

We are not aware of any significant incidences of non-compliance with laws and regulations

Written representations

Following conclusion of our audit work we will issue a letter of representations to management. At the date of this report we expect to be requesting specific representations in respect of the assessment as a going concern, recoverability of debtors and inter- company balances.

Confirmation request from third parties

Confirmations have been requested and received for all bank and loan accounts.

Disclosures

A review of disclosures has been performed as part of our review of the accounts with necessary amendments being processed.

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Section 08

Audit adjustments

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Helping you prosper

08 Audit adjustments

During the course of the audit, adjustments were necessary in order to facilitate the preparation of the statutory financial statements, consisting of fundamental underlying transactions together with matters of presentation for statutory purposes.

A schedule of audit adjustments has been provided to you for each entity. The nature of these adjustments include the following:

- Corporation tax;

Unadjusted items

A schedule of unadjusted errors for each undertaking has been provided to you. A summary of all the unadjusted errors has been provided to Nick Ighodaro. The letter of representation states that the individual amounts and aggregate total of £2,967 (decrease in profit) is immaterial and, accordingly, no adjustment is required.

In assessing the key areas of audit judgement, we have had full regard to our assessed level of materiality. A final materiality calculation will be undertaken prior to finalisation of the accounts. 11

We acknowledge the subjectivity and scope for differing viewpoints over some of our concerns. By the same token, the Board in deciding to approve the accounts as currently drafted will also be exercising subjective judgement.

Management Letter

We will discuss with management matters arising where we consider that the internal systems and procedures could be improved. A draft copy of the letter highlighting these issues will be supplied to management. We will then require formal confirmation of management's comments which will then be incorporated before we circulate the document to the full Board.

Remaining timetable

We are scheduled to be in a position to sign all statutory accounts by July 2022 in respect of the Company.

Audit report

We propose issuing an unmodified audit report on the financial statements of the company for the year ended 31 March 2022.

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Annual Report
Surrey Choices Ltd

For the year ended 31 March 2022

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Company Information

Directors	M. L.Jakobsen J.M.Earl S.Nahajski R.E.Wigley
Company Secretary	K.G. Chandler
Registered number	08931490
Registered office	Fernleigh Day Centre Fernleigh Close Walton- on- Thames Surrey England KT12 1RD
Independent auditor	UHY Hacker Young LLP Chartered Accountants & Statutory Auditor Quadrant House 4 Thomas More Square London E1W 1YW
Bankers	HSBC Bank plc Level 30 8 Canada Square Canary Wharf London E14 5HQ

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Directors' Report

For the year ended 31 March 2022

The directors present their report, the strategic report, and the financial statements for the year ended 31 March 2022.

Principal activities

The Company is principally engaged in the provision of adult social care services across Surrey, along with residential care for adults with learning difficulties, mental health, and disability.

Results and dividends

The profit for the year, after taxation, amounted to £204,353 (2021: £4,170,325).

No dividend was declared for the year.

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Directors

The directors who served during the year were:

C.M. Curran (resigned 10 June 2021)
J.M.Earl
S.Nahajski
R.E.Wigley
M.L.Jakobsen

Employment of disabled persons

The company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employee involvement

The company's policy is to consult and discuss with employees, through unions and at staff meetings, matters likely to affect employees' interests.

Information on matters of concern to employees is given through staff briefings and reports that seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company Law requires the directors to prepare financial statements for each financial year. Under that Law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law),

Directors' Report

For the year ended 31 March 2022

including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company Law, the directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. 11

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

Disclosure of information to the Company's auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

The auditor, UHY Hacker Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 19th July 2022 and signed on its behalf.

Mette L. Jakobsen
Director

Strategic Report

The directors present their strategic report for the year ended 31 March 2022.

Business review

Surrey Choices Limited was incorporated on 10 March 2014 and began to trade on 18 August 2014. The Company is wholly owned by Surrey County Council and was established to create innovative new models of delivery that would improve the quality and affordability of services for existing and new customers.

Fair review of business

The results for the business for the year, which are set out in the statement of comprehensive income, show turnover for the period of £13,045,433 (2020: £13,478,002) and a total comprehensive income for the financial period of £204,353 (2021: £2,660,325). At 31 March 2022, the company had net liabilities excluding pension liabilities of £905,347 (2021: £1,109,700) and net liabilities including pension liabilities of £905,347 (2021: £1,109,700). The directors of the company consider that the
11 financial position at the period end is satisfactory, being in line with the business plan.

Given the nature of the business, the company's directors are of the opinion that key performance indicators are important. The company uses a number of indicators to monitor and improve development and performance of the business. Indicators are reviewed and altered to meet changes both in the internal and external environments. The directors do not consider the inclusion of an analysis using key performance indicators to be necessary to assist users of the financial statements in their understanding of the financial performance or position of the company.

Future developments

The external commercial environment is expected to remain competitive going forward. However, the directors remain confident and presently see no reason why the company should not continue to perform positively in the future as it innovates new products and services for a significant unserved market for a range of younger, older and disabled people in Surrey and beyond.

Principal risks and uncertainties

The directors remain focused on protecting the employees and the Company’s ability to maintain high-quality services and stability for our customers. However, as the markets and economic consequences of the pandemic remain to be fully realised, the directors are closely monitoring the situation and will implement measures to reduce any exposure from the economic and social effects of the pandemic on the business.

The long-term impact to the Company is still not fully understood at this time, however at the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The spread of COVID-19 around the world during 2020 has caused significant volatility in the UK economy and as such there is significant uncertainty around the breadth and duration of business disruptions related to the pandemic. After giving due consideration and making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, with the support of Surrey County Council. Thus, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Strategic Report continued

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are considered to relate to the continuation of trading with Surrey County Council, satisfactory negotiations with Surrey County Council as the contract moves to spot purchasing, the quality and continuity of staff working in the business and access to capital where necessary to grow the business.

Objectives and policies

The directors constantly monitor the company's trading results and revise projections as appropriate to ensure that the company can meet its future obligations as they fall due.

Price risk, credit risk, liquidity risk and cash flow risk

The business' principal financial instruments comprise bank balances, trade debtors and trade creditors. The main purpose of these instruments is to finance the business' operations.

11

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits.

Trade creditors' liquidity risk is managed by ensuring sufficient funds are available to meet amounts due. The business manages the liquidity risk by ensuring that there are sufficient funds to meet the payments.

This report was approved by the Board on 19th July 2022 and signed on its behalf.

Mette L. Jakobsen
Director

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SURREY CHOICES LIIMTED

Opinion

We have audited the financial statements of Surrey Choices Limited ("the company") for the year ended 31 March 2022 which comprise the Profit and Loss Statement, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows, and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- 11 have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statement is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the financial statement. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

11

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report. We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the company and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to the acts by the company, which were contrary to applicable laws and regulations including fraud, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to improper revenue recognition.

Audit procedures performed included: review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, including correspondence with the Care Quality Commission, review of correspondence with legal advisors, enquiries of management and testing of journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

11 There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jessica Moorghen (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young Date: 22 July 2022

Chartered Accountants
Statutory Auditor

Statement of Comprehensive Income

For the year ended 31st March 2022

	Note	2022	2021
		£	£
Turnover	3	**13,045,433**	13,478,002
Cost of Sales		**(10,094,990)**	(10,705,601)
Gross Profit		**2,950,443**	2,772,401
Administrative Costs		**(2,620,461)**	(2,271,086)
Operating Profit	4	**329,982**	501,316
Intercompany balance written off	19	**-**	3,828,000
Interest Payable and Financial expenses	8	**(71,355)**	(158,293)
Profit before tax		**258,627**	4,171,023
Tax on Profit	9	**(54,274)**	(698)
Profit for the year		**204,353**	4,170,325
Other Comprehensive Income for the Year			
Profit for the financial period		**204,353**	4,170,325
Actuarial (Losses) / Gains on defined benefit pension scheme	19	**-**	(1,510,000)
Other Comprehensive Income for the Year		**-**	(1,510,000)
Total Comprehensive Income for the Year		**204,353**	2,660,325

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

The accompanying notes form part of these financial statements

11

Statement of Financial Position

As at 31st March 202

	Note	2022	2021
		£	£
Fixed assets			
Tangible Assets	10	**314,289**	354,287
Current Assets			
Debtors	11	**1,061,261**	885,022
Cash at Bank and in Hand	12	**3,012,662**	2,836,454
		4,073,923	3,721,476
11 Creditors: Amounts Falling due within one year	13	**(3,175,149)**	(2,735,463)
Net Current Assets		**898,774**	986,014
Total Assets less current Liabilities		**1,213,063**	1,340,300
Creditors: Amount falling due after more than one year	14	**(2,100,000)**	(2,450,000)
Provision for liabilities	23	**(18,410)**	-
Net Liabilities		**(905,347)**	(1,109,700)
Capital and Reserves			
Called-up Share Capital	18	**100**	100
Profit and Loss Account	17	**(905,447)**	(1,109,800)
		(905,347)	(1,109,700)

The financial statements were approved and authorised for issue by the Board and were signed on its behalf.

Mette L. Jakobsen
Director

Statement of cash flows

For the year ended 31st March 2022

	2022	2021
	£	£
Cash flow from operating activities		
Profit /(Loss) for the financial year	**204,353**	4,170,325
Adjustments for:		
Depreciation of tangible assets	**178,435**	119,808
Interest paid	**74,131**	87,967
Pension service and finance cost recognised	**-**	318,000
Employer pension contributions	**-**	(103,000)
Pension Transfer Write-off	**-**	(3,828,000)
(Increase) in trade and other debtors	**(176,240)**	(526,778)
Increase in trade creditors	**458,096**	632,226
Cash flow from operations	**738,775**	870,547
Net cash generated by operating activities	**738,775**	870,547
Cash flows from investing activities		
Improvement of Lease property	**(6,566)**	-
Purchase of other fixed assets	**(131,870)**	(343,813)
Net cash from investment activities	**(138,436)**	(343,813)
Cash flows from financing activities		
Loan repaid	**(350,000)**	(350,000)
Interest accrual	**(74,131)**	(87,967)
Net cash used by financing activities	**(424,131)**	(437,967)
Net increase in cash and cash equivalents	**176,208**	88,767
Cash and cash equivalents at the beginning of the year	**2,836,454**	2,747,687
Cash and cash equivalents at the end of the year	**3,012,662**	2,836,454

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Statement of Changes in Equity

For the year ended 31st March 2022

	Share Capital	Profit and Loss Account	Total Equity
	£	£	£
At 31 March 2020	100	(3,770,125)	(3,770,025)
Profit for the year		4,170,325	4,170,325
Actuarial Gain/ Loss net of tax		(1,510,000)	(1,510,000)
At 31 March 2021	**100**	**(1,109,800)**	**(1,109,700)**
Profit for the year		204,353	204,353
At 31 March 2022	**100**	**(905,447)**	**(905,347)**

Notes to the Financial Statements
For the year ended 31 March 2022

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 2).

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £. The following principal accounting policies have been applied:

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1.2 Going concern

The company relies on a contract with Surrey County Council to provide certain services to the Council. This has recently been renewed to run to 31 March 2025. Whilst there is no minimum commitment to contract volumes from the Council, the directors maintain close contact with the Council and have no reason to believe that reasonable purchasing volumes would not continue in the foreseeable future.

The Company funds its working capital requirements through an agreed ten-year credit facility with its parent entity. The Directors have reviewed the Company's forecasts for the following 12 months from the date of formally approving the annual report and financial statements.

After giving due consideration and making enquiries in reference to Covid-19, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, with the support of Surrey County Council. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Turnover

Turnover represents amounts chargeable in respect of the provision of social care services, exclusive of VAT and is recognised when the services are rendered.

1.4 Tangible fixed assets

Depreciation is provided on tangible fixed assets so as to write off the cost less any estimated residual value, on a straight-line basis over their expected useful economic life. Assets are assessed for impairment on at least an annual timeframe.

The estimated useful lives range as follows:

Leasehold property Improvement	-	over 3 years
Furniture, fixtures & equipment	-	over 3 years
Computer equipment	-	over 3 years
Motor vehicles	-	over 3 years

Notes to the Financial Statements

For the year ended 31 March 2022

1.5 Operating leases

Rentals payable under operating leases are charged in the statement of comprehensive income on a straight-line basis over the lease term.

1.6 Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.7 Cash and cash equivalents

11 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 in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.8 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Notes to the Financial Statements

For the year ended 31 March 2022

Financial instruments (continued)

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Actuarial gains and losses are recognised immediately in Other Comprehensive Income.

1.9 Creditors

11

Short-term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

1.10 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.11 Pensions

Teachers' Pension Scheme (TPS)

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the Company in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method.

The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

Surrey County Council Local Government Pension Scheme (LGPS)

Surrey Choices agreed with Surrey County Council in the last financial year to transfer the LGPS pension fund liability back to Surrey County as at the 31st March 2021. The LGPS pension liability of £3.8M no longer appears on the balance sheet as of this date.

Notes to the Financial Statements

For the year ended 31 March 2022

Pensions (continued)

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are

The current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the
11 actual return on the scheme assets is recognised in interest and other finance costs.

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payments obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

1.12 Provisions for Liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the statement of comprehensive income in the year that the company becomes aware of the obligation and are measured at the best estimate at the statement of the financial position 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 statement of financial position.

Notes to the Financial Statements

For the year ended 31 March 2022

1.13 Taxation

A tax liability will be recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

A deferred tax liability or asset is recognised for the additional tax that will be incurred or deductible in the future based on assets and liabilities that are recognised in a business combination. 11

Deferred tax is calculated using the tax rates and laws that that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

2. Judgements in applying accounting policies and key sources of estimation uncertainty

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgements, estimates and assumptions made by management, and will seldom equal estimated results. Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of asset, income and expenses is provided below.

2.1. Improvement of Lease Property

Improvement Expenditure is capitalised in accordance with the accounting policy of fixed asset given above. Management review the cost incurred on the property to ensure it meets the criteria of capital cost and has foreseeable economic use. The entity recognises the costs of day to day servicing of an item of property, plant and equipment in the income and expenditure in the period in which the costs are incurred.

2.2. Pension and other post-employment benefits

The cost of defined benefit pension plan and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increase. This valuation is subject to significant uncertainty due to the complexity of the calculation and the long-term nature of the plan.

2.3 Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date on the expected utility of the assets to the Company. The carrying amounts are analysed in note 10. Actual results however, may vary due to technical obsolescence, particularly for computer equipment.

Notes to the Financial Statements
For the year ended 31 March 2022

3. Turnover

The whole of the turnover in the current and prior period is attributable to providing adult social care and support services and is wholly undertaken in the United Kingdom.

4. Operating profit

The operating profit is stated after charging

	2022	2021
	£	£
Operating leases - property	**822,596**	840,159
Depreciation of owned assets	**178,435**	119,808
11 Auditor's remuneration	**22,300**	21,000
Defined contribution pension cost	**-**	103,000
Other scheme contribution pension cost	**588,219**	698,077

5. Auditor's remuneration

The remuneration of the auditors and its services is further analysed as follows:

	2022	2021
	£	£
Audit of financial statements	**18,600**	17,500
Other audit related service: certification of Teachers' Pensions	**3,700**	3,500
	22,300	21,000

* Taxation compliance service in 2022 was provided by an independent company, RSM UK Tax and Accounting, for a fee of £1,800.

Notes to the Financial Statements
For the year ended 31 March 2022

6. Particulars of employees

Staff costs, including directors' remuneration, were as follows:

	2022	2021
	£	£
Wages and salaries	**6,755,521**	6,956,609
Social security	**584,920**	558,079
Pension cost	**588,219**	801,077
	7,928,660	8,315,764

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The average monthly number of employees, including the directors, during the year was as follows:

	2022	2021
	£	£
Support workers and operational staff	**308**	299
Managers	**14**	14
	322	313

7. Directors' remuneration

	2022	2021
	£	£
Wages and salaries	**120,662**	119,100
Social security Cost	**13,775**	13,568
Other Pension costs	**4,909**	4,909
	139,346	137,576

8. Interest payable and financial expenses

	2022	2021
	£	£
Interest on SCC Loan	**74,134**	87,967
Bank Interest Receivable	**(2,779)**	(3,674)
Other Finance Costs	**-**	74,000
	71,355	158,293

Notes to the Financial Statements

For the year ended 31 March 2022

9. Taxation

	2022	2021
	£	£
Current tax		
United Kingdom Corporation tax	35,864	698
Deferred tax		
Origination and reversal of timing differences	18,411	-
Prior year deferred tax adjustment	(1)	-
Total deferred tax (expenditure)/income on ordinary activities	**54,274**	**698**

Provision for deferred tax

11 Fixed Asset timing differences	24,948	-
Short term timing differences	(6,538)	-
Total deferred tax (asset)/liability	**18,410**	-

Movement in provision		
Deferred tax charged to the income statement in the period	18,410	294,793
Deferred tax charged to the statement of comprehensive income		(286,900)
Provision at end of period	**18,410**	7,893

Factors affecting tax charge for the year

	2022	2021
	£	£
Profit on ordinary activities before tax	**258,627**	4,171,023
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	**49,140**	792,494
Effects of:		
Fixed asset differences	**(7,177)**	1,020
Gains /Losses or otherwise transferred	**-**	197,030
Other tax adjustments, reliefs and transfers	**-**	(135)
Remeasurement of deferred tax for changes in tax rates	**4,418**	-
Other deferred tax not recognised	**7,893**	(989,711)
Tax on results on ordinary activities	**54,274**	698

Notes to the Financial Statements

For the year ended 31 March 2022

10. Fixed Assets

For the year ended 31 March 2022

Tangible Fixed Assets

	Lease-hold property Improve-ments	Furniture, Fixtures & Equipment	Former Council Fixtures & Fittings	Computer Equipment	Motor Vehicles	Total
	£	£	£	£		£
Cost						
At 1 April 2021	471,983	170,342	411,504	620,865	231,075	1,905,769
Additions	6,566	31,982	-	99,888	-	138,436
Disposal	-	-	-	-	-	-
At 31 March 2022	**478,549**	**202,324**	**411,504**	**720,753**	**231,075**	**2,044,205**
Depreciation						
At 1 April 2021	468,379	156,091	411,504	449,015	66,492	1,551,481
Provided in the year	3,067	14,411	-	89,554	71,403	178,435
Disposal	-	-	-	-	-	-
At 31 March 2022	**471,446**	**170,502**	**411,504**	**538,569**	**137,895**	**1,729,916**
Net Book amount at						
31 March 2022	**7,103**	**31,822**	-	**182,184**	**93,180**	**314,289**
Net Book amount at						
At 31 March 2021	3,604	14,251	-	171,850	164,583	354,288

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Notes to the Financial Statements
For the year ended 31 March 2022

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11. Debtors

	2022	2021
	£	£
Trade debtors	**919,123**	733,250
Prepayments and accrued income	**142,138**	151,769
	1,061,261	885,019

12. Cash and cash equivalents

	2022	2021
	£	£
Cash at bank and in hand	**3,012,662**	2,836,454

13. Creditors: Amount falling due within one year

	2022	2021
	£	£
Trade creditors	**442,297**	332,858
Other taxes and social security	**634,241**	618,997
Other creditors *	**701,385**	646,790
Accruals	**1,397,226**	1,136,817
	3,175,149	2,735,463

Notes to the Financial Statements
For the year ended 31 March 2022

14. Creditors: Amounts falling due after more than one year

Maturity of Debt

Surrey Choices Ltd	**Loans and Overdrafts**	
	2022	2021
	£	£
Within one year	**-**	350,000
In two to five years	**1,400,000**	1,050,000
In more than five years	**700,000**	1,050,000
	2,100,000	2,450,000

11

Loans included within creditors, are analysed as follows:

	2022	2021
	£	£
2.5% above base revolving loan	**1,575,000**	1,837,500
4.24% set-up loan facility	**525,000**	612,500
	2,100,00	2,450,000

The loans are secured by fixed charges over various assets of the company.

The company's parent has provided a revolving loan facility of £2,100,000 of which currently £2,100,000 has been fully drawn down; this was originally due to mature in June 2019, and also a set-up loan of £700,000 due for repayment in August 2019.

The company received confirmation from SCC in 2018/19 that these terms would be extended. They will be paid in annual instalments of £350k from 2021/22, and to be fully repaid by 2028/29. Surrey Choices was able to repay the first annual instalment a year early in 2020/21.

The interest term for the revolving loan is to be paid quarterly in arrears.

The interest term for the set-up loan is six monthly in arrears

Notes to the Financial Statements
For the year ended 31 March 2022

15. Leasing Commitments
The company's future minimum operating lease payments are as follows:

	2022	2021
	£	£
Within one year	**40,625**	68,275
Between one and five years	**115,104**	142,600

16. Financial instruments
Financial instruments are measured at amortised cost

11

Financial assets	**2022**	2021
	£	£
Debtors	**919,125**	733,250
Cash	**3,012,662**	2,836,454
	3,931,787	3,569,705

Financial liabilities

Trade creditors	**442,297**	332,858
Other creditors	**2,098,611**	1,783,607
Loans	**2,100,000**	2,450,000
	4,640,908	4,566,465

Notes to the Financial Statements
For the year ended 31 March 2022

17. Profit and Loss Account

	2022	2021
	£	£
Opening balance	**(1,109,800)**	(3,770,125)
Profit/(Loss) for the financial period	**204,353**	4,170,325
Actuarial (loss)/gain on defined benefit pension scheme asset	**-**	(1,510,000)
Closing balance as at 31 March	**(905,447)**	**(1,109,800)**

18. Share Capital

11

	2022	2021
	£	£
Allotted, called up and fully paid		
100 - Ordinary shares of £1 each	**100**	100

19. Pension obligations

Surrey Choices agreed with Surrey County Council in the last financial year to transfer the LGPS pension fund liability back to Surrey County as at the 31st March 2021. The LGPS pension liability of £3.8M no longer appears on the balance sheet as of this date.

The trustees of the TPS and LGPS schemes hold the assets of the scheme, separately from those of the Company. The Company is responsible for the pensionable costs incurred in respect of the Company's employees. The pension schemes were fully funded by Surrey County Council prior to transfer.

The TPS is a defined benefit scheme accounted for as defined contribution scheme. As a multi-employer scheme and due to the way the scheme is operated it is not practicable to obtain a reliable estimate of Surrey Choices' share of the liabilities.

19. Pension obligations	2022	2021
	£	£
Scheme assets		7,636,000
Scheme obligations		(12,501,000)
	-	(4,865,000)
Net liability at transfer - obligation of Surrey County Council	**-**	(1,037,000)
Net liability arising since transfer	**-**	(3,828,000)
Transfer of liability to Surrey County Council	**-**	4,865,000
	-	-

Notes to the Financial Statements
For the year ended 31 March 2022

19. Pension obligations (continued)

Reconciliation of opening and closing balances of the defined benefit obligation

	2022	2021
	£	£
Defined Benefit obligation at the start of the period	**-**	9,000,000
Current Service cost	**-**	244,000
Interest Expense	**-**	209,000
Contributions by plan participants	**-**	49,000
Actuarial losses /(gains)	**-**	3,116,000
11 Benefit paid	**-**	(117,000)
Defined benefit obligation at the end of the period	**-**	12,501,000

Reconciliation of opening and closing balances of the fair value of plan assets

	2022	2021
	£	**£**
Fair value of plan assets at the start of the period	**-**	5,860,000
Income Interest	**-**	135,000
Actuarial gains /(losses)	**-**	1,606,000
Benefit paid	**-**	(117,000)
Contribution by the Employer	**-**	103,000
Contribution by plan participants	**-**	49,000
Fair value of plan assets at the end of the period	**-**	5,860,000

19. Pension obligations (continued)

Defined benefit costs recognised in profit or loss

	2022	**2021**
	£	**£**
Current service cost	**-**	244,000
Net interest cost	**-**	74,000
Defined benefit costs recognised in profit and loss account	**-**	318,000

Notes to the Financial Statements
For the year ended 31 March 2022

Defined benefit costs recognised in other comprehensive income

	2022	2021
	£	£
Return on plan assets (excluding amounts included in net interest cost) - gain/ (loss)	-	1,606,000
Experience gain and losses on the liabilities – gain/ (loss)	-	97,000
Effects of changes in the demographic and financial assumptions underlying the present value liabilities gain/ (loss)	-	(3,213,000)
Total amount recognised in other comprehensive income - (loss) gain	-	(1,510,000)

11

Assets

	2022	2021
	%	%
Equities	-	76
Bonds	-	16
Property	-	5
Cash	-	3
Total assets	-	100

19. Pension obligations (continued)

Financial assumptions

	2022	2021
Discount rate	-	2.1%
Salary growth rate	-	3.7%
Pension growth rate	-	2.8%
Average life expectancies male*	-	87.3 Yrs
Average life expectancies female*	-	89.7 Yrs

Notes to the Financial Statements
For the year ended 31 March 2022

20. Related party transactions

The Company has taken advantage of the exemption in FRS102 "Related Party Disclosures" from disclosing transactions with other wholly owned members of the group.

The company has determined that key management includes all executive directors:

	2022	2021
	£	£
Remuneration paid to key management	**349,842**	344,534

21. Ultimate controlling party

The ultimate controlling party of Surrey Choices Ltd is Surrey County Council, which owns the entire
11 issued share capital.

22. Company information

Surrey Choices Ltd is a private company, limited by shares incorporated in England and Wales with registered office at Fernleigh Day Centre, Fernleigh Close, Walton-on-Thames, Surrey, England, KT12 1RD

23. Provision for liabilities

	2022	2021
	£	£
Provision for liabilities	**18,410**	-

Notes to the Financial Statements
For the year ended 31 March 2022

24. Analysis of changes in net debt

	At 31 March 2021	Cash flows	Other non-cash changes	At 31 March 2022
	£	£	£	£
Cash and cash equivalents:				
Cash	2,836,454	176,209	-	3,012,663
Borrowings:				
Intra-group debt	(2,450,000)	350,000	-	(2,100,000)
Net Debt	386,454	526,209	-	912,663

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UHY Hacker Young
Chartered Accountants

Report to the Board

Halsey Garton Residential Ltd

Year ended 31 March 2022

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Helping you prosper

Contents

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The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for and is not intended for, any other purpose.

01 Introduction

Purpose of this report

The purpose of this report is to bring to your attention the salient points which have arisen from our audit of the financial statements of Halsey Garton Residential Ltd (“the Company) for the year ended 31 March 2022.

This report provides an update to the matters raised in our Audit Service Plan, which was provided to the directors on 24 May 2022, focussing on observations that are significant to the responsibility of those charged with governance to oversee the financial reporting process as required by International Standard on Auditing (UK) 260 Communication with Those Charged with Governance.

This report provides an update to matters which arose during the course of our audit.

11

Audit scope

Our terms of engagement are set out in our engagement letter dated 26 July 2021. This sets out our audit responsibilities and their limitations and the responsibilities of the Directors in relation to the financial statements.

Our Audit Service Plan set out in detail the key issues and risks identified at the planning stage and the related planned audit responses. It also explained that our audit approach concentrates on areas of material risk of misstatement in the financial statements to allow us to reach our opinion in accordance with auditing standards.

Audit independence

In accordance with the requirements of auditing standards we disclose the following:

- We are auditors of Halsey Garton Property Investments Limited, Halsey Garton Properties Limited, Surrey Choices Limited and Hendeca Group Limited – all of which are subsidiaries of Surrey County Council.
11
- In addition to the audit, we provided the following services to the company in 2022:
    - Preparation of financial statements

We discussed the specific threat to you posed with our involvement in services provided and how we mitigate such threats in our Audit Service Plan. We have identified no further threats during the course of the audit.

We therefore confirm that, in our professional judgment, UHY Hacker Young LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partners and audit staff is not impaired.

Should you have any questions relating to the issue of our independence and objectivity, please do not hesitate to contact Jessica Moorghen on +44 20 7216 4670 or at j.moorghen@uhy-uk.com

Limitations

We have prepared this report for your use within the Company. It is part of our continuing communication of audit matters with those charged with the governance of the company and, accordingly, is addressed to the Board. It is not intended to include every matter that came to our attention. For these reasons, we believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy, we would not accept any responsibility for any reliance that they might place on it.

Acknowledgement

We wish to thank Joe Stockwell and the entire Halsey Garton Residential Limited team for the helpfulness and co-operation during the course of the audit process.

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Section 02

Audit status

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Helping you prosper

02 Audit status

The audit of the Company is substantially complete. All matters encountered during the audit were dealt with as the audit progressed. There are, however, at the time of writing some outstanding unresolved audit matters which are set out below which may or may not have an impact on our audit opinion on the Company's financial statements:

Clearance and agreement of final comments on the financial statements;

- Signed Letter of Representation from the directors;
- Signed Directors' Report;
- Signed Statement of Financial Position; and
- Completion of our subsequent events review to the date of our audit report.

We expect to sign our auditor's report as soon as practicable after clearing the outstanding matters and the approval of the directors' report and accounts by the directors. Our anticipated auditor's report opinion will be unmodified.

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Section 03

Our approach to materiality

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Helping you prosper

03 Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process.

It applies to monetary misstatements and also to disclosure requirements in compliance with the accountancy framework and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the company's balance sheet	£362,000	Net assets is the most appropriate benchmark to use as the management group of the company are most interested in the valuation of the assets, especially the investment properties held, but equally the return from these assets and the related debtor and loan balances. Therefore a net asset benchmark would allow the audit testing to encompass all these balances.
Materiality for the company's statement of profit and loss	**£120,800**	Furthermore, due to the Investment Properties held, the balance sheet has significantly higher values than the P&L and as such, a lower % of 1% of Net assets has been used to determine a section materiality to ensure adequate coverage for testing.

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Helping you prosper

Section 04

Significant matters

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Helping you prosper

04 Significant matters

Significant matters, as identified in our Audit Service Plan:

Risks identified in Audit Service Plan	Work identified by management	Comments
Investment Property valuations	Management was able to provide us with the relevant purchase contracts to substantiate the historical cost of the properties and the valuation reports performed by their external valuer.	We were to review the property valuations supplied to us by management by assessing the reasonableness of the assumptions made and the accuracy of the calculation. We were also required to check that the revaluation adjustments had been accurately accounted for within the financial statements. **Conclusion:** Overall, we found management's assumptions on which the property valuations had been based to be reasonable. The calculations were found to be accurate together with the revaluation adjustments in the accounting records.
Management override of controls Under ISA 240 (UK) there is a presumed risk that the risk of management override of controls is present in all entities	Management were to ensure there are appropriate procedures in place to prevent override of controls.	**We have:** • Updated our documentation around the posting of journals and formulation of key estimates and assessed the design and implementation of those controls. • Assessed and challenged accounting estimates, judgements and decisions made by management. • Tested a sample of journal entries, adjustments and accounting estimates for bias that could result in material misstatements. • Review significant transactions to ensure they were in the normal course of business.

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		Conclusion: We found no indication of management bias or significant transactions outside the normal course of business.
Cut-off and revenue recognition Under ISA 240 (UK) there is a resumed risk that revenue may be misstated due to the improper recognition of revenue	Management were to review the status of all significant transactions close to the year end to ensure that all were accounted for in the appropriate accounting period. Management were to ensure that rent proof in total workings were completed for each property, as this was considered to be a key management control.	We have: • Updated our documentation of the revenue process and controls in place, this included assessing the design and implementation of those controls. • Assessed whether revenue was accounted in accordance with the accounting policy on revenue recognition. • Analytically reviewed revenues and verified significant movements against expectations/performed proof in total. • Tested a sample of transactions to underlying rental agreements. • Reviewed the assessment made by management in relation to the application of the correct cut off processes. **Conclusion:** We found no significant or reportable adjustments were noted based on the work performed.

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Section 05

Going concern

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Helping you prosper

05 Going concern

Management's assessment	Management were to evaluate whether the company is trading as a going concern. Management was thus required to provide a cash flow projection for 12 months from the expected date of signing the Audit Report which confirmed their assessment of the going concern principle.	We inspected the cash flow projection provided by management, checking that the assumptions made were reasonable and that the calculations were accurate. The cash balance is expected to remain positive throughout. Conclusion: We concur with management's assessment that the going concern principle is applicable.

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Section 06

Other matters

(non-significant risks)

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Helping you prosper

06 Other matters (non-significant risks)

Other Risks identified in our Audit Service Plan	Work done by Management	Comments
Debtor Recoverability	Management was able to provide supporting evidence for debtor balance outstanding at the year end and justifications for their recoverability.	Testing was completed satisfactorily and there were no issues identified with the recoverability of the outstanding debtors at the year end.
Valuation of Loan Liability	Management was able to provide the underlying loan agreements to substantiate the completes of the loan liability recognised.	Testing was completed satisfactorily with no issues identified and the loan was split between what is payable in less and more than a year.

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Section 07

Other communication requirements

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Helping you prosper

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07 Other communication requirements

Changes in accounting policies

No changes in accounting policies have been made during the course of the year.

Review of board minutes

No material or significant matters have arisen from the review of board minutes.

Significant post balance sheet events

No significant post balance sheet events have been noted.

Consideration of fraud

We have discussed fraud with Joe Stockwell and Neil Jarvey. It was confirmed that:

- there have been no instances of fraud during the year; and
- those charged with governance of the company consider there to be a low risk of fraud.

During the course of our work we found no evidence of fraud and corruption. We must emphasise, however, that the responsibility for the prevention of and detection of fraud lies with management, and our work does not remove the possibility that fraud and corruption may have occurred and remain undetected.

Related parties

We are not aware of any related parties or related party transactions which have not been disclosed.

Laws and regulations

We are not aware of any significant incidences of non-compliance with laws and regulations

Written representations

Following conclusion of our audit work we will issue a letter of representations to management. At the date of this report we expect to be requesting specific representations in respect of the valuation of the investment properties.

Confirmation request from third parties

Confirmations have been requested and received for all bank and loan accounts.

Disclosures

A review of disclosures has been performed as part of our review of the accounts with necessary amendments being processed.

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Section 08

Audit adjustments

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Helping you prosper

08 Audit adjustments

Unadjusted items

A schedule of unadjusted errors for each undertaking has been provided to you. A summary of all the unadjusted errors has been provided to Joe Stockwell. The directors have included the summary of unadjusted errors to the group letter of representation. The [group] letter of representation states that the individual amounts and aggregate total of £nil (increase in profit) is immaterial and, accordingly, no adjustment is required.

In assessing the key areas of audit judgement, we have had full regard to our assessed level of materiality. A final materiality calculation will be undertaken prior to finalisation of the group accounts.

We acknowledge the subjectivity and scope for differing viewpoints over some of our concerns. By the same token, the Board in deciding to approve the accounts as currently drafted will also be exercising subjective judgement.

11

Remaining timetable

We are scheduled to be in a position to sign all statutory accounts by October 2022 in respect of the Company.

Management Letter

We will discuss with management matters arising where we consider that the internal systems and procedures could be improved. A draft copy of the letter highlighting these issues will be supplied to management. We will then require formal confirmation of management's comments which will then be incorporated before we circulate the document to the full Board.

Audit report

We propose issuing an unmodified audit report on the financial statements of the company for the year ended 31 March 2022.

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Company Registration No. 09152367 (England and Wales)

HALSEY GARTON RESIDENTIAL LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

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UHY Hacker Young
Chartered Accountants

COMPANY INFORMATION

Directors	V L J Royle D C Wilding	(Appointed 16 June 2022)
Company number	09152367	
Registered office	Woodhatch Place 11 Cockshot Hill Reigate Surrey RH2 8EF	
Auditor	UHY Hacker Young Quadrant House 4 Thomas More Square London E1W 1YW	

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2022

The directors present their annual report and financial statements for the year ended 31 March 2022.

Principal activities
The principal activity of the company is the letting and operating of own or leased rental estate.

Results and dividends
The results for the year are set out on page 7. Halsey Garton Residential Limited was dormant in previous years and commenced trading in the 8 months to 31 March 2021, so the year to 31 March 2022 is the first full year of trading.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

11

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

N O' Connor	(Resigned 16 June 2022)
V L J Royle	(Appointed 16 June 2022)
D C Wilding	

Auditor
UHY Hacker Young were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Small companies exemption

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board

V. Royle
....

V L J Royle
Director

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Date: 21/10/2022

UHY Hacker Young
Chartered Accountants

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London E1W 1YW

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF HALSEY GARTON RESIDENTIAL LTD

Opinion

We have audited the financial statements of Halsey Garton Residential Ltd (the 'company') for the year ended 31 March 2022 which comprise the profit and loss account, the balance sheet, the statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
11
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London E1W 1YW

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF HALSEY GARTON RESIDENTIAL LTD

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

11

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London E1W 1YW

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF HALSEY GARTON RESIDENTIAL LTD

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities,
11 including fraud, is detailed below.

We gained an understanding using our general commercial and sector experience and through discussion with the Directors and other senior management of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company that were contrary to applicable laws and regulations, including fraud. We enquired of management and the Directors as to their identification of any non compliance with laws or regulations, or any actual or potential claims.
We performed our own checks of compliance with relevant areas identified which included financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, health & safety and anti-money laundering. We communicated identified laws and regulations and potential fraud risks throughout our team and remained alert to any indications of non-compliance or fraud throughout the audit. We agreed the financial statement disclosures to underlying supporting documentation to assess compliance with those laws and regulations having an impact on the financial statements. We reviewed Board meeting minutes and enquired of the Directors and management as to the risks of non-compliance and any instances thereof. We challenged assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the property valuations by reviewing the rental yields per property against market yields as per industry reports. In relation to the risk of management override of internal controls, we undertook procedures to review journal entries processed up to the year end and evaluated whether there was a risk of material misstatement due to fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery of intentional misrepresentations , or through collusion.

There are inherent limitations in the audit procedures described above; any instance of non-compliance with laws and regulations and fraud which is far removed from transactions reflected in the financial statements would diminish the likelihood of detection. Furthermore, the risk of not detecting a material misstatement due to fraud is greater than the risk of not detecting one resulting from error. Fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentation, or through an act of collusion that would mitigate internal controls.

A further description of our responsibilities is available on the Financial Reporting Council’s website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

UHY Hacker Young Chartered Accountants

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London E1W 1YW

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF HALSEY GARTON RESIDENTIAL LTD

Use of our report

This report is made solely to the company's member in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to the member 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 company and the company's member for our audit work, for this report, or for the opinions we have formed.

Jessica Moorghen (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young Date: 27 October 2022

Chartered Accountants
Statutory Auditor

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HALSEY GARTON RESIDENTIAL LTD

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2022

	Notes	2022 £	2021 £
Turnover	**3**	1,054,409	265,895
Administrative expenses		(478,156)	(201,455)
Operating profit		576,253	64,440
Interest payable and similar expenses	**6**	(385,649)	(94,544)
Fair value gains and losses on investment properties	**8**	7,759,562	-
Profit/(loss) before taxation		7,950,166	(30,104)
Tax on profit/(loss)	**7**	(1,979,820)	-
Profit/(loss) for the financial year		5,970,346	(30,104)

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HALSEY GARTON RESIDENTIAL LTD

BALANCE SHEET

AS AT 31 MARCH 2022

	Notes	2022 £	2022 £	2021 £	2021 £
Fixed assets					
Investment properties	8		18,903,088		9,045,566
Current assets					
Debtors	9	223,554		326,003	
Cash at bank and in hand		363,093		133,127	
		586,647		459,130	
Creditors: amounts falling due within one year	10	(448,116)		(378,854)	
Net current assets			138,531		80,276
Total assets less current liabilities			19,041,619		9,125,842
Creditors: amounts falling due after more than one year	11		(7,072,691)		(5,828,220)
Provisions for liabilities	12		(1,941,577)		-
Net assets			10,027,351		3,297,622
Capital and reserves					
Called up share capital	14		4,087,109		3,327,726
Other equity reserve			5,819,671		-
Profit and loss reserves			120,571		(30,104)
Total equity			10,027,351		3,297,622

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on 21/10/2022 and are signed on its behalf by:

V. Royle

V L J Royle
Director

Company Registration No. 09152367

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HALSEY GARTON RESIDENTIAL LTD

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2022

	Notes	Share capital £	Other equity reserve £	Profit and loss reserves £	Total £
Balance at 1 April 2020		1	-	-	1
Year ended 31 March 2021:					
Loss and total comprehensive income for the year		-	-	(30,104)	(30,104)
Issue of share capital	**14**	3,327,725	-	-	3,327,725
Balance at 31 March 2021		3,327,726	-	(30,104)	3,297,622
Year ended 31 March 2022:					
Profit and total comprehensive income for the year		-	-	5,970,346	5,970,346
Issue of share capital	**14**	759,383	-	-	759,383
Transfers		-	5,819,671	(5,819,671)	-
Balance at 31 March 2022		4,087,109	5,819,671	120,571	10,027,351

1 Accounting policies

Company information

Halsey Garton Residential Ltd is a private company limited by shares incorporated in England and Wales. The registered office is Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (“FRS 102”) and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £. 11

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

1.2 Going concern

After reviewing the company’s forecast and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future being a period of not less than 12 months from the date of approval of these financial statements.

At the time of approving the financial statements, the directors have assessed the impact of Covid-19 on the business. While tenants have been impacted, the effect on the company to date has been low and the company has adequate resources to continue operational existence for the foreseeable future.

The company therefore continues to adopt the going concern basis in preparing its financial statements.

1.3 Turnover

Turnover from rents and other property related services, is recognised when the property or service is provided, rather than when payments are received.

Expenses in relation to services received 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.

1 Accounting policies **(Continued)**

1.4 Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is initially recognised at cost, which includes the purchase cost and any directly attributable expenditure. Subsequently it is measured at fair value at the reporting end date. Changes in fair value are recognised in profit or loss.

1.5 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.6 Financial instruments

11 The company has elected to apply the provisions of Section 11 ‘Basic Financial Instruments’ and Section 12 ‘Other Financial Instruments Issues’ of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

1 Accounting policies **(Continued)**

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method. 11

1.7 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.8 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to calculate the amount are those enacted by the balance sheet date.

Deferred tax

The tax expense recorded in the profit and loss account represents the sum of tax currently payable and deferred tax. Deferred tax is the tax expected to be payable or recoverable based on timing differences between the company's net profits recorded in the financial statements and taxable profits for tax computation purposes.

1.9 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

1.10 Loans between group companies

Loans between group companies are measured at amortised cost.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

11 The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Investment properties

The valuations the Company places on its property portfolio require estimates to be made, including, but not limited to, market yields, expected rental values (ERVs), and void periods. These estimates are based on assumptions made by the valuers. The approach to the valuations and the amounts affected are set out in the accounting policies and note 8 on Investment Properties. The Company has valued the investment properties at fair value.

3 Turnover and other revenue

	2022	**2021**
	£	**£**
Turnover analysed by class of business		
Rental income	981,667	204,846
Recharged expenses	72,742	61,049
	1,054,409	265,895

Recharged expenses in the year have been derived from activities carried out on behalf of Surrey County Council.

4 Auditor's remuneration

	2022	**2021**
Fees payable to the company's auditor and associates:	**£**	**£**
For audit services		
Audit of the financial statements of the company	13,750	10,000

5 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2022 Number	2021 Number
Total	-	-

6 Interest payable and similar expenses

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	2022 £	2021 £
Interest payable and similar expenses includes the following:		
Interest payable to group undertakings	385,649	94,544

Interest is payable on intragroup loans between Halsey Garton Residential Ltd and Surrey County Council.

7 Taxation

	2022 £	2021 £
Current tax		
UK corporation tax on profits for the current period	38,243	-
Deferred tax		
Origination and reversal of timing differences	1,941,577	-
Total tax charge	1,979,820	-

7 Taxation **(Continued)**

The actual charge for the year can be reconciled to the expected charge/(credit) for the year based on the profit or loss and the standard rate of tax as follows:

		2022	2021
		£	**£**
	Profit/(loss) before taxation	7,950,166	(30,104)
	Expected tax charge/(credit) based on the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	1,510,532	(5,720)
11	Tax effect of expenses that are not deductible in determining taxable profit	3,309	39
	Group relief	-	5,681
	Remeasurement of deferred tax for changes in tax rate	465,978	-
	Unexplained difference	1	-
	Taxation charge for the year	1,979,820	-

8 Investment property

	2022
	£
Fair value	
At 1 April 2021	9,045,566
Additions	2,097,960
Revaluations	7,759,562
At 31 March 2022	18,903,088

The fair value of additions in the investment properties is deemed to be the purchase price plus attributable costs as at 31 March 2022 as they were acquired at an open market value basis by reference to market evidence of transaction prices for similar properties during the year. The investment properties acquired comprise long leaseholds to be held for a term of 40 years from the commencement date specified in the purchase agreements.

During the year 31 March 2022, there were a number of changes in fair values arising from the revaluation of the Company's investment properties purchased in the 31 March 2021 year end.

The investment properties are valued on an open market basis as at 31 March 2022 by independent valuers. The valuer in forming an opinion makes a series of assumptions, which are typically market related, such as net initial yields and expected rental values, and are based on the valuer's professional judgment. The valuer has sufficient current local and national knowledge of the particular property markets involved and has the skills and understanding to undertake the valuations competently. The external independent valuers hold a recognised and relevant professional qualification. Each property is considered a separate asset, based on its unique nature, characteristics and the risks of the property.

9 Debtors

Amounts falling due within one year:	2022 £	2021 £
Trade debtors	44,054	168,405
Other debtors	172,976	151,587
Prepayments and accrued income	6,524	6,011
	223,554	326,003

10 Creditors: amounts falling due within one year

	2022 £	2021 £
Other borrowings	48,533	37,904
Trade creditors	25,159	2,000
Corporation tax	38,243	-
Other creditors	178,237	126,966
Accruals and deferred income	157,944	211,984
	448,116	378,854

Intragroup loans totalling £7,121,224 with a fixed interest rate of 6% have been provided by Surrey County Council and are repayable 40 years from the drawdown date. These are repayable annually in instalments and the carrying amount as at 31 March 2022 is included at amortised cost. The amounts payable no later than a year is £48,533.

11 Creditors: amounts falling due after more than one year

	2022 £	2021 £
Other creditors	7,072,691	5,828,220

Intragroup loans totalling £7,121,224 with a fixed interest rate of 6% have been provided by Surrey County Council and are repayable 40 years from the drawdown date. These are repayable annually in instalments and the carrying amount as at 31 March 2022 is included at amortised cost. The amounts payable later than a year is £7,072,691.

12 Provisions for liabilities

		2022	2021
		£	£
Deferred tax liabilities	**13**	1,941,577	-

13 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

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	Liabilities 2022	Liabilities 2021
Balances:	£	£
Accelerated capital allowances	1,686	-
Revaluations	1,939,891	-
	1,941,577	-

	2022
Movements in the year:	£
Liability at 1 April 2021	-
Charge to profit or loss	1,941,577
Liability at 31 March 2022	1,941,577

14 Called up share capital

	2022	2021	2022	2021
Ordinary share capital	**Number**	**Number**	**£**	**£**
4,087,109 ordinary shares of £1 each	4,087,109	3,327,726	-	-
Issued and fully paid				
4,087,109 ordinary shares of £1 each	4,087,109	3,327,726	4,087,109	3,327,726

During the year, 759,383 ordinary shares were issued at a nominal value of £1.00 each.

15 Equity

Called-up share capital
Represents the nominal value of shares that have been issued.

Other equity reserve
Represents fair value movements in investment property and corresponding deferred tax movements recognised in the current and previous reporting period.

Profit and loss account
Includes all current and prior period retained profits and losses.

16 Related party disclosures

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The company is 100% owned by Surrey County Council (SCC), Surrey County Council draws up consolidated financial statements and its registered office is Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

The only related party transactions were intra-group transactions between SCC, other SCC subsidiaries and Halsey Garton Residential Limited and these have not been disclosed in accordance with section 33.1A of FRS 102.

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UHY Hacker Young
Chartered Accountants

Report to the Board

Halsey Garton Property Limited & Halsey Garton Property Investments Limited

Year ended 31 March 2022

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Helping you prosper

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Contents

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for and is not intended for, any other purpose.

01 Introduction

Purpose of this report

The purpose of this report is to bring to your attention the salient points which have arisen from our audit of the financial statements of Halsey Garton Property Limited ("the Company") and Halsey Garton Property Investments Limited (together "the Group") for the year ended 31 March 2022.

This report provides an update to the matters raised in our Audit Service Plan, which was provided to the directors on 24 May 2022, focussing on observations that are significant to the responsibility of those charged with governance to oversee the financial reporting process as required by International Standard on Auditing (UK) 260 Communication with Those Charged with Governance.

This report provides an update to matters which arose during the course of our audit.

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Audit scope

Our terms of engagement are set out in our engagement letter dated 7th April 2020. This sets out our audit responsibilities and their limitations and the responsibilities of the Directors in relation to the financial statements.

Our Audit Service Plan set out in detail the key issues and risks identified at the planning stage and the related planned audit responses. It also explained that our audit approach concentrates on areas of material risk of misstatement in the financial statements to allow us to reach our opinion in accordance with auditing standards.

Audit independence

In accordance with the requirements of auditing standards we disclose the following:

- We are also auditors of the following other Surrey County Council subsidiary companies;
    - Halsey Garton Residential Limited
    - Hendeca Group Limited
    - Surrey Choices Limited

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We discussed the specific threat to you posed with our involvement in services provided and how we mitigate such threats in our Audit Service Plan. We have identified no further threats during the course of the audit.

We therefore confirm that, in our professional judgment, UHY Hacker Young LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partners and audit staff is not impaired.

Should you have any questions relating to the issue of our independence and objectivity, please do not hesitate to contact Jessica Moorghen on +44 20 7216 4670 or at j.moorghen@uhy-uk.com

Limitations

We have prepared this report for your use within the Company. It is part of our continuing communication of audit matters with those charged with the governance of the Group and, accordingly, is addressed to the Board. It is not intended to include every matter that came to our attention. For these reasons, we believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy, we would not accept any responsibility for any reliance that they might place on it.

Acknowledgement

We have received full co-operation from all Halsey Garton Property Limited and Halsey Garton Property Investments Limited staff. We wish to thank in particular Neil Jarvey, Emma Cross and the entire Halsey Garton team for the helpfulness and co-operation during the course of the audit process.

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Section 02

Audit status

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Helping you prosper

02 Audit status

The audit of the Group is substantially complete. All matters encountered during the audit were dealt with as the audit progressed. There are, however, at the time of writing some outstanding unresolved audit matters which are set out below which may or may not have an impact on our audit opinion on the Group's financial statements:

- Signed Letter of Representation from the directors;
- Signed Directors' Report;
- Signed Statement of Financial Position; and
- Completion of our subsequent events review to the date of our audit report.

We expect to sign our auditor’s report as soon as practicable after clearing the outstanding matters and the approval of the directors’ report and accounts by the directors. Our anticipated auditor’s report opinion will be unmodified.

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Section 03

Our approach to materiality

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Helping you prosper

03 Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process.

It applies to monetary misstatements and also to disclosure requirements in compliance with the accountancy framework and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the company's financial statements	**£1,767,000 – (Halsey Garton Property Limited)** **£1,848,000 - (Halsey Garton Property Investments Limited)**	For both entities, the key metric was considered to be Net Assets. This is because the valuation of the investment properties is the main area of interest for the directors as it impacts the rental values that can be sought from tenants.

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Section 04

Significant matters

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Helping you prosper

04 Significant matters

Significant matters, as identified in our Audit Service Plan:

Risks identified in Audit Service Plan	Work identified by management	Comments
Investment property valuations - Halsey Garton Property Investments Ltd only	Management procedures should be in place to determine the market value of the property portfolio at the year-end date..	**We have:** • Reviewed the property valuations supplied to us and assessed the reasonableness of the assumptions made and the accuracy of the calculation. • Checked that the revaluation adjustments have been accurately accounted for. • engaged an auditors' expert to review the assumptions adopted by the management's expert. We held several meetings to challenge those assumptions both with management and the client's valuation team. **Conclusion:** Downward adjustments totalling £4.1m were made by CBRE following the identification of discrepancies in the source data provided to CBRE and our appointed expert.
Management override of controls Under ISA 240 (UK) there is a presumed risk that the risk of management override of controls is present in all entities	Management were to ensure there are appropriate procedures in place to prevent override of controls.	**We have:** • Updated our documentation around the posting of journals and formulation of key estimates and assessed the design and implementation of those controls. • Assessed and challenged accounting estimates, judgements and decisions made by management.

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		• Tested a sample of journal entries, adjustments and accounting estimates for bias that could result in material misstatements. • Review significant transactions to ensure they were in the normal course of business. **Conclusion:** We found no indication of management bias or significant transactions outside the normal course of business.
Cut-off and Revenue Recognition – Halsey Garton Property Investments Ltd only Under ISA 240 (UK) there is a resumed risk that revenue may be misstated due to the improper recognition of revenue	Management should review the status of all significant transactions close to the year end to ensure that all are accounted for in the appropriate accounting period. Additionally, management have prepared rental income schedules which show how much income was generated from each tenant.	We have: • Updated our documentation of the revenue process and controls in place, this included assessing the design and implementation of those controls. • Assessed whether revenue was accounted in accordance with the accounting policy on revenue recognition. • Analytically reviewed revenues and verified significant movements against expectations/performed proof in total • Tested a sample of transactions to agreements to supporting evidence • Reviewed the assessment made by management in relation to the application of the correct cut off processes **Conclusion:** We found no significant or reportable adjustments were noted based on the work performed.
Valuation of investment in subsidiary (Halsey Garton Property Ltd only)	Management is to ensure investment in the Halsey Garton	**We have:** • Carried out a review of the calculation on which the

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	Property Investments Ltd subsidiary is materially correct.	investment valuation is based, and assessed any impairments required following the valuation of the underlying properties within the subsidiary **Conclusion:** We found the valuation of the investments to be fairly stated and impaired in accordance with the movements in the fair values of the investment properties held within HGPI.

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Section 05

Going concern

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Helping you prosper

05 Going concern

Management's assessment	Management were to evaluate whether the group is trading as a going concern. Management provided a cash flow projection to June 2024 which confirmed their assessment of the going concern principle.	We inspected the cash flow projection provided by management, checking that the assumptions made were reasonable and that the calculations were accurate. We also monitored the progress of the significant refinancing that took place post year end. The cash balance is expected to remain positive throughout. Conclusion: We concur with management's assessment that the going concern principle is applicable.

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Section 06

Other matters

(non-significant risks)

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Helping you prosper

06 Other matters (non-significant risks)

Other Risks identified in our Audit Service Plan	Work done by Management	Comments
Debtor recoverability - Halsey Garton Property Investments Ltd only	Management should ensure that the bad debt provision is adequate, complete, and not materially understated. They should have an adequate justification for recognition of bad debt provision	We have reviewed the subsequent recovery of debtors after the year end to gain comfort that the debtors are recoverable and consider whether any bad debt provisions need to be adjusted for. **Conclusion:** Reasonable assurance has been obtained that the bad debt provision is adequate, complete, and not materially understated.

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Section 07

Other communication requirements

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Helping you prosper

07 Other communication requirements

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Changes in accounting policies

No changes in accounting policies have been made during the course of the year.

Review of board minutes

No material or significant matters have arisen from the review of board minutes.

Significant post balance sheet events

No significant post balance sheets have been noted.

Consideration of fraud

We have discussed fraud with Paul Forrester and Neil Jarvey. It was confirmed that:

- there have been no instances of fraud during the year; and
- those charged with governance of the company consider there to be a low risk of fraud.

During the course of our work we found no evidence of fraud and corruption. We must emphasise, however, that the responsibility for the prevention of and detection of fraud lies with management, and our work does not remove the possibility that fraud and corruption may have occurred and remain undetected.

Related parties

We are not aware of any related parties or related party transactions which have not been disclosed.

Laws and regulations

We are not aware of any significant incidences of non-compliance with laws and regulations

Written representations

Following conclusion of our audit work we will issue a letter of representations to management. At the date of this report we expect to be requesting specific representations in respect of the recoverability of intercompany balances, valuation of the investment in subsidiary, assumptions surrounding going concern and the valuation of the investment properties.

Confirmation request from third parties

Confirmations have been requested and received for all bank and loan accounts.

Disclosures

A review of disclosures has been performed as part of our review of the accounts with necessary amendments being processed.

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Section 08

Audit adjustments

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Helping you prosper

08 Audit adjustments

Unadjusted items

A schedule of unadjusted errors for each undertaking has been provided to you. A summary of all the unadjusted errors has been provided to Neil Jarvey. The directors have included the summary of unadjusted errors to the group letter of representation. The group letter of representation states that there were no unadjusted items.

In assessing the key areas of audit judgement we have had full regard to our assessed level of materiality. A final materiality calculation will be undertaken prior to finalisation of the group accounts.

We acknowledge the subjectivity and scope for differing viewpoints over some of our concerns. By the same token, the Board in deciding to approve the accounts as currently drafted will also be exercising subjective judgement.

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Remaining timetable

We are scheduled to be in a position to sign all statutory accounts in due course in respect of the Company and the Group.

Management Letter

We will discuss with management matters arising where we consider that the internal systems and procedures could be improved. A draft copy of the letter highlighting these issues will be supplied to management. We will then require formal confirmation of management's comments which will then be incorporated before we circulate the document to the full Board.

Audit report

We propose issuing an unmodified audit report on the financial statements of the company for the year ended 31 March 2022.

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Halsey Garton Property Ltd

Report and financial statements

Year ended 31 March 2022

Company registration number: 09089937

Company Information

Directors	D Wilding V Royle (appointed on 16 June 2022) N O'Connor (resigned on 16 June 2022)
Company Number	09089937
Registered office	Woodhatch Place 11 Cockshot Hill Reigate RH2 8EF
Auditor	UHY Hacker Young Quadrant House 4 Thomas More Square London E1W 1YW
Bankers:	HSBC 60 Queen Victoria Street London EC4N 4TR

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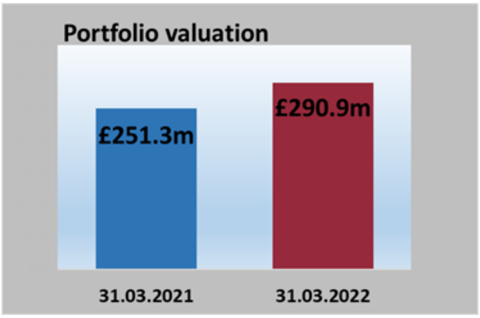
Strategic report

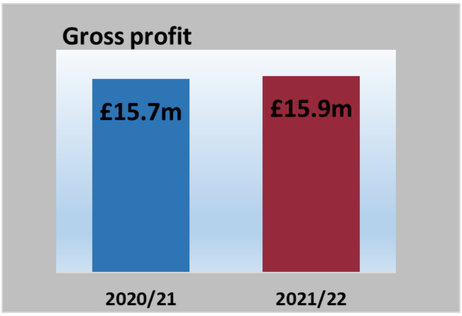
for the year ended 31 March 2022

The directors present their Strategic report with the consolidated and individual financial statements for the year ended 31 March 2022.

Group highlights

- Property portfolio of £290.9m (31 March 2021: £251.3m)
- Property acquisitions totalling £nil in 2021/22 (2020/21: nil)
- Gross profit of £15.9m for 2021/22 (2020/21: £15.7m)
- Profit before tax and fair value adjustments of £1.6m for 2021/22 (2020/21: £0.4m)
- Dividend proposed of £nil for the year to 31 March 2022 (2020/21: nil)





Business Model

Our strategy is to build a diversified property portfolio, let to reliable tenants in good locations, to deliver income returns over the long term to our shareholder (Surrey County Council) for the benefit of Surrey residents.

Debt finance is secured solely from Halsey Garton Property Ltd and during 2021/22 there was £14.3m in interest payable by Halsey Garton Property Investments Ltd (2020/21: £14.3m).

Financial summary

Over the last seven years the Halsey Garton group has built a property portfolio now valued at £290.9m. The group made a gross profit of £15.9m, up 1% from last year. Based on the performance of the company in 2021/22 and the cumulative impact of Covid-19 the directors have not approved a dividend for 2021/22 (2020/21: £0.25m). Assuming no further acquisitions, £16.9m rental income will be due to the group in the financial year 2022/23.

The net change in values of our investment properties is a key component of the company's profit before tax. Including the net surplus of £39.7m on revaluation of investment properties this year, the company made a profit before tax of £41.2m. Further information on the annual property valuation is provided below.

The total capital of the company consists of shareholders' equity and net debt. Over the year our debt remained constant as there were no further investments made in 2021/22. Our loan to value (LTV) ratio decreased from 93% to 80%, because of increases in the underlying values of our properties.

Principal business risks

Property investment is subject to inherent market risks which can be mitigated to some degree by the creation of a balanced portfolio of investments. However, the risk of tenant failure increased during the Covid-19 pandemic and could continue to do so if the general economic conditions over the longer term are negatively impacted by factors such as Brexit, increased online retail, the cost of living crisis, and less demand for office space due to home-working. Investments are evaluated carefully and with due regard to risk and exposure to potential tenant voids, and are managed to avoid, wherever possible, over-reliance upon single tenants or types of tenants in terms of their impact as a percentage of the total portfolio.

Tenant voids were 5.3% at 31 March 2022, representing loss of rent due to voids, CVA's and other short-term reduced rent arrangements (excluding tenant lease incentives).

Financial risk management

Management reviews the group's exposure to price risk, credit risk, liquidity risk and cash flow risk. Our overall financial risk management strategy seeks to minimise the potential 11
adverse effects of these on our financial performance. Available funds are closely monitored throughout the year. Each new investment is financed by a combination of equity and debt provided by Halsey Garton Property Ltd, on a fixed interest rate. There is also a short-term loan facility available although to date that has not been required. Any cash investments are made via Surrey County Council in accordance with its Treasury management strategy, which prescribes investment limits according to the credit rating of the counterparty.

The overall credit risk of trade receivables is considered to be low – a credit report is obtained from an independent rating agency for each tenant prior to acquisition or upon agreement of a new lease. Tenants currently in known financial difficulties represent 1.3% of the 2021/22 rent roll.

Property review

As at 31 March 2022:

- 17 properties, comprising 1,719,841 square feet of lettable space
- 55 (55 prior year) commercial tenants providing a contractual annual rent roll of £16.9m (£16.8m prior year)
- Weighted average unexpired lease term (WAULT) of 9.2 years to lease breaks/expiry
- Future income stream from tenants under lease agreements of £165.5m.

Property valuation

The fair value of the group's investment property is measured annually at each reporting date with the changes in value reported in the company profit and loss account as an unrealised gain or loss. The revaluation exercise completed as at 31 March 2022 has resulted in an overall increase in underlying values of £39.7m compared to the value of the assets last year or upon purchase for the three assets acquired during the year. These increases are primarily driven by general market sentiment.

An unrealised gain is an accounting adjustment that cannot be used to provide a bigger dividend than that permissible from the underlying profits generated by the company.

Similarly, an unrealised loss does not impact upon the company's ability to provide a dividend since it is something that has not happened nor will happen unless the company decides to sell the asset.

All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors, known as a 'red book' valuation.

Portfolio overview

The Halsey Garton group sits within the investment portfolio of SCC, which as a whole seeks to build a diversified portfolio of assets in order to manage risks and secure long-term income returns for the council. This year there have been no acquisitions or disposals from the Halsey Garton Properties portfolio. As at 31 March 2022 our portfolio consisted of 17 properties across multiple sectors and locations throughout England, as detailed below.

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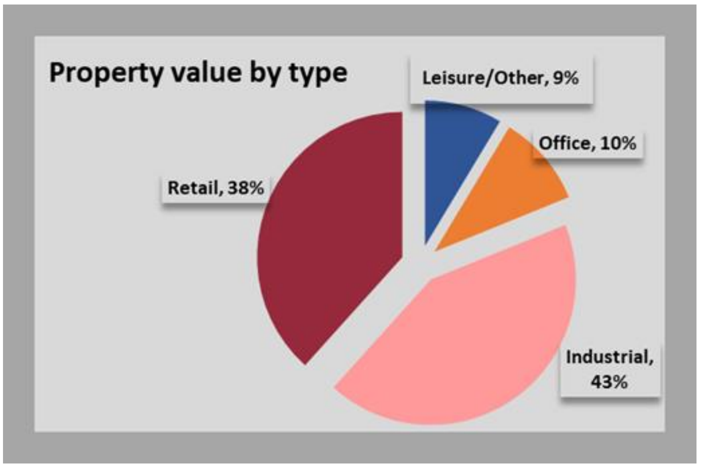
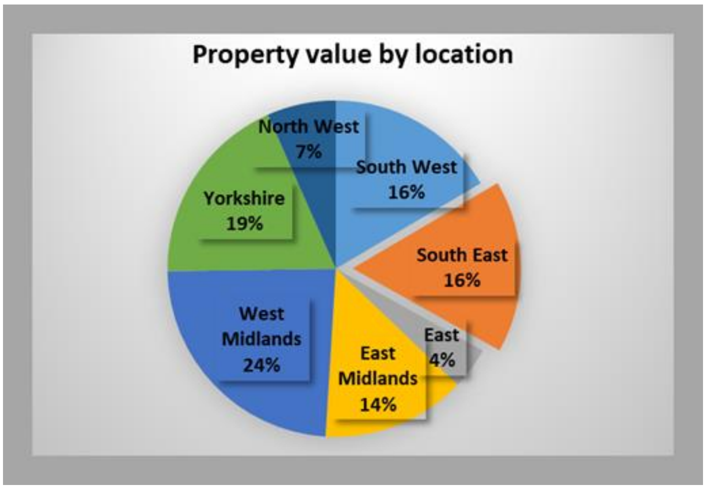


The Halsey Garton portfolio mix is slightly weighted towards the retail sector, however on a SCC group basis there is a balanced portfolio across sectors.

Properties are geographically spread across England.



Portfolio detail

Property	Type	Description	Acquisition Date	Asset Value £000
Hampton Park West, Melksham	Industrial	Manufacturing and warehouse facility	Nov-15	14,850
Hawkley Drive, Bristol	Industrial	Manufacturing and warehouse facility	Apr-16	18,075
Washford Mills, Redditch	Retail	Retail warehouse units	May-16	6,330
Manton Wood, Worksop	Industrial	Distribution warehouse	May-16	12,525
Aztec West, Bristol	Office	Single tenanted office	Jun-16	15,150
Wiggs House, Salford	Industrial	Distribution warehouse	Jul-16	11,175
Willowbrook, Loughborough	Retail	Retail units (out of town location)	Nov-16	14,050
Birmingham Road, Stratford Upon Avon	Leisure / Retail	Hotel and retail units	Nov-16	8,580
Friar Street, Worcester	Leisure / Retail	Cinema and retail / restaurant units	Nov-16	7,160
Oakgrove Retail Park, Milton Keynes	Retail	Retail units (out of town location)	Dec-16	26,900
Stratham Street, Macclesfield	Retail	Retail warehouse unit	Dec-16	8,070
High Street, Winchester	Retail	High Street department store	Mar-17	6,700
Malvern Shopping Park	Retail	Retail units (out of town location)	Sep-17	47,100
Blenheim Park, Nottingham	Industrial	Distribution warehouse	Mar-18	13,725
Comet Square, Hatfield	Leisure	Hotel	Oct-18	11,725
West of Park Spring Road, Barnsley	Industrial	Manufacturing	Dec-18	54,200
Kitemark Court, Milton Keynes	Office	Single tenanted office	Dec-18	14,600
Total Asset Value				290,915

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Key performance indicators (KPIs)

Objective	KPI	Performance 2021/22	Performance 2020/21
Maximise income returns from our property portfolio	Underlying revenue profit (before tax and fair value adjustments)	Profit of £1.6m	Profit of £0.4m
	Tenant voids percentage (based on open market rental value)	Tenant voids at 5.3% as at 31 March 2022	Tenant voids at 5.6% as at 31 March 2021
Secure long-term income stream	WAULT to lease breaks/expiries	9.2 years	9.8 years

Business conduct

The Halsey Garton group operates in accordance with its shareholder's values and policies, including its responsible investment policy. This policy ensures that the decision-making process for all new investments involves consideration of a range of environmental, social and governance factors. The group seeks to establish strong business relationships with its advisors and suppliers and to pay them within agreed payment terms.

Halsey Garton reviews its health and safety obligations in relation to its property portfolio on a regular basis. As part of an agreed approach with our managing agents, we have undertaken a detailed health and safety risk assessment of all our properties with a view to identifying any remedial actions required.

This report was approved by the Board on 22 December 2022 and signed on its behalf by:

V. Royle

Verity Royle, Director

Halsey Garton Property Ltd
Registered and domiciled in England and Wales
Registration number: 09089937
Registered office: Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, England, RH2 8EF

Directors' report

for the year ended 31 March 2022

The directors present their report with the consolidated and individual financial statements for the year ended 31 March 2022.

Principal activities

The principal activities of the group in the period under review were investment and property rental.

Directors

The directors shown below have held office during the year from 1 April 2021 to 31 March 2022:

D Wilding (in office for full year)
N O'Connor (resigned on 16 June 2022)

V Royle was appointed after the year end (appointed on 16 June 2022) 11

Directors' remuneration during the year is £Nil. (2021: £Nil)

COVID-19

The COVID-19 pandemic has resulted in unprecedented actions being taken by Governments across the globe, which have had a significant adverse impact on large swathes of the economy.

Halsey Garton Property Investments Limited has suffered impacts to its rent roll due to the knock-on impact of COVID-19 on the business. However, the strength and diversity of the portfolio has enabled it to be resilient to those impacts, relative to the wider property market. The business has been able to absorb the impact on cash flow and is able to continue for the foreseeable future. The directors continue to monitor the situation closely.

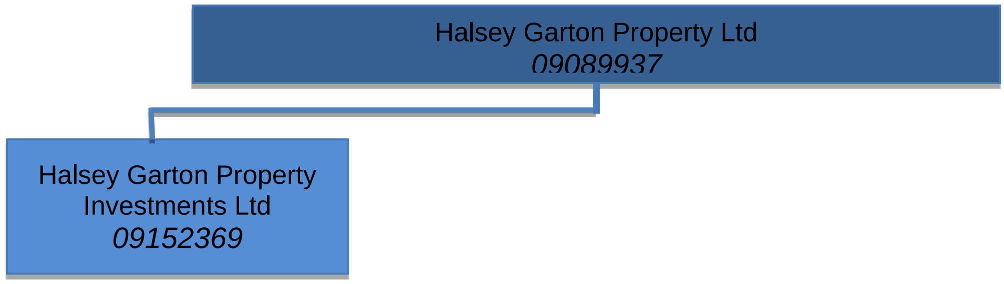
We also refer to note 3 on the company as a going concern.

Directors' indemnities

The council has agreed to indemnify each Director against any liability incurred in relation to acts or omissions arising in the course of their ordinary duties, assuming they acted reasonably and in good faith.

Business structure

Halsey Garton group comprises Halsey Garton Property Ltd and one property subsidiary, company as set out in the diagram below.



Additional disclosures

The following directors' report disclosures have been made elsewhere in this report and financial statements:

- Recommended dividend (Strategic report page 1)
- Financial risk management policies and objectives (Strategic report page 2)
- 11 Information on exposure to price risk, credit risk, liquidity risk and cashflow risk (Strategic report page 2)
- Future developments in the business of the company (Strategic report pages 1-5)

Consolidated financial statements

The consolidated financial statements and supporting notes on pages 13 to 26 include the results for all Halsey Garton group companies as listed above.

Going concern

After reviewing the company's forecast and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than 12 months from the date of approval of these financial statements. As at 31st March 2022 there were net current assets of £0.7m recorded in the accounts, increased from £0.1m at 31st March 2021.

The impact of COVID-19 has been felt by tenants within the properties held by Halsey Garton Property Investments Limited. The directors have a reasonable understanding of the impact to the company of the pandemic and consider that the company has adequate resources to continue in operational existence for the foreseeable future.

The company therefore continues to adopt the going concern basis in preparing its financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report, and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Provision of information to auditor

The directors confirm that: 11

- so far as that each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

The auditor, UHY Hacker Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board on 22 December 2022 and signed on its behalf by:

V. Royle

Verity Royle, Director
Halsey Garton Property Ltd
Registered and domiciled in England and Wales
Registration number: 09089937
Registered office: Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, England, RH2 8EF

UHY Hacker Young
Chartered Accountants

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London E1W 1YW

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF HALSEY GARTON PROPERTY LIMITED

Opinion

We have audited the financial statements of Halsey Garton Property Limited (the 'parent company') and its subsidiary (the 'group') for the year ended 31 March 2022, which comprise of the Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards including FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

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In our opinion, the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 March 2022 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statement is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information 11

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

The directors are responsible for the other information contained within the financial statement. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report. We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out in the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the company through discussions with directors and other management, and from our commercial knowledge and experience of the sector; and
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the company, including the Companies Act 2006, taxation legislation and data protection, anti-bribery, employment, environmental and health and safety legislation.
- we assessed the susceptibility of the financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:
- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations. 11

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of those charged with governance; and
- enquiring of management as to actual and potential litigation and claims.

There are inherent limitations in the audit procedures described above; any instance of non-compliance with laws and regulations and fraud which is far removed from transactions reflected in the financial statements would diminish the likelihood of detection. Furthermore, the risk of not detecting a material misstatement due to fraud is greater than the risk of not detecting one resulting from error. Fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentation, or through an act of collusion that would mitigate internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with part 3 of Chapter 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

11 **Jessica Moorghen** (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young 23 December 2022

Chartered Accountants
Statutory Auditor

Quadrant House
4 Thomas More Square
London E1W 1YW

Consolidated profit and loss account
for year ended 31 March 2022

	Note	2022 £	2021 £
Turnover	7	17,302,555	16,993,406
Cost of sales		(1,446,885)	(1,336,614)
Gross profit		**15,855,670**	**15,656,792**
Administrative expenses		(24,962)	(955,567)
Net gain/(deficit) on revaluation of investment properties	15	39,665,000	(16,700,000)
Operating profit/(loss)		**55,495,708**	**(1,998,775)**
Interest receivable and similar income	10	719	100
Interest payable and similar charges	11	(14,277,380)	(14,282,997)
Profit/(loss) on ordinary activities before taxation		**41,219,047**	**(16,281,672)**
Tax on profit on ordinary activities	12	(951,836)	(847,778)
Profit/(loss) for the financial year		**40,267,211**	**(17,129,450)**

There is no other comprehensive income for the year (2021: £nil).

The accompanying notes form part of these financial statements.

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Consolidated balance sheet
as at 31 March 2022

	Note	2022 £	2021 £
Fixed assets			
Investment property	15	290,915,000	251,250,000
Total fixed assets		**290,915,000**	**251,250,000**
Current assets			
Debtors due after one year	16	3,772,146	3,574,635
Debtors due within one year	16	399,300	710,741
Cash at bank and in hand		2,798,517	1,759,994
11 **Total current assets**		**6,969,963**	**6,045,370**
Creditors: amounts falling due within one year	17	(6,261,223)	(5,938,841)
Net current assets/(liabilities)		**708,740**	**106,529**
Total assets less current liabilities		**291,623,740**	**251,356,529**
Creditors: amounts falling due after one year	18	(233,995,432)	(233,995,432)
Net assets		**57,628,308**	**17,361,097**
Capital and Reserves			
Called up share capital	20	92,686,000	92,686,000
Fair value reserve	21	(37,960,010)	(77,625,010)
Profit and loss account		2,902,318	2,300,107
Total equity attributable to owners of the parent company		**57,628,308**	**17,361,097**

Approved by the Board on 22 December 2022 and signed on its behalf by:

V. Royle

Verity Royle, Director
Company Registration no: 09089937

The accompanying notes form part of these financial statements.

Company balance sheet
as at 31 March 2022

	Note	2022 £	2021 £
Fixed assets			
Investments	15	54,725,992	15,060,992
Total fixed assets		**54,725,992**	**15,060,992**
Current assets			
Debtors due after one year	16	233,837,000	233,837,000
Debtors due within one year	16	818,487	1,629,400
Cash at bank and in hand		225,127	1,567
Total current assets		**234,880,614**	**235,467,967**
Creditors: amounts falling due within one year	17	(813,547)	(1,623,774)
Net current assets/(liabilities)		**234,067,067**	**233,844,193**
Total assets less current liabilities		**288,793,059**	**248,905,185**
Creditors: amounts falling due after one year	18	(233,995,432)	(233,995,432)
Net assets		**54,797,627**	**14,909,753**
Capital and Reserves			
Called up share capital	20	92,686,000	92,686,000
Fair value reserve	21	(37,960,010)	(77,625,010)
Profit and loss account		71,637	(151,237)
Total equity attributable to owners of the parent company		**54,797,627**	**14,909,753**

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As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The company's profit for the year was £39,887,874 (2021: loss of £16,748,373).

Approved by the Board on 22 December 2022 and signed on its behalf by:

V. Royle

Verity Royle, Director
Company Registration no: 09089937

Consolidated statement of changes in equity

for the year ended 31 March 2022

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	Note	Share capital £	Profit and loss account £	Fair value reserve £	Total £
Balance at 31 March 2020		**92,686,000**	**2,729,557**	**(60,925,010)**	**34,490,547**
Loss for the year and total comprehensive income		-	(17,129,450)	-	(17,129,450)
Transfer to fair value reserve	21	-	16,700,000	(16,700,000)	-
Issue of shares		-	-	-	-
Dividends paid	13	-	-	-	-
Balance at 31 March 2021		**92,686,000**	**2,300,107**	**(77,625,010)**	**17,361,097**
Profit for the year and total comprehensive income		-	40,517,211	-	40,517,211
Transfer to fair value reserve	21	-	(39,665,000)	39,665,000	-
Issue of shares		-	-	-	-
Dividends paid	13	-	(250,000)	-	(250,000)
Balance at 31 March 2022		**92,686,000**	**2,902,318**	**(37,960,010)**	**57,628,308**

The accompanying notes form part of these financial statements.

Consolidated statement of cashflows

for the year ended 31 March 2022

	Note	2022 £	2021 £
Net cash inflow from operating activities	9	**16,267,020**	**13,805,268**
Taxation paid		(951,836)	(847,778)
Net cash generated from operating activities		**15,315,184**	**11,357,489**
Investing activities:			
Interest received		719	100
Net cash inflow from investing activities		**719**	**100**
Financing activities:			
Interest paid		(14,277,380)	(14,277,371)
Dividends paid		-	-
Net cash outflow from financing activities		**(14,277,380)**	**(14,277,371)**
Net increase/(decrease) in cash and cash equivalents		**1,038,523**	**(1,319,781)**
Cash and cash equivalents at beginning of the year		1,759,994	3,079,775
Cash and cash equivalents at the end of the year		**2,798,517**	**1,759,994**

The accompanying notes form part of these financial statements.

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Notes to the consolidated financial statements

for the year ended 31 March 2022

1. Company information

Halsey Garton group comprises Halsey Garton Property Ltd and one property subsidiary company as set out on page seven of this report. Both companies are private companies, limited by shares, and domiciled in England and Wales. The registered offices are Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, England, RH2 8EF.

2. Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard (FRS) 102 and with the Companies Act 2006. There were no material departures from this standard.

The financial statements have been prepared on a historical cost basis except for the modification to a fair value basis for investment properties as specified below.

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The Financial statements are presented in sterling (£) which is the functional currency of the group. Monetary amounts in these financial statements are rounded to the nearest pound.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgement in applying the group's accounting policies.

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and parent company would be identical;
- No separate cash flow statement has been presented for the parent company;
- No separate profit and loss statement has been presented for the parent company; and
- No separate statement of changes in equity has been presented for the parent company.

3. Going concern

After reviewing the company's forecast and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future being a period of not less than 12 months from the date of approval of these financial statements. As at 31st March 2022 there were overall net current assets of £0.7m recorded in the accounts.

At the time of producing these financial statements, the directors have a reasonable understanding of the impact to the company of the pandemic and consider that the company has adequate resources to continue in operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

4. Accounting policies

4.1 Basis of consolidation

The consolidated financial statements present the results of Halsey Garton Property Ltd and its subsidiaries ("the group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

4.2 Turnover

The turnover shown in the profit and loss account represents rents and income from other property services earned during the period, exclusive of VAT.

4.3 Recognition of income and expenditure

Revenue (income) from rents and other property related services, is recognised when the property or service is provided, rather than when payments are received.

Expenses in relation to services received 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.

4.4 Investments in subsidiaries

Investments in shares of subsidiaries are initially measured at cost, including applicable transaction costs. Investments are carried at fair value where they can be measured reliably, otherwise they are included at cost less impairment. Changes in fair value are recognised in profit or loss and transferred to the fair value reserve.

4.5 Investment properties

Investment property is initially measured at cost, including transaction costs. Investment property is carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in profit or loss and transferred to the fair value reserve.

4.6 Loans between group companies

Loans from Surrey County Council are measured at amortised cost.

4.7 Leased assets – lessor

Rent received under operating leases is credited to profit and loss on a straight-line basis over the term of the lease. Incentives for the agreement of a new or renewed operating lease are recognised as a reduction in the rental income over the lease term, irrespective of the incentive's nature or form, or the timing of any payments.

4.8 Current Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to calculate the amount are those enacted by the balance sheet date.

4.9 Deferred Taxation

The tax expense recorded in the profit and loss account represents the sum of tax currently payable and deferred tax. Deferred tax is the tax expected to be payable or recoverable based on timing differences between the company's net profits recorded in the financial statements and taxable profits for tax computation purposes.

5. Judgements in applying accounting policies and key sources of uncertainty

In preparing these financial statements, the directors have made the following judgements:

- Determined if leases entered into by the company are operating leases or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee.
- Investment properties are professionally valued annually using a yield methodology. This uses market rental values capitalised at a market capitalisation rate but there is an inevitable degree of judgement involved in that each property is unique and value can ultimately only be reliably tested in the market itself.

- That there are unlikely to be sufficient capital gains in the foreseeable future to enable the utilisation of a potential deferred tax asset on property revaluations. This judgement has been made in light of prevailing property market conditions, the continued expansion of the property portfolio and our experience that significant capital transaction costs on purchase are not offset by increases in underlying property values in the early years after purchase.

6. Average number of persons employed

During the year the group did not employ any persons directly (2021: None).

7. Turnover

Turnover, analysed by category was as follows:

	2022	2021
	£	£
Rents received from investment properties	**16,683,374**	16,532,480
Landlord services – service charges	**483,204**	346,809
Landlord services – property insurance	**130,961**	105,717
Dilapidation and other income	**5,016**	8,400
Total	**17,302,555**	16,993,406

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8. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after:

	2022	2021
	£	£
Audit fees	**36,490**	33,018
Tax compliance services	**15,620**	12,345

Tax compliance fees are not paid to the Company's auditor.

9. Net cash inflow from operating activities

Reconciliation of operating loss to cash utilised in operations.

	2022	2021
	£	£
Profit/(loss) on ordinary activities before taxation	**41,219,047**	(16,281,672)
Interest payable	**14,277,380**	14,282,997
Interest receivable	**(719)**	(100)
Unrealised loss on revaluation of investments	**(39,665,000)**	16,700,000
Net decrease in working capital	**633,823**	1,151,545
Net increase in lease incentives	**(197,511)**	(2,041,874)
Net cash inflow from operating activities	**16,267,020**	13,810,896

10. Interest receivable and similar income

During the year £719 (2020/21 £100) interest was receivable on cash balances held in the bank account.

	2022	2021
	£	£
Bank interest	**719**	100
Total	**719**	100

11. Interest payable and similar charges

Interest is payable on intragroup loans between Surrey County Council and Halsey Garton Property Ltd.

	2022	2021
	£	£
Interest on loan	**14,277,380**	14,277,371
Other	**-**	5,626
Total	**14,277,380**	14,282,997

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12. Taxation

The tax charge on the profit/(loss) on ordinary activities for this period was as follows:

	2022	2021
	£	£
UK Corporation tax	**784,703**	791,581
Deferred tax	**167,133**	56,197
Tax on profit/(loss) on ordinary activities	**951,836**	847,778

Factors affecting the tax charge/(credit):	**2022**	2021
	£	£
Profit/(loss) on ordinary activities before taxation	**41,219,047**	(16,281,672)
Rate of tax for period	**19%**	19%
Profit/(loss) on ordinary activities before taxation multiplied by the rate of tax for period	**7,831,619**	(3,093,518)
Expenses not deductible for tax purposes	**619,376**	4,061,067
Income not taxable for tax purposes	**(7,536,350)**	-
Capital gains/(losses)	**7,310,302**	(3,107,964)
Group relief surrendered/(claimed)	**-**	(5,681)
Adjustments in respect of prior periods (current tax)	**18,328**	351
Adjustments in respect of current period (current tax)	**-**	(683)
Adjustments in respect of prior periods (deferred tax)	**-**	683

Remeasurement of deferred tax for changes in tax rates	**(2,089,737)**	-
Deferred tax not recognised	**(5,201,702)**	2,993,523
Tax on profit/(loss) on ordinary activities	**951,836**	847,778

13. Dividends

	2022	2021
	£	£
Paid during the year	**-**	-
To be declared post year end	**-**	-

14. Fixed assets – investments in subsidiaries

Investments in subsidiaries are carried at fair value where this can be reliably measured and, for Halsey Garton Property Investments Ltd, this has been determined with reference to the underlying property assets held by the subsidiary. Details on the assumptions made and the key sources of estimation uncertainty are given in note 5.

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The net surplus on revaluation of investments arising of £39,665,000 as at 31 March 2022 has been debited to the profit and loss for the year and transferred to the fair value reserve.

Investments in subsidiaries

	2022	2021
	£	£
Valuation at 1 April 2021	**15,060,992**	31,760,992
Fair value adjustments	**39,665,000**	(16,700,000)
Valuation at 31 March 2022	**54,725,992**	15,060,992

15. Fixed assets – investment properties

The group's investment properties are valued annually on 31 March at fair value, determined by an independent, professionally qualified valuer, CBRE Ltd. The valuations are undertaken in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual. Details on the assumptions made and the key sources of estimation uncertainty are given in note 5.

The net surplus on revaluation of investment property arising of £39,665,000 as at 31 March 2022 has been debited to the profit and loss for the year and transferred to the fair value reserve. Had the properties not been revalued they would have been held at the historical cost of £328,875,010 (2020/2021: £328,875,010).

	2022	2021
	£	£
Fair value at 1 April 2021	**251,250,000**	267,950,000
Fair value adjustments	**39,665,000**	(16,700,000)
Fair value at 31 March 2022	**290,915,000**	251,250,000

16. Debtors

	Group 2022 £	2021 £	Company 2022 £	2021 £
Debtors due after more than one year				
Accrued income – unamortised lease incentive	**3,772,146**	3,574,635	**-**	-
Amounts owed by subsidiary undertaking	**-**	-	**233,837,000**	233,837,000
Sub-Total	**3,772,146**	3,574,635	**233,837,000**	233,837,000
Debtors due within one year				
Amounts owed by subsidiary undertaking	**-**	-	**800,000**	1,620,018
Trade debtors	**380,813**	701,359	**-**	-
Deferred tax asset	**10,405**	7,908	**10,405**	7,908
VAT	**8,082**	1,474	**8,082**	1,474
Sub-Total	**399,301**	710,741	**818,487**	1,629,400
Total	**4,171,446**	4,285,376	**234,655,487**	235,466,400

All amounts shown fall due for payment within one year except for the unamortised lease incentive which is due in accordance with the terms of the lease. 11

Included within Company long term debtors are intragroup loans totalling £233,837,000 provided to Halsey Garton Property Investments Ltd. These are revolving facility, maturity loan agreements at interest rates ranging from 5.5% to 6.6%. All are due to be repaid in full ten years from the original loan draw down. The carrying amount as at 31 March 2022 is included at amortised cost.

17. Creditors: amounts falling due within one year

	Group 2022 £	2021 £	Company 2022 £	2021 £
Amounts owed to parent entity	**912,056**	1,831,940	**800,000**	1,609,772
Amounts owed to group companies	**-**	-	**2**	2
Corporation tax	**347,846**	596,010	**-**	-
Deferred tax liability	**500,861**	331,231	**-**	-
Deferred Income	**3,124,452**	2,021,696	**-**	-
Trade Creditors	**13,545**	14,000	**13,545**	14,000
VAT	**941,339**	911,953	**-**	-
Other creditors	**421,124**	232,011	**-**	-
Total	**6,261,223**	5,938,841	**813,547**	1,623,774

18. Creditors: amounts falling due after more than one year

	Group 2022 £	2021 £	Company 2022 £	2021 £
Amounts owed to parent entity	**233,995,432**	233,995,432	**233,995,432**	233,995,432
Total	**233,995,432**	233,995,432	**233,995,432**	233,995,432

Intragroup loans totalling £233,995,432 have been provided by Surrey County Council to Halsey Garton Property Ltd. These are maturity loans at interest rates ranging from 5.5% to 6.6% and all are due to be repaid in full, ten years from the original loan draw down. The carrying amount as at 31 March 2022 is included at amortised cost.

19. Deferred tax provision

	Group		Company	
	2022	2021	**2022**	2021
	£	£	**£**	£
Opening balance at 1 April 2021	**323,323**	267,126	(7,908)	(7,225)
Deferred tax asset for unrelieved tax losses	**167,133**	56,197	(2,497)	(683)
Closing balance at 31 March 2022	**490,456**	323,323	**(10,405)**	(7,908)

There is a potential deferred tax asset on property revaluations of £10,199,415 which has not been recognised in the Group and Company accounts due to uncertainty about the availability of sufficient capital profits in the foreseeable future to utilise the losses against. The group incurred significant transaction costs at acquisition of the properties and its strategy is to hold properties for long term income returns and not capital gains. It is unlikely that any property will be sold until such time as it is beneficial to do so.

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20. Called up share capital

Authorised, allotted and fully paid:	Group		Company	
	2022	2021	**2022**	2021
	£	£	**£**	£
1 founders' shares of £1 each	**1**	1	**1**	1
92,685,999 ordinary shares of £1 each	**92,685,999**	92,685,999	**92,685,999**	92,685,999
Total	**92,686,000**	92,686,000	**92,686,000**	92,686,000

21. Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of investment property assets until they are sold or an asset is impaired. A potential deferred tax asset of £10,199,415 on revaluations has not been recognised in 2022 – see also note 18 above. The reserve is used to distinguish unrealised profits/(losses) from realised profits/(losses) which are held in the profit and loss account.

	Group		Company	
	2022	2021	**2022**	2021
	£	£	**£**	£
Reserve at 1 April 2021	**(77,625,010)**	(60,925,010)	(77,625,010)	(60,925,010)
Fair value adjustments (Note 14)	**39,665,000**	(16,700,000)	-	(16,700,000)
Reserve at 31 March 2022	**(37,960,010)**	(77,625,010)	**(77,625,010)**	(77,625,010)

22. Leases

The minimum lease payments due to Halsey Garton group in future years are:

	2022	2021
	£	£
Not later than one year	**16,831,849**	16,491,382
Later than one year but not later than five years	**60,187,934**	57,755,810
Later than five years	**88,522,452**	111,513,604
Total	**165,542,234**	185,760,796

23. Share capital and reserves

Called-up share capital: represents the nominal value of shares that have been issued.

Profit and loss account: includes all current and prior period retained profits and losses

Fair value reserve: comprises the cumulative net change in the fair value of investment property assets until they are sold or an asset is impaired. The reserve is used to distinguish unrealised profits/(losses) from realised profits/(losses) which are held in the profit and loss account. 11

24. Related party disclosures

Halsey Garton group is 100% owned by Surrey County Council (SCC), the ultimate controlling party. SCC draws up consolidated financial statements for the group and its principal place of business is Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, England, RH2 8EF. The only related party transactions were intra-group transactions between Halsey Garton and SCC and these have not been disclosed in line with section 33.1A of FRS 102.

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