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Draft Opinion on the Authority financial statements

We have audited the financial statements of Surrey County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement, and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed. 8

Respective responsibilities of the Director of Finance and auditor

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

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Surrey County Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

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We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Surrey County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

Delay in certification of completion of the audit

We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Surrey Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2014. As the authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. 8

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

Andy Mack
Director

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

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

31 July 2014

Explanatory Foreword by the Director of Finance

1. Introduction

Welcome to Surrey County Council's Statement of Accounts for 2013/14. The statement of accounts reports the income and expenditure on service provision for the year and the value of the council's assets and liabilities at the end of the financial year. This is done in accordance with proper accounting practices as defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

In addition to demonstrating best practice in relation to the speed of our accounts closure, the finance service also aspires to develop a statement of accounts which is more accessible to users. Surrey County Council is a large and diverse organisation and the information contained in these accounts is technical and complex. The aim of this foreword, therefore, is to provide a general guide to the items of interest and highlights some of the more significant matters that have determined this position for the financial year ending 31 March 2014.

2. Key Financial Statements (known as Primary Statements)

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

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

Movement in Reserves Statement (page 14) shows the movement during the 2013/14 financial year on the different reserves held by the council, analysed into useable reserves and other unusable reserves:

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

The total decrease in the council's reserves during 2013/14 is £203.3million (a decrease of £9.9m in usable reserves, and a decrease of £193.4m in unusable reserves). This decrease is caused by an increase in the pensions liability of £132.6m (explained further in section 5) and the writing out of £106m of school assets in relation to schools which have transferred to academy status.

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

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

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

The statement shows how a council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities:

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

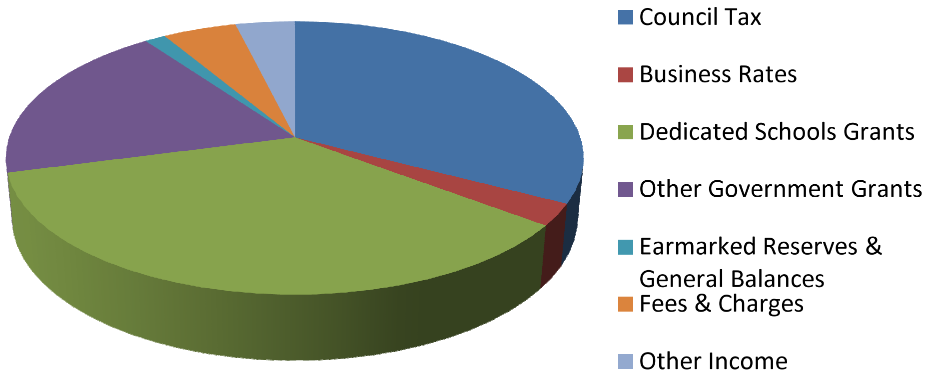
3. Budgeted Income & Expenditure

The council set its budget for the 2013/14 financial year in the context of the government's austerity programme, reduction in public sector budgets and expenditure, and rising demand for its services: developing plans for efficiencies and reductions in expenditure totalling £68.3m. At the end of March 2014, services achieved £62.3m efficiencies. This shortfall includes slippage in Adult Social Care, partly offset by Business Services bringing forward 2014/15 efficiencies (-£1.3m).

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

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

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



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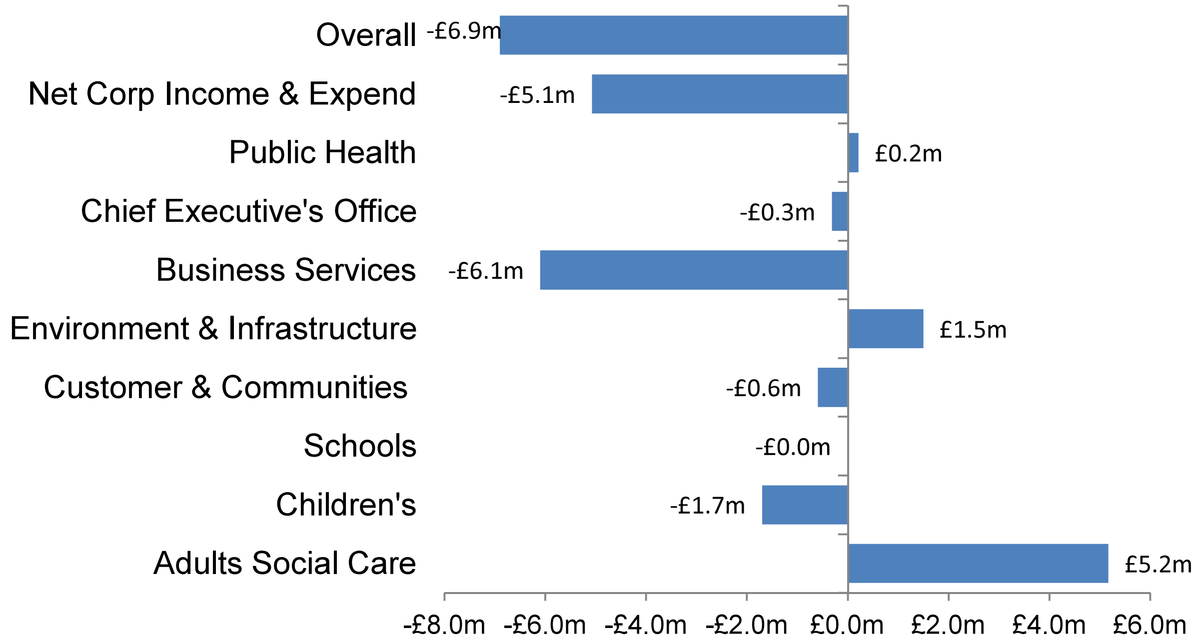
The revenue budget for the 2013/14 financial year, with schools, included £23.0m support from earmarked (£11m) and general (£12m) reserves and £7.9m revenue carried forward from 2012/13 to fund committed 2013/14 expenditure. The outturn position for services' net revenue budget is -£5.6m underspent and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

The graph below shows services' gross expenditure variances at outturn



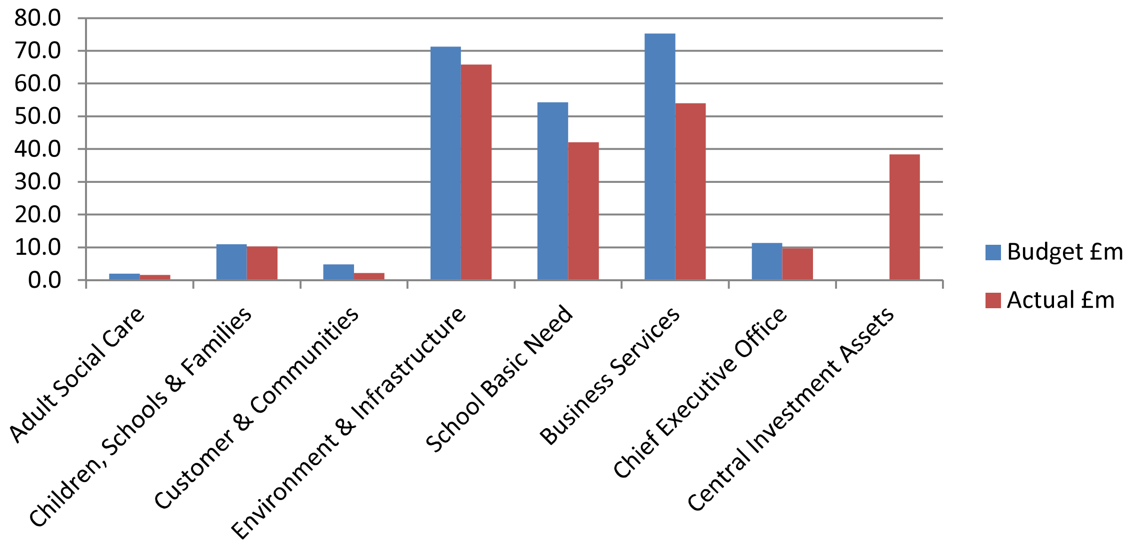
The Cabinet has approved £5.4m revenue carry forwards from 2013/14 to 2014/15 to ensure funding is available for schemes, projects and commitments that need to be funded in the new financial year. This leads to a residual underspend of -£1.4m, to be transferred back to General Balances, which stand at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

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

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

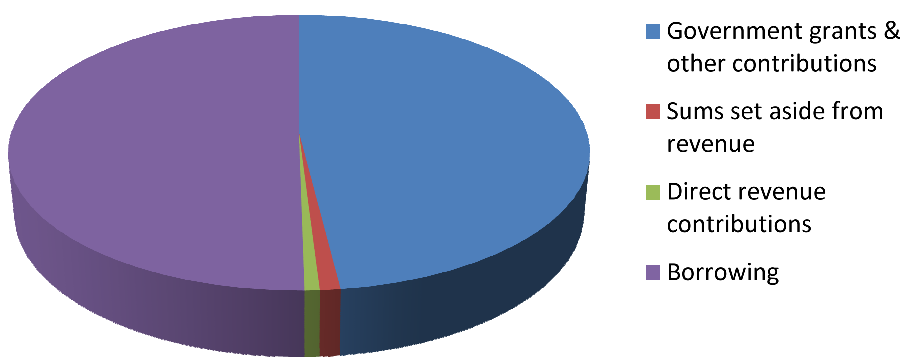
4. Capital Expenditure

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



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

The 2013/14 capital expenditure was funded as follows:



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

Material items of income and expenditure are defined as those amounts either incurred or received to or from the same supplier or customer for the same good or service.

Material items of expenditure relate mainly to highways maintenance, education services, and public health. Further details of these are disclosed in note 5. In addition, material expenditure is incurred in relation to the Private Finance Initiative Schemes the council is involved in, further details can be found in note 36.

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

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

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

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

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

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

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

In addition, from 2013/14, employees transferred as part of the public health, see section 6, may be members of the NHS pension scheme.
It is important to understand that pension benefits do not become payable until employees retire, however the council is required to account for the future obligations at the same time as the employees earn their future entitlement, in accordance with proper accounting practices.

The council's independent actuary Hymans Robertson estimated the Local Government Pension Scheme (LGPS) net liability to be £714.0m at the balance sheet date, an increase of £85.8m on the previous year. The DCLG fire-fighter pension liability included within the council's accounts is estimated to be £489.3m an increase of £46.7m on the previous year. This increase in the valuation of the liabilities is due mainly to falling real bond yields which is only partially offset by stronger asset returns. The liability does not need to be met within the next year but over the working lifetime of the scheme members. The council is making appropriate lump sum payments to the pension fund in addition to the contributions related to current employees. Readers of the accounts should note that the pension fund deficit of £1,203m is based on a snapshot in time and it does not predict the fund's future financial condition or its ability to pay benefits in the future.

6. Changes in Accounting Policies
A summary of the significant accounting policies adopted in the preparation of these accounts is included in Note 1 and a full set of relevant accounting policies is detailed in Annex 1.

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

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

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

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

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

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

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

7. Borrowing

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

When undertaking long-term borrowing, the council ensures that its plans are prudent and affordable in the long term and that its borrowing is in accordance with its approved Treasury Management Strategy. The council's average interest rate on borrowing was 4.42%.

During 2013/14 no additional long term external borrowing was undertaken. The council has adopted a strategy of temporarily using its internal cash resources to finance capital expenditure rather than borrowing externally to do so. These cash resources will need to be replenished in the future in order to meet the commitments for which they are held, but as these commitments are not due to arise in the short-term, this strategy is considered appropriate in the current economic climate where surplus cash balances are producing minimal returns on investment. This strategy has resulted in the council being 'under-borrowed' against its borrowing limits and capital financing requirement. The MTFP (2014-19) makes provision for the financing of all proposed borrowing.

8. Provisions

Where the council has a liability to make future payments, but the precise timing of the payment and the amount is uncertain, it creates a provision in the Balance Sheet. At 31 March 2014 the Council has the following material provision:

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

Further details on provisions can be found in Note 20.

9. Reserves & Balances

Usable reserves

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

- earmarked reserves - providing financing for future expenditure plans, commitments and possible liabilities;

- general balances – available balances to cushion the impact of uneven cash flow and a contingency for unexpected events;

- capital receipts - the balance of proceeds from the sale of assets not used in-year to fund new capital expenditure but set aside to fund future capital expenditure in accordance with the council's Medium Term Financial Plan and asset management strategy;

- capital government grants unapplied – the balance of grants received from central government that have not been used in-year to fund new capital expenditure.

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

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

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

Unusable reserves
Certain reserves are kept to manage the accounting processes for items such as non-current assets, financial instruments, retirement and employee benefits. They do not represent usable resources for the council and are not backed by cash balances. Note 22 provides further details on unusable reserves.

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

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

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

12. Group Accounts
The council has considered all its relationships and interests in other entities and with the exception of the following has made a judgement that it does not have the ability to exercise control or significant influence over another entity's economic activities and therefore no entities are considered to be subsidiaries of the council.

- Henrietta Parker Centre - the council does exercise control over the Henrietta Parker Centre, the income of which supports adult learning. However, the economic activity of this trust fund is not deemed material and therefore the council has not prepared group accounts.
- S.E. Business Services Ltd - for 2013/14 the economic activity of this company is not deemed material and therefore the council has not prepared group accounts.
- Surrey Choices Ltd - did not begin trading until after 31 March 2014, therefore, the council has not prepared group accounts.

13. Trust Funds
The Council acts as a custodian trustee for 42 trusts and as one of several trustees for a further 4 funds. As a custodian trustee the council holds the assets but takes no decisions on its use. In neither case do the funds represent the assets of the council and therefore they have not been included in the balance sheet. The total value of all the fund balances as at the 31 March 2014 is £5.1m. Further information on these trusts can be obtained via the contact details provided below.

14. Looking forward to 2014/15 and beyond

The current challenges facing the public sector look set to continue for the foreseeable future. Local authorities continue to experience budget cuts and at the same time Surrey County Council, continues to face unprecedented growth in demand for its services. Having a robust medium term financial plan is essential in these challenging times. In 2012/13 the Council achieved the highest rating for its financial resilience and is recognised in Grant Thornton's national report on all of its local authority clients (which represents 40% of local authorities) for its high quality and robust long term financial planning.

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

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

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

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

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

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

15. Further Information

Additional information on the council's overall revenue and capital budget outturn position and achieved efficiencies for 2013/14 can be found in the '2013/14 Outturn report' considered by the Cabinet on 27 May 2014. Surrey County Council's annual report can be viewed on the website www.surreycc.gov.uk. Further information on the financial statements presented in this document can be obtained from Nikki O'Connor, Finance Manager (Assets & Accounting) (020 8541 9263, nicola.oconnor@surreycc.gov.uk) or Jonathan Evans, Principal Accountant (020 8541 8636, jonathan.evans@surreycc.gov.uk)

Sheila Little BA CPFA
Director of Finance

The Council's Responsibilities
The council is required to:

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

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

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In preparing this Statement of Accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Director of Finance has:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification
I certify that the statement of accounts set out on pages 14 to 85 presents a true and fair view of the financial position of the council and of its expenditure and income for the year ended 31 March 2014; that the firefighter pension fund accounting statements on pages 92-94 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2014; that the summary statement of accounts on pages 95-139 presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2014 and its income and expenditure for the year then ended.

Sheila Little BA CPFA
Director of Finance
31 July 2014

Nicholas Harrison
Chairman of Audit & Governance Committee

31 July 2014

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Total Useable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2013	**-31,826**	**-181,031**	**-17,347**	**-58,241**	**-288,445**	**327,611**	**39,166**
(Surplus) or deficit on provision of services (accounting basis)	185,354				**185,354**		**185,354**
Other comprehensive income & expenditure						17,931	**17,931**
Total comprehensive income & expenditure	**185,354**				**185,354**	**17,931**	**203,285**
Adjustments between accounting basis & funding basis under regulations (note 7)	-194,041		-2,933	21,487	**-175,487**	175,487	
Net increase/decrease before transfers to earmarked reserves	**-8,687**		**-2,933**	**21,487**	**9,867**	**195,288**	**203,285**
Transfers to/from earmarked reserves (note 8)	19,182	-19,182					
Increase/decrease in year	**10,495**	**-19,182**	**-2,933**	**21,487**	**9,867**	**193,418**	**203,285**
Balance at 31 March 2014	**-21,331**	**-200,213**	**-20,280**	**-36,754**	**-278,578**	**521,029**	**242,451**

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Total Useable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2012	-28,837	-161,869	-11,697	-66,726	**-269,129**	198,903	**-70,226**
(Surplus) or deficit on provision of services (accounting basis)	-2,240				**-2,240**		**-2,240**
Other comprehensive income & expenditure					**0**	111,632	**111,632**
Total comprehensive income & expenditure	**-2,240**	**0**	**0**	**0**	**-2,240**	**111,632**	**109,392**
Adjustments between accounting basis & funding basis under regulations (note 7)	-19,911	0	-5,650	8,485	**-17,076**	17,076	**0**
Net increase/decrease before transfers to earmarked reserves	**-22,151**	**0**	**-5,650**	**8,485**	**-19,316**	**128,708**	**109,392**
Transfers to/from earmarked reserves (note 8)	19,162	-19,162	0	0	**0**	0	**0**
Increase/decrease in year	**-2,989**	**-19,162**	**-5,650**	**8,485**	**-19,316**	**128,708**	**109,392**
Balance at 31 March 2013	**-31,826**	**-181,031**	**-17,347**	**-58,241**	**-288,445**	**327,611**	**39,166**

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Comprehensive Income & Expenditure Statement

Statement

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

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Balance Sheet

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

Cash Flow Statement

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

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

Note 1. Summary of Significant Accounting Policies

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

i. General Principles
The statement of accounts summarises the council's transactions for the 2013/14 financial year and its position at the year end 31 March 2014. The council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011. The Regulations require the statement of accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14 supported by International Financial Reporting Standards (IFRS).

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The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

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

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

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

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

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

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

Faithful representation has three characteristics:

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

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

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

iii. Recognition of Income and Expenditure
Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue (income) from the sale of goods and provision of services is recognised when the Council transfers the goods or completes the delivery of a service.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet and provision is made for bad and doubtful debts. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Council tax and business rate income included in the comprehensive income and expenditure statement is the total of the:
    - ▪- Precept on the collection funds of each billing authority; and
    - - The council's share of the actual surplus / deficit on the collection funds of each billing authority at the end of the current year, adjusted for the council's share of the surplus / deficit on the funds at the preceding year end that has not been distributed or recovered in the current year. 8

iv. Property, Plant and Equipment (Assets Held for Sale & Investment Properties)
Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one financial year are classified as property, plant and equipment.

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

The Council has adopted a de-minimis limit of £10,000 for vehicles, equipment & plant, and £50,000 for buildings and other assets, below which assets and expenditure on the enhancement of assets will not be maintained on the asset register nor held on the balance sheet. No formal de minimis limit applies to infrastructure assets.

Measurement
Assets are initially measured at cost, comprising:

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

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

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

Assets are then carried in the Balance Sheet using the following measurement bases:

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

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

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

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

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

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

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

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

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

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

Depreciation

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

Deprecation is calculated on the following bases:

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account. 8

Componentisation

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, are credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves' Statement. The written-off value of disposals is not a charge against council tax as the cost of noncurrent assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.
For schools that have attained Academy status and disengaged from the council, the net book value of the land and building is de-recognised from the Balance Sheet through the Capital Adjustment Account.

Investment Properties

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Investment properties are used solely to earn rentals and/or for capital appreciation and hence the criteria is not met if the property is used in any way to facilitate the delivery of services or the production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Investment properties are not depreciated but are re-valued annually according to market conditions at year end with gains and losses on revaluation being posted to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement; the same treatment is applied to gains and losses on disposals.

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

v. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment owned by the council. The amounts payable to the PFI operators each year are analysed into five elements:

- **fair value of the services received during the year** is debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- **finance cost** is an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **contingent rent** is an increase in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **payment towards liability** is applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);

- **lifecycle replacement costs** reflect a proportion of the amounts payable to be posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

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

- Anchor Homes
- Waste
- Street Lighting
- Care UK

vi. Charges to Revenue for non-current Assets
Non-current assets are assets with physical substance that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used for more than one year.

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. It is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance. This contribution is known as the Minimum Revenue Provision (MRP). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by MRP in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii. Overheads and Support Services
The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The total absorption costing principle is used so that the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

viii. Employee Benefits

Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits for current employees.
Termination Benefits
Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service, or where applicable, to the Non-Distributable Costs line, in the Comprehensive Income and Expenditure Statement, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring

8 Post-employment Benefits
Employees of the council may be members of three separate pension schemes:

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

The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the council. The local government scheme is funded whereas the fire fighter scheme is unfunded meaning that liabilities are recognised when awards are made and hence there are no investment assets; cash has to be built up to meet actual pension payments as they fall due (net of contributions from active members and government grant). Deficits on the firefighters' pension scheme are covered by a government grant received each year from the Department for Communities & Local Government.

The teachers' pension scheme and NHS pension scheme are administered nationally and arrangements mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. Therefore, the schemes are accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to teachers' pensions in the year and the Public Health line for NHS pensions.

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

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

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

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

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

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

x. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. 8

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

Note 2: Accounting standards Issued not adopted

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

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

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

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

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

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

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

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Note 3: Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are outlined below:

- There is a high degree of uncertainty about future levels of funding for local government, however, the council has determined that this uncertainty is not sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

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

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

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

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

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

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

- The council has considered all its relationships and interests in other entities and with the exception of the following has made a judgement that it does not have the ability to exercise control or significant influence over another entity's economic activities and therefore no entities are considered to be subsidiaries of the council.

    - Henrietta Parker Centre - the council does exercise control over the Henrietta Parker Centre, the income of which supports adult learning. However, the economic activity of this trust fund is not deemed material and therefore the council has not prepared group accounts.

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

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

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

Note 4: Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures based on assumptions about the future or that are otherwise uncertain. Estimates take into account historical experience, current trends and other relevant factors. In addition, contingent assets and liabilities, which are not reflected in the statements, are assessed and are disclosed in note 39.

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

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Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain whether authorities will be able to sustain spending on repairs and maintenance, bringing into question the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It was estimated that the annual depreciation charge for buildings would increase by around £1.6m for every year that useful lives had to be reduced.
Provisions	The council has made a provision of £1.286m for the settlement of redundancy costs agreed but not paid. These costs are not certain as some employees may be redeployed.	Should employees be redeployed rather than made redundant, then any unused provision will be reversed in 2014/15.
Pensions Liability	The council's actuary advises on the sensitivity analysis to be applied to the calculation for estimating the net pension liability. The calculation is dependent upon a number of complex judgements relating to: the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a decrease of 0.5% in the real discount rate would result in an increase in the pension liability of £195m for the LGPS and £47m for the firefighters' pension fund. A 1 year increase in member life expectancy would result in an increase in the pension liability of £61m for the LGPS and £14.7m for the firefighters' pension fund.
Debtors	At 31 March 2014, the council had a balance of £117.5m on short term debtors (including government grants, receipts in advanceand the council's share of Council Tax and Business Rates debtors). A credit risk review suggested that an impairment level of £14.7m for doubtful debts was sufficient.	Debtors are monitored regularly and should general debtors rise in 2014/15 the council may consider raising its provision for bad and doubtful debt. This provision is reviewed quarterly.

Investments	The council had £20m invested in Icelandic institutions which collapsed in early October 2008. The Icelandic Supreme Court has ruled that UK local council claims qualify as priority status. The outstanding amount in relation to these investments is £1.6m as at 31 March 2014. The carrying amounts reflected in the accounts are valued in line with the most recent guidance (See note 15)	The council created an earmarked reserve to mitigate the potential impact of the impairment of this investment.

Note 5: Material items of income and expenditure
The following material items of income and expenditure are included in the comprehensive income and expenditure account (revenue) or the capital expenditure figures for 2013/14:

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

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

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

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

Note 6: Events after the balance sheet date
The statement of accounts will be authorised for issue by the chief finance officer in July 2014. The statement of accounts is adjusted to reflect events after the Balance Sheet date, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair view of the council's assets and liabilities.

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

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

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

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

The statutory general fund is the revenue account into which all the receipts of the council are paid and out of which all payments are made. All unused receipts, including capital receipts and capital grant unapplied, available for use in future years are accounted for as useable reserves in a council's Movement in Reserves Statement. As shown in note 22 the unusable reserves shown in this statement reflect certain liabilities that are accounted for in the comprehensive income and expenditure statement in accordance with proper accounting practice but are not recognised in accordance with statute in the general fund for tax setting purposes (e.g. depreciation and unrealised gains and losses on the revaluation of assets).

The following table sets out the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the 201314 financial year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

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

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

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2012/13	Usable Reserves: General Fund Balance £000	Usable Reserves: Capital grant & contributions unapplied reserve £000	Usable Reserves: Capital Receipts Reserve £000	Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement				
Charges for depreciation & impairment of non-current assets	-73,842			73,842
Revaluation losses on property, plant & equipment	-16,053			16,053
Amortisation of intangible assets	-2,230			2,230
De-recognition of Academies	-27,584			27,584
Revenue expenditure funded from capital under statute	-15,872			15,872
Net gain/loss on sale disposal of non-current assets	656		-6,284	5,628
Deferred Income in respect of PFI schemes	158			-158
Reversal of donated asset adjustment	21			-21
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	98,523	-98,523		
Application of grants to capital financing transferred to the Capital Adjustment Account		107,008		-107,008
Use of Capital Receipts Reserve to finance new capital expenditure			634	-634
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	67,585			-67,585
Employer's pensions contributions and direct payments to pensioners payable in the year	-84,973			84,973
Amount by which the council tax income credited to the Comprehensive Income & Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	-120			120
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,618			-1,618
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment (MRP)	25,061			-25,061
Capital expenditure charged against the general fund balance	7,141			-7,141
TOTAL ADJUSTMENTS	**-19,911**	**8,485**	**-5,650**	**17,076**

Note 8: Transfers to / from earmarked reserves

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

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

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

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

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

Investment and renewals reserve: Enables investment in service developments. The reserve makes loans to services for invest to save projects, which may be repayable. The recovery of the loan is tailored to the requirements of each business case, which is subject to robust challenge before approval as a part of the council's governance arrangements.

Equipment replacement reserve: Enables services to set aside revenue budgets to meet future replacement costs of large equipment items. Services make annual revenue contributions to the reserve and make withdrawals to fund purchases.

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

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

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Budget equalisation reserve: The Budget Equalisation Reserve was set up to support future years' revenue budgets from unapplied income and budget carry forwards. The balance includes £27.2m approved to support the 2014/15 budget and £5.4m service budget carry forwards.

Financial investment reserve: The Financial Investment Reserve was set up in 2008/09 to mitigate against any potential future losses due to the failure of banks and financial institutions with which the Council has deposits (specifically Icelandic Banks). While the remaining outstanding balance in relation to Icelandic investments is expected to be repaid in full, it is exposed to foreign exchange risk and therefore an amount has been retained in this reserve to mitigate against this.

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

Insurance reserve: This reserve holds the balance resulting from a temporary surplus or deficit on the council's self insurance fund and is assessed by an actuary for the possible liabilities the council may face. It specifically holds £3.5m to cover potential losses from the financial failure of Municipal Mutual Insurance (MMI) in 1992. The company had limited funds to meet its liabilities, consequently, future claims against policy years covered by MMI may not be fully paid, so would be funded from this reserve. The balance on this reserve represents the latest assessed possible liability.

Severe weather/ civil emergency reserve: This reserve enables the Council to act decisively and with urgency in the event of a serious incident. The balance on this reserve was fully utilised during 2013/14.

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

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

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

Revenue Grants Unapplied reserve: This reserve holds government revenue grants received in previous financial years which will be used to fund expenditure in the future.

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

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

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

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

Note 9: Other operating income and expenditure

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

Note 10: Financing and investment income and expenditure

The council earns income in the form of interest on its cash balances and lending and incurs interest charges on its outstanding debt and leases. In addition, it pays interest to third parties on the balances held on their behalf, including Surrey Police and Crime Commissioner and various trust funds.

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

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

Note 11: Council tax and general grants & contributions

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

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

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

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

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

	Land and Buildings £'000	Vehicle, Plant and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property Plant & Equipment £'000
Cost (revalued)							
Balance at 01/04/12	**1,265,864**	**70,976**	**593,288**	**4,480**	**36,206**	**31,165**	**2,001,979**
Additions*	41,370	6,155	52,598	282		33,107	**133,512**
Donations		21					**21**
Revaluations recognised in the Revaluation Reserve	17,235	12					**17,247**
De-recognition - disposals	-3,070	-5,607			-117		**-8,794**
De-recognition - academies	-38,961						**-38,961**
Reclassifications	288				-288		**0**
Assets reclassified (to)/from Assets Held for Sale	-5,266			-187	552		**-4,901**
Other Movements in assets and valuation						-10,611	**-10,611**
At 31/03/13	**1,277,460**	**71,557**	**645,886**	**4,575**	**36,353**	**53,661**	**2,089,492**
Accumulated Depreciation and Impairment							
At 01/04/12	-332,671	-44,201	-363,276	0	-4,056	0	**-744,204**
Depreciation charge	-37,743	-6,360	-29,739	0	0	0	**-73,842**
Impairment losses recognised in the Revaluation Reserve	-4,052						**-4,052**
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-4,336		-1,112				**-5,448**
De-recognition - disposals	701	5,311			11		**6,023**
De-recognition - academies	11,377						**11,377**
Reclassifications	-9				9		**0**
Assets reclassified (to)/from Assets Held for Sale	689				-55		**634**
At 31/03/13	**-366,044**	**-45,250**	**-394,127**	**0**	**-4,091**	**0**	**-809,512**
Net Book Value							
at 31/03/12	**933,193**	**26,775**	**230,012**	**4,480**	**32,150**	**31,165**	**1,257,775**
at 31/03/13	**911,416**	**26,307**	**251,759**	**4,575**	**32,262**	**53,661**	**1,279,980**

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

Capital Commitments

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

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

Revaluations

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

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

Impairment Losses

During 2013/14 the council has recognised an impairment loss of £53.6m in total. £33.2m is in relation to property assets. This is land and building assets which are re-valued based on existing use value, as part of the five year rolling programme by external valuers. An impairment loss of £21.7m is charged to the Comprehensive Income and Expenditure Statement and £11.5m was offset from the balance in the revaluation reserve in relation to these assets. £19.3m relates to capital expenditure which is below the council’s de minimis levels and consequently is written off to the Comprehensive Income & expenditure Statement in the year it is incurred. A further £1.1m impairment relates to Infrastructure assets, where the council has replaced the street lighting assets under the PFI contract. The replacement assets have been added to the balance sheet in line with the appropriate accounting treatment for PFIs and similar contracts and the replaced assets impaired and charged to the Comprehensive Income and Expenditure Statement.

Note 13: Investment Properties

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

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

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

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

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

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

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

Foundation

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

Voluntary Aided

Voluntary aided schools are endowed by a trust and the Schools Standards Framework Act determines that the trustees own the school buildings and the governing bodies are responsible for the provision of premises and all capital work to school buildings. The council is statutorily responsible for the land, consequently, values for the buildings have not been consolidated in this balance sheet, but values for the playing fields have been included as non-current assets.

Voluntary Controlled

Voluntary controlled schools are owned by a charity but the local council runs the schools and employs the staff. The council is normally the freeholder of the non-current assets and accordingly the school premises have been recognised as property, plant and equipment in this balance sheet.

Academies

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

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

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

Note 15: Financial instruments

Categories of financial instruments

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

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

* adjusted for provision for bad debt

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Income, expense, gains & losses

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

Fair Value of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost; their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

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

The fair values calculated are as follows:

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

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

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

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

All the investments held by the council at the 31 March 2014 are due to mature within one year therefore the fair value is equal to the carrying amount, which includes accrued interest. Available for sale assets are carried on the Balance Sheet at their fair value. Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

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

Available for sale assets are shares the council holds in a number of different organisations. These shares are not traded in an active market and so the fair value is taken to be the cost less impairment i.e. the current nominal value of the shares.

Nature and extent of risks arising from financial instruments
The Council's activities expose it to a variety of financial risks, the key risks are:

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

Overall Procedures for Managing Risk
The council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a treasury policy statement and treasury management clauses within its financial regulations;
- by approving annually in advance prudential indicators for the following three years limiting:
  - the overall borrowing;
  - the maximum and minimum exposures to fixed and variable rates;
  - the maximum and minimum exposures for the maturity structure of its debt;
  - the maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with government guidance.

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

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

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Credit risk

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

This risk is minimised through the annual investment strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Rating Services. The investment strategy imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria; credit ratings of short term of F1, long term A, support C and Individual 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria. Institutions outside the UK must domiciled in a country with 3 AAA sovereign ratings in order for any deposits to be viable.

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

Estimated maximum exposure to default		Amount	Historical experience of default	Adjustment for market conditions	**Estimated maximum exposure to default**
£000s 31/03/13		£000s 31/03/14	% 31/03/14	% 31/03/14	**£000s** **31/03/14**
	Deposits with banks and financial institutions	(a)	(b)	(c)	**(a x c)**
	Local Authorities	61,500	0.00%	0.00%	
	AAA rated counterparties	0	0.00%	0.00%	
6	AA rated counterparties	0	0.03%	0.03%	
80	A rated counterparties	40,950	0.08%	0.08%	**33**
	Other counterparties*	1,615			
6,966	Trade debtors**	110,785			**9,588**
7,052	Total	214,850			**9,621**

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

** a single percentage has not been applied to trade debtors. The bad debt provision is calculated using various percentage rates of possible default depending on the type and age of the outstanding debt. The estimated maximum exposure to default equates to the total bad debt provision (see note 16).

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

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

Liquidity risk
The council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed. The council has ready access to borrowings from the money markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions is unlawful). The council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity Risk
The council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets. The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The council approved treasury and investment strategies address the main risks and the Pension Fund & Treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt;
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

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

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

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

Market risk

Interest rate risk

The council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

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

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure

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

Currently all borrowing is at a fixed interest rate, with the exception of the monies held for the Office of the Police & Crime Commissioner for Surrey and some trust funds which are classed as short-term borrowing and the fair value is assessed to be the amount outstanding. All investments are held at fixed rate with the exception of the shares where dividends are received based on the performance of the company, which is not influenced by interest rates.

Price risk

The council, excluding the pension fund, does not generally invest in equity shares or marketable bonds. The council does have holdings to the value of £263,000 in five companies. These companies are not quoted and the shares are held at book value. The council is therefore not exposed to losses arising from movements in the prices of the shares although if any of the companies were to go into liquidation there is a risk that the shares would become worthless.

Foreign exchange risk

The Council currently has money held in escrow in Icelandic krona as part of the payout from Glitnir. Due to currency restrictions still in place, the money held in escrow cannot be transferred into sterling. This may expose Surrey to a risk in exchange rates should the value of krona fall significantly against sterling.

The council does not have any other financial assets or liabilities denominated in foreign currencies, and therefore has no other exposure to loss arising from movements in exchange rates. 8

Icelandic bank investments

Early in October 2008, the Icelandic banks Landsbanki and Glitnir, with which the council had invested £20m (£1.5m related to the Office of the Police & Crime Commissioner for Surrey), collapsed and went into administration. On 28 October 2011 the Icelandic Supreme Court ruled that UK local authorities' claims qualified as priority claims under Icelandic bankruptcy legislation.

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

Landsbanki's distribution policy was implemented on 17 February 2011, and had paid out £5.5m to the council by 30 January 2014, at which time the decision was taken to sell the claim to a private bidder. This decision was taken due to the increased currency risk inherent in the increasing length of time full recovery was expected to take.

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

Institution	Deposit	Amount expected at maturity	Interest Rate	Maturity Date	Total paid to date	Carrying Amount
	£m	£m			£m	£m
Glitnir	5.0	5.3	6.25%	31 Oct. '08	4.2	1.1
Glitnir	5.0	5.3	6.20%	31 Oct. '08	4.2	1.1

Note 16: Short Term Debtors

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

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

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Note 17: Cash and cash equivalents

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

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

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

Note 18: Assets held for sale

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

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

Note 19: Creditors

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

Note 20: Provisions

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

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

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

Business Rates

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

Insurance

The provision for insurance liabilities represents the assessed future claims on the county council's self-insurance fund. The fund was established to enable the county council to move towards self-insurance and is now considered to fully cover service risks. The level of this provision at 31 March 2013 included £1.038m payable in respect of the MMI levy. This has been paid during 2013/14 and this amount drawn-down from the provision. The fund and its liabilities are subject to review by the council's actuaries. The last review occurred during 2012. The council has an earmarked reserve to cover any unknown future liabilities.

Landfill Usage

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

Unequal Pay Claim

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

Redundancy Costs

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

Carbon Reduction Scheme

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

Closed Landfill Sites

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

Short Term Provisions

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

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Note 21: Usable Reserves

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

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

Note 22: Unusable Reserves

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

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

Revaluation Reserve

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation;
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

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

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

Financial Instrument Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The balance on the financial instrument adjustment account at the 31 March 2014 is in relation to the loss of interest on soft loans issued by the council in 2007/08 to Painshill Park Trust and foster carers, there have been no movements on this reserve during 2013/14.

Pensions Reserve

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

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Restated 31/03/13 £000		**31/03/14 £000**
919,182	Balance at 1 April	**1,070,712**
124,829	Actuarial gains or losses on pensions assets and liabilities	**96,359**
94,286	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Account	**109,088**
-67,585	Employer's pensions contributions and direct payments to pensioners payable in the year	**-72,874**
1,070,712	**Balance at 31 March**	**1,203,285**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council taxpayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

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

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

31/03/13		31/03/14	**31/03/14**
£000		£000	**£000**
15,231	Balance at 1 April		**13,613**
-15,231	Settlement or cancellation of accrual made at the end of the preceding year	-13,613	
13,613	Amounts accrued at the end of the current year	12,147	
-1,618	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		**-1,466**
13,613	**Balance at 31 March**		**12,147**

Note 23: Amounts reported for resource allocation decisions

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

Financial reporting standards recognise charges for depreciation and unrealised revaluation gains and losses for determining the cost of services; such transactions are not taken into account for budget setting purposes. Since December 2011 however, the council has performed the final accounts closure processes on a quarterly basis, which reconciles the budget requirements with accounting requirements.

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

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Comparator for 2012/13	Adult Social Care	Children, Schools & Families	Customer& Communities	Environment & Infrastructure	Central Services & Financing	TOTAL
	£m	£m	£m	£m	£m	**£m**
Sources of funding for budget:						
- Council tax					-580.2	-580.2
- Formula Grant					-149.6	-149.6
- Government grants & contributions		-647.2	-4.8	-2.5	-122.9	-777.4
- Contributions from Reserves					-28.4	-28.4
						-1,535.6
Amounts reported to Management						
Directorate Budgets:	**337.4**	**815.4**	**73.8**	**130.3**	**178.7**	**1,535.6**
Income						
- Fees, charges & other service income	-66.6	-79.2	-12.8	-16.0	-11.8	**-186.4**
- Interest & investment income					-1.7	**-1.7**
Expenditure						
- Employee expenses	65.5	555.7	57.0	22.3	49.6	**750.1**
- other service expenditure	340.5	320.3	28.2	124.7	122.3	**936**
- Interest payments					13.3	**13.3**
- Precepts & levies					0.9	**0.9**
- DSG variance		12.5				**12.5**
Actual Income & Expenditure	**339.4**	**809.3**	**72.4**	**131.0**	**172.6**	**1,524.7**
Contribution to Reserves (carry-forward)		3.1	0.9	0.9	3.0	**7.9**
Net Revenue Expenditure (cont to General Fund)	2.0	-3.0	-0.5	1.6	-3.1	**-3.0**
Accounting Adjustments to CIES (not reported for budget purposes)						
- Depreciation, amortisations & impairment						**135.4**
- Adjustments in relation to pension contributions						**17.4**
- Recognition of capital grants & contributions						**-98.5**
- Other accounting adjustments						**-1.5**
- Gain or loss on disposal of non-current assets						**-0.7**
Items reported for budget purposes but not charged to the CIES						
- Statutory provision for financing of capital						**-25.1**
- Capital expenditure financed from revenue						**-7.1**
Contributions to/from reserves						**-19.1**
Surplus on Provision of Services						**-2.2**
Surplus on Revaluation of Non-Current Assets						**-22.5**
Actuarial Losses on Pension Assets / Liabilities						**134.1**
Total Comprehensive Income & Expenditure						**109.4**

Note 24: Trading operations

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

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

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

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Note 25: Pooled budgets

Section 75 of the National Health Service Act 2006 (formerly Section 31 of the Health Act 1999) enables health and local authorities to work together for a common objective. This may involve a pooled budget, where all partners make a contribution. The Council entered into five such schemes with Surrey Primary Care Trust (PCT): The PCT has since been disbanded and replaced with six Clinical Commission Groups (CCG) in Surrey. During 2013/14 the local CCG assumed the role of the PCT in the pooled budget arrangements.

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

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

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

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

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

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Surrey integrated community equipment service

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

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

Child and adolescent mental health service

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

HOPE services

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

Surrey safeguarding children board

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

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

Note 26: Member Allowances

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

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

Note 27: Officer Remuneration – Senior Officers

Senior officers are specified as: all employees whose annualised salary is £150,000 or more; the head of paid services and any (non secretarial/clerical) person for whom the head of paid services is directly responsible, the directors of children and adult social services, the chief education officer, chief officer of a fire brigade, the chief finance officer and any other individuals who are directly accountable to the council (committee or sub committee) and earn £50,000 or more (whether contracted on a temporary or permanent basis).

Remuneration includes salary/wages, bonuses, expenses, allowances and benefits (chargeable to United Kingdom income tax), compensation for loss of office and employer pension contributions even though these are excluded from the general definition of remuneration.

Individuals whose remuneration is £150,000 or more per year must be named whereas those earning below £150,000 must be identified by way of job title alone. The remuneration of the council's senior officers is disclosed in the table below:

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

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

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

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

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

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

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

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

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

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

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

*Includes cost of pension fund strain where applicable
** Included in the total cost charged to the CIES is an increase in the redundancy provision made in relation to redundancies that had been approved in 2013/14 but for which no payment had yet been made.

Note 30: External Audit Costs

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

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

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Note 31: Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools' budget, as defined in the School Finance (England) Regulations 2011. The school budget includes elements for a range of educational services provided on a council-wide basis and for the individual school's budget, which is divided into a budget share for each maintained school. Central expenditure includes items such as:

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

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

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

*Individual Schools Budget

Reference:

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

Note 32: Grants and contributions

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

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

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

Grants credited to services are analysed in the following table:

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

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Note 33: Related parties

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

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

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

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

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

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

Entities Controlled or Significantly Influenced by the Council –

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

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

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

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

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

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

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

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

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

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

The CFR is analysed in the following table:

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

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

Note 35: Leases

Council as Lessee
Finance Leases:
In addition to the finance lease liabilities recognised as a result of PFI and similar arrangements (detailed in note xx) a school entered into a leasing agreement totalling £980,000 during 2003/04 repayable over 22 years. This represents a long-term liability for the council and is treated as a finance lease matched by an asset, which is the security for the liability.

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

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

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

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

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

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

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

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

Council as Lessor

Operating Leases

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

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

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

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

In addition, the council leases a number of buses to bus operators as part of contracts with them to operate certain bus routes on the council's behalf. A nominal amount is received in consideration for these buses, however, the council receives a reduced charge from the operators to provide these services due to the provision of these vehicles.

Note 36: Private finance initiatives and similar contracts

In 1999 the council entered into a 25-year contract for waste disposal with Surrey Waste Management. The annual payments under the contract are in part dependent upon the tonnage of waste sent for disposal so that the contractor manages demand risk at higher tonnage levels whereas this risk falls on the council if tonnages fall. A large proportion of the investment remains to be delivered. As a result the council faces a contingent liability as described in note 46.

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

The ability of Anchor to exploit some of the capacity of the homes has been recognised as a deferred income liability.

In 2002 the council entered into a further long-term contract for the provision of residential and day care with Care UK. The contract has similar terms to that with Anchor Trust. The council is committed to purchasing 77% of the beds as well as day care facilities. All of the homes return to Surrey's management at the end of the 25-year contract at nil cost with the exception of one home where the council has the option to terminate the lease under the project agreement at advantageous terms.

In 2010 the council entered into a long term contract with Skanska John Laing for street lighting services. The contract, which is expected to last 25 years, will include the replacement or refurbishment of street lights in Surrey during the first five years, and continued maintenance of lights for the remainder of the contract term. At the end of the contract all equipment will return to the county's management.

Property Plant and Equipment

The assets used to provide services in relation to these arrangements are recognised on the Balance Sheet. Movements in their value over the year are included in the analysis of the movement on the Property, Plant and Equipment balance in Note 12.

Assets in relation to Anchor Homes, Care UK and the Waste contract are recognised as land and buildings and those assets in relation to the street lighting contract are recognised as infrastructure assets.

The table below summarises the movement:

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

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Payments made to the contractor are described as unitary payments. Unitary payments have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The value of any capital works are matched in the balance sheet by recognising a liability, either a finance lease liability or a deferred income liability where the contractor is able to exploit the assets for their own business.

Payments remaining to be made under the PFI contract at 31 March 2014 (based on 2013/14 prices, excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payable in 2014/15 £000	Payable within two to five years £000	Payable within six to ten years £000	Payable within 11 to 15 years £000	Payable within 16 to 20 years £000	Payable within 21 to 25 years £000	**TOTAL £000**
Payment for Services							
- Waste	35,912	158,759	243,152	21,173			**458,996**
- Anchor Trust	16,087	64,345					**80,432**
- Care UK	8,473	33,893	42,366	25,419			**110,151**
- Street Lighting	3,055	7,642	9,630	10,045	10,873	2,021	**43,266**
	63,527	264,639	295,148	56,637	10,873	2,021	**692,845**
Reimbursement of Capital Expenditure							
- Waste	3,441	38,737	54,294	10,173			**106,645**
- Anchor Trust	1,611	8,655					**10,266**
- Care UK	80	370	605	459			**1,514**
- Street Lighting*	897	7,384	12,224	17,099	24,532	5,644	**67,780**
	6,029	55,146	67,123	27,731	24,532	5,644	**186,205**
Interest							
- Waste	872	20,692	15,740				**37,304**
- Anchor Trust	552	1,170					**1,722**
- Care UK	92	318	254	57			**721**
- Street Lighting	6,047	26,218	29,701	24,411	16,150	1,767	**104,294**
	7,563	48,398	45,695	24,468	16,150	1,767	**144,041**
TOTAL	**77,119**	**368,183**	**407,966**	**108,836**	**51,555**	**9,432**	**1,023,091**

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

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

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

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

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

Note 37: Pension schemes accounted for as defined contribution schemes

Teachers employed by the council are members of the Teacher Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. 8

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

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

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

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

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

Note 38: Defined benefit pension schemes

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

Surrey County Council contributes to two defined benefit schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Surrey County Council, is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets in the long term.
- The Firefighter Pension Scheme is an unfunded defined benefit final salary scheme meaning that because no investment assets have been built up to meet these pension liabilities cash, net of contributions from active members and government grants, has to be generated to meet pension payments as they fall due. Deficits on the firefighters' pension scheme are covered by a government grant received each year from the Department for Communities & Local Government

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

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

Transactions relating to post-employment benefits
The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions.
The charge required to be made against council tax is based on the cash payable in the year so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

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

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

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

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

Assets and liabilities in relation to post-employment benefits
Reconciliation of present value of the scheme liabilities (defined benefit obligation):

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

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

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

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

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IAS 19 changes
In June 2011 the International Accounting Standards Board (IASB) issued a new version of IAS19 applying to financial years starting on or after 1 January 2013 and therefore has been adopted by the council for the first time in 2013/14.

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

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

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

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

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

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

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

The principal assumptions used by the actuary have been:

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

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

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

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

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

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

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

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Asset and liability matching strategy

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

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

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

Impact on the council's cash flows

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

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

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

Defined benefit obligation

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

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

Note 39: Contingent liabilities

Potential liabilities are not required to be incorporated within the accounts where there is no certainty that an actual liability will arise or where the extent of an obligation cannot be measured with sufficient reliability. At 31 March 2014 the council had the following contingent liabilities:

- The council embarked upon a PFI for waste disposal in 1999. By the end of 2013/14 £124.1m has been received in PFI credits. In return, the council has an obligation to invest in waste disposal infrastructure. A large proportion of this obligation is still to be delivered. If these obligations are not met then a liability may arise to repay some or the entire PFI grant received to date.

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

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

- There are a number of historic high profile investigations around social care which could impact on the council. The potential liability is difficult to quantify but there is potential for up to £1m of expenditure in respect of successful future high value claims.

- A school has received a contribution from Sport England amounting to £120,000 towards the total project costs of a sports facility project. The council has entered into a Deed of Dedication in relation to the terms and conditions attached to the award of this contribution and if the school do not comply with these terms then the council may be liable to repay all or some of this grant.

Context
Surrey County Council (the council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, including the arrangements for the management of risk.

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

This Annual Governance Statement (AGS) outlines the council's governance arrangements and achievements during 2013/14 and highlights areas to continue to strengthen governance and internal control in 2014/15. It also meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2011, which requires the council to prepare an Annual Governance Statement. 8

The annual review of governance is overseen by the Governance Panel (the panel). The panel comprises the Head of Legal and Democratic Services [chair], the Chief Finance Officer, senior representatives from HR and Organisational Development and Policy and Performance, the Chief Internal Auditor and the Risk and Governance Manager. The panel meets four times a year and reports to the Corporate Leadership Team and the Audit and Governance Committee. The review has provided a satisfactory level of assurance on the governance arrangements for the year.

The governance environment during 2013/14
<u>Purpose and Outcome</u>
The Corporate Strategy, 'Confident in our future', provides clear direction for staff as well as a signpost for residents, businesses and partner organisations and has the council's four values of Listen, Responsibility, Trust and Respect at its heart. It is underpinned by a suite of supporting documents such as the interactive Medium Term Financial Plan, Investment Strategy and directorate strategies. The Chief Executive reports progress on delivering the Corporate Strategy to full County Council on a six-monthly basis.

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

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

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

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

Leadership & Behaviour

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

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

The functions of the Monitoring Officer (Head of Legal and Democratic Services) and Chief Finance Officer/Section 151 Officer (Chief Finance Officer and Deputy Director for Business Services) are specified by statute and between them they are responsible for ensuring lawfulness, fairness and financial prudence in decision-making.

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

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

The Staff and Member Codes of Conduct set out the high standards of conduct expected by the council and training is provided through induction. The Codes of Conduct are supplemented by the Member/Officer Protocol, which provides principles and guidance for good working relations, and the Strategy Against Fraud and Corruption. The Monitoring Officer and the Member Conduct Panel deal with allegations of breaches of the Member Code of Conduct. The register of pecuniary interests for all members can be viewed online. The Chief Executive continues to show his commitment to engage with and support staff by providing regular updates and key messages through emails and the intranet via a monthly blog. He also regularly visits offices across the county with the Leader to meet, listen, learn and engage with staff.

Transparency and Stewardship

The council produces an Annual Report that demonstrates the delivery of priorities over the year through highlighting key data on performance, notable achievements and includes the AGS and summary accounts. The council also produces the four primary financial statements each quarter (Movement in Reserves, Income & Expenditure, Balance Sheet and Cash Flow) to provide management and members with robust information for measuring performance. The 2013/14 Statement of Accounts will be audited and approved for publication by the end of July 2014. In the past this formal approval has been in early September.

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

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

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

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

The council has six select committees who provide challenge to the Cabinet and continue to strengthen their policy development and review role. The Council Overview and Scrutiny Committee, comprising the select committee chairmen and representatives of the opposition parties, takes a council-wide view and leads on collaborative scrutiny issues.

Every County Council, Cabinet and Planning and Regulatory Committee meeting is webcast to enable people to watch meetings online.

The Audit and Governance Committee comprises six councillors (the Chairman is a Residents' Association/Independent Councillor) who have been specifically chosen to enable robust challenge and assurance from a position of knowledge and experience. The committee is focused on providing independent assurance on the council's control environment, the adequacy of the risk and governance arrangements and financial reporting.

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

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

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

8 The council's Whistle-blowing policy encourages staff to raise concerns, such as bullying or harassment or fraud, through an anonymous, confidential and independent hotline. A variety of communication channels are constantly used to publicise the policy and the supporting arrangements.

As part of the Council's policy on transparency and openness, information is made available to residents and businesses through the publication of expenditure invoices for spend over £500 and salaries of staff who earn over £58,200 (named from £100,000).

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

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

The council continues to invest in staff and members to ensure engagement and motivation. Staff are given access to a number of tools and support through the STARS (Stretching Talent and Raising Skills) training and development programme that includes a range of e-learning and classroom based courses, online guidance and websites. Workplace coaches and a pilot high performance development programme (planned for roll out in 2014/15) are in place across the organisation to support staff with career development and/or find solutions to issues and problems.

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

<u>Engagement and collaboration</u>
The Surrey Residents Survey, which is jointly commissioned with Surrey Police, gathers customer satisfaction data and the results form part of the corporate scorecard. Customer feedback procedures ensure that feedback is both consistent and appropriate and that outcomes are reported through a quarterly digest.

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

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

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

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

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

Internal control environment
The internal control environment is a significant part of the governance framework and is designed to manage risks to a reasonable level. The overall opinion of the Chief Internal Auditor on the internal control environment for 2013/14 is **"some improvement needed".** Controls evaluated are judged to be generally adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. However, there are a number of areas where there is a need to enhance the governance arrangements in place, in particular:

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

Management Action Plans are in place to address the recommendations made by Internal Audit and actions will be implemented by the identified responsible officers.

Focus for 2014/15
The council's strategic plans need to remain focussed on continuing to strengthen our relationships with residents, businesses and all partners, developing innovative solutions, and planning and managing our finances carefully and responsibly.

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

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

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

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Signed:

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

Explanatory Foreword

Legal status
The Firefighter Pension Fund is administered by Surrey County Council; it falls within the jurisdiction of the council's chief finance officer for certification and is subject to the council's statutory audit report prior to being submitted for approval to the Audit and Governance Committee. Since 1st April 2006, the council has administered (the 1992 and the 2006 fire-fighter pension) schemes from a separate local fire-fighter pension fund and therefore the fire-fighter pension fund does not form part of the Council's balance sheet.

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

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

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

As there are not any investment assets built up to meet these pension liabilities, cash, net of contributions from active members and government grants, has to be generated to meet pension payments as they fall due. When accounting for the cost of retirement benefits the liability is recognised and reported in the council's cost of services when pensions are earned by employees, rather than when the benefits are eventually paid as pensions. The council's actuary based their calculations on future pension increases being linked to the consumer prices index (see note 45 of the council's statement of accounts for details of these amounts).

Estimating the net liability to pay pensions depends upon a number of complex judgements relating to salary increase projections, changes in retirement ages and mortality, expected returns on pension fund assets and the discount rate used for financial modelling. A sensitivity analysis carried out by the actuary revealed that a 1% decrease in the discount rate assumption would result in an increase in the pension liability of £9.4m.

Significant Accounting Policies
The fire-fighter pension fund account is prepared in accordance with the accounting policies as set out in the Chartered Institute Public Finance and Accountancy Code of Practice on Local Authority Accounting in the United Kingdom. The account summarises the transactions of the scheme and the net assets. Normal contributions, both from the members and from the employer which are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. The fire-fighter schemes are prescribed by statute as unfunded defined benefit final salary schemes, the benefits of which are defined and guaranteed in law in accordance with the concept of the council as a going concern.

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The fund accounts set out below do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

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

Net Asset Statement

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

Note 1 - Contributions Receivable

Contributions represent the total amounts receivable from the council and the pensionable employees. The employer's contributions are made at the rates determined by the Government Actuaries Department, at a nationally applied rate of 21.3% for the 1992 Fire-fighter' Pension Scheme and 11% for the 2006 Scheme. The Council is required to make payments into the pension fund in respect of ill health retirements, when they are granted. No provision is been made for employee and employer contributions for sums due on pay awards not settled.

Note 2 - Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

Note 3 - Transfer Values
Transfer values are those sums paid to or received from other pension schemes and the fire-fighter pension scheme outside England for individuals and relate to periods of previous pensionable employment.
Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

Note 4 – Top up Grant
The fund was topped up by Government grant of £5.494m in 2013/14 (£7.599m in 2012/13) as contributions are insufficient to meet the cost of pension payments due for the year of which £5.415m was received in year leaving a outstanding balance of £79,000 due from government.

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

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SURREY PENSION FUND ACCOUNTS 2013/2014

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

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over a hundred other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply.

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

The number of employees in the fund and the number of pensioners as at 31 March 2013 and 31 March 2014 are:

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

Surrey pension fund account

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

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Net asset statement

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

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 26 of these accounts.

Note 1: Description of the fund

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

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General
The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation: 8

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

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

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

b) Membership
Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Surrey Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admissions agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing of services to the private sector.

c) Funding
Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and new rates will

apply from April 2014 onwards. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits

Pension benefits accrued under the LGPS to 31 March 2014 are based on final pensionable pay and length of pensionable service.

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

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

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

e) New LGPS Scheme 2014

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

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

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

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

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

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

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at the year end at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 26 of these accounts.

These accounts have been prepared on a going concern basis.

Note 3: Summary of significant accounting policies

Fund account – revenue recognition

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

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

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

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

c) Investment income
i) Interest income
Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium, transaction costs or other differences between the initial carrying amount of

the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income
Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv) Movement in the net market value of investments
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.

Fund account – expense items

d) Benefits payable
Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

e) Taxation
The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2014 is reported as a current liability.

f) Administration expenses
Pensions administrative expenses reflect the costs incurred in the payment of pensions and other benefits, actuarial advice, dealing with transfer values and the maintenance of member records. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts.

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

g) Investment management expenses

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

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

Net assets statement

h) Financial assets

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

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

i) Market quoted investments

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

ii) Fixed interest securities

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

iii) Unquoted investments

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

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

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

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

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

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

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

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

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

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

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

l) Financial liabilities
The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

m) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirement of IAS 19 and relevant actuarial standards.

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

n) Additional voluntary contributions
Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The fund has appointed Prudential as the AVC provider. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093).

Note 4: Critical judgements in applying accounting polices

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2014 was £102 million (£90 million at 31 March 2013).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement as at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability of the fund would change. An increase in the discount rate would result in a corresponding decrease in the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy.
Private equity	Private equity investments are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £102 million. There is a risk that this investment may be over or under stated in the accounts.

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Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in July 2014. The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Funds assets and liabilities. No such adjustments have been deemed necessary.

Note 7: Contributions receivable

By category

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

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

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

Note 8: Transfers in from other pension funds

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

Note 9: Benefits payable

By category

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

By employer

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

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

Note 10: Payments to and on account of leavers

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

Note 11: Current assets

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

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Analysis of current assets

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

Note 12: Long term debtors

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

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

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

Note 13: Current liabilities

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

Analysis of current liabilities

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

Note 14: Administrative expenses

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

Note 15: Investment expenses

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

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Note 16: Taxes on Income

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

Note 17: Investment income

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

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

Note 18a: Reconciliation of movements in investments and derivatives

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

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

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as commissions, stamp duty and other fees.

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

Note 18b: Analysis of investments

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

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Note 18c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. At 31 March 2014 the fund had two futures contracts in place with a net unrealised loss of £35,740 (net unrealised loss of £310,410 at 31 March 2013).

2013/14

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

2012/13

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

Forward currency contracts

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

2013/14

No of contracts	Contract settlement date within	Currency Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'000
1	One month	AUD	HKD	8	-56		
1	One month	EUR	DKK	31	-234		
11	One month	EUR	GBP	260	-215		
6	Two months	GBP	EUR	105,885	-127,629	351	
1	One month	GBP	HKD	34	-443		
3	Two months	GBP	JPY	55,062	-9,092,353	2,079	
5	One month	GBP	USD	1,918	-3,191	4	
10	Two months	GBP	USD	242,455	-395,044	5,431	
1	One month	HKD	SGD	495	-80		
3	One month	JPY	GBP	80,204	-470		-3
1	One month	USD	AUD	9	-9		
						7,865	**-3**

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2012/13

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

Stock Lending

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

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Note 18d: Investments analysed by fund manager

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

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

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

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

Note 19a: Classification of financial instruments

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

As at 31 March 2013 **As at 31 March 2014**

Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			Financial assets			
347,863			Fixed interest securities	352,134		
99,100			Index linked securities	94,675		
1,574,687			Equities	1,747,131		
120,748			Property unit trusts	165,824		
238,986			Diversified growth	270,937		
90,336			Private equity	101,814		
2,154			Derivatives	7,896		
	59,723		Cash		39,212	
11,128			Other investment balances	9,676		
	29,916		Debtors		35,281	
2,485,002	**89,639**			**2,750,087**	**74,493**	
			Financial liabilities			
-7,810			Derivatives	-69		
-3,810			Other investment balances	-7,718		
		-4,305	Creditors			-4,793
			Borrowings	-4,500		
-11,620		**-4,305**		**-12,287**		**-4,793**
2,473,382	**89,639**	**-4,305**		**2,737,800**	**74,493**	**-4,793**

Note 19b: Valuation of financial instruments carried at fair value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

Note 19c: Book cost

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

Note 20: Outstanding commitments

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

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

Risk and risk management

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

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

a) **Market risk**

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

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

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Other price risk

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

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

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

Other price risk – Sensitivity Analysis

The WM Company has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2013/14 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. The percentage change for

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

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

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

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

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

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

Interest rate risk

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

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton. In February 2013 50% of UK gilts managed by Western were redeemed and the proceeds were invested in Franklin Templeton's Global Total Return Fund. This has a more diverse range of fixed income investment opportunities reducing the overall interest rate risk, as there is less exposure to individual interest rate movements.

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 **As at 31**

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

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Interest rate risk sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2014	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	39,212	392	-392
Fixed interest securities	352,134	3,521	-3,521
Total	**391,346**	**3,913**	**-3,913**

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

Currency risk

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

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

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Currency risk – sensitivity analysis

The WM Company has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2013/14 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant. A significant proportion of overseas assets are invested via pooled funds denominated in Sterling.

Asset type	Value at 31 March 2014 £000	% Change	Value on increase £000	Value on decrease £000
Overseas equities	526,139	5.30%	554,024	498,254
Fixed interest	12,268	5.30%	12,918	11,618
Property and Private Equity	83,469	5.30%	87,893	79,045
Cash and Other Assets	-388,294	5.30%	-408,874	-367,714
Total	**233,582**	**5.30%**	**245,961**	**221,203**

For comparison last year figures are included below.

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

b) Credit risk

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

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

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

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

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

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

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

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

c) Liquidity risk

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

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

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

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

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

d) Derivative risk

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

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

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

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Note 22: Related party transactions

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

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

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

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

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

Note 23: Key management personnel

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

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

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

Note 24: Custody

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

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

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

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of funding policy

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

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

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out.

Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 65% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

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

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31 March 2014

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

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

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund.

Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

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

Experience over the year since April 2013 8

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

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

Barry McKay

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

3 June 2014

Note 26: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund account:

- Showing the figure in the net asset statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

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

Balance sheet

Year ended	31 March 2014 £m	31 March 2013 £m
Present value of promised retirement benefits	4,151	3,982

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Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2013 comprises £1,768m in respect of employee members, £818m in respect of deferred pensioners and £1,565m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of members may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis)

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2014 is to increase the actuarial present value by £68m.

Financial assumptions

My recommended financial assumptions are summarised below:

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

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

Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a..

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

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

*Future pensioners are assumed to be currently aged 45.

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

Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Professional notes

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

Barry McKay FFA

3 June 2014

For and on behalf of Hymans Robertson LLP

Note 27: Additional Voluntary Contributions

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

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

Note 28: Statement of investment principles

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

Note 29: Annual report

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

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Annex 1. Accounting Policies

i. General Principles
The statement of accounts summarises the council's transactions for the 2013/14 financial year and its position at the year end 31 March 2014. The council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011. The Regulations require the statement of accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

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

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

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

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

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

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

Faithful representation is a new concept and has three characteristics:

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

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

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

ii. Recognition of Income and Expenditure
Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue (income) from the sale of goods and provision of services is recognised when the Council transfers the goods or completes the delivery of a service.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet and provision is made for bad and doubtful debts. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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Council tax and business rates
Council tax and business rate income included in the comprehensive income and expenditure statement as local taxation is the total of the:

- Precept on the collection funds of each billing authority; and
- The council's share of the actual surplus / deficit on the collection funds of each billing authority at the end of the current year, adjusted for the council's share of the surplus / deficit on the funds at the preceding year end that has not been distributed or recovered in the current year.

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

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

iii. Cash and Cash Equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature within 24 hours of the date of acquisition (mainly Money Market Funds and overnight investments) as these are considered to be readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

iv. Changes in Accounting Policies, Errors, Estimates and Prior Period Adjustments
Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are recorded prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

v. Charges to Revenue for non-current Assets
Non-current assets are assets with physical substance that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used for more than one year.

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. It is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance. This contribution is known as the Minimum Revenue Provision (MRP). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by MRP in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. Employee Benefits

<u>Benefits Payable During Employment</u>
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits for current employees. These benefits are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

<u>Termination Benefits</u>
Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service, or where applicable, to the Non-Distributable Costs line, in the Comprehensive Income and Expenditure Statement, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

Post-employment Benefits

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

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

The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the council. The local government scheme is funded whereas the fire fighter scheme is unfunded meaning that liabilities are recognised when awards are made and hence there are no investment assets; cash has to be built up to meet actual pension payments as they fall due (net of contributions from active members and government grant). Deficits on the firefighters' pension scheme are covered by a government grant received each year from the Department for Communities & Local Government.

The teachers' pension scheme is administered nationally and arrangements mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. Therefore, the scheme is accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to teachers' pensions in the year.

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

The NHS pension scheme is administered nationally and arrangements mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. Therefore, the scheme is accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Public Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to NHS pensions in the year.

The Local Government Pension Scheme (LGPS) & The Firefighters' Pension Scheme
The Local Government Pension Scheme and the Firefighters' Scheme are administered by Surrey County Council and are accounted for as a defined benefits scheme:

- liabilities of the pension funds attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees);
- liabilities are discounted to their value at current prices, using a discount rate of 4.5%. This rate is based on the indicative rate of return on a high quality corporate bond which is defined as having been "rated at the level of AA or equivalent status". In this instance the 4.5% is made up of a 3.2% yield on 20 year UK Government Bonds and a suitable addition of 1.3% to reflect the extra risk involved in using AA corporate bond yields. The 1.3% was derived by comparing the iBoxx Sterling Corporates AA over 15 year index and the corresponding over 15 year Government Bond index.

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The assets of the pension funds attributable to the council are included in the Balance Sheet at their fair value:

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

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

- Service cost comprising:

    - *current service cost* – the increase in liabilities as a result of years of service earned this year are allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
    - *past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
    - *net interest on the defined benefit liability* – the net interest expense for the council. The change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment income and expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability as a result of contribution and benefit payments.

- Remeasurements comprising:

;

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

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

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

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

Discretionary Benefits

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

vii. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

viii. Exceptional Items

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

ix. Financial Instruments

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

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

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets
Financial assets are classified into two types:

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

Loans and Receivables
Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset

multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

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

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

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

Account. Investments in relation to social services residents' accounts are shown at their current cash value.

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

xi. Government Grants and Contributions
Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: 8

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied (i.e. will be expended as intended) the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.
Where capital grants are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

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

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

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

xiii. Intangible Assets

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

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

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

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

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

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

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

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

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

xvi. Leases
Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee otherwise all other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets. 8

The Council as Lessee

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

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

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

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

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the

lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

The Council as Lessor

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

Lease rentals receivable are apportioned between:

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

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

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

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

xvii. Overheads and Support Services
The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The total absorption costing principle is used so that the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

xviii. Private Finance Initiative (PFI) and Similar Contracts
PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment owned by the council. The amounts payable to the PFI operators each year are analysed into five elements:

- **fair value of the services received during the year** is debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- **finance cost** is an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **contingent rent** is an increase in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **payment towards liability** is applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **lifecycle replacement costs** reflect a proportion of the amounts payable to be posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

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

- Anchor Homes
- Waste
- Street Lighting
- Care UK

xix. Property, Plant and Equipment (Assets Held for Sale & Investment Properties)
Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one financial year are classified as property, plant and equipment.

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

The Council has adopted a de-minimis limit of £10,000 for vehicles, equipment & plant, and £50,000 for buildings and other assets, below which assets and expenditure on the enhancement of assets will not be will not be maintained on the asset register nor held on the balance sheet. No formal de minimis limit applies to infrastructure assets.

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Measurement
Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deprecation is calculated on the following bases:

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

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

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

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, are credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves' Statement. The written-off value of disposals is not a charge against council tax as the cost of noncurrent assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.
For schools that have attained Academy status and disengaged from the council, the net book value of the land and building is de-recognised from the Balance Sheet through the Capital Adjustment Account.

Investment Properties
Investment properties are used solely to earn rentals and/or for capital appreciation and hence the criteria is not met if the property is used in any way to facilitate the delivery of services or the production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Investment properties are not depreciated but are re-valued annually according to market conditions at year end with gains and losses on revaluation being posted to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement; the same treatment is applied to gains and losses on disposals.

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

xx. Provisions, Contingent Liabilities and Contingent Assets

Provisions
Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account relevant risks and uncertainties. 8

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) this is recognised as income for the relevant service only if it is certain that reimbursement will be received if the council settles the obligation.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

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

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

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

xxii. Revenue Expenditure Funded from Capital under Statute
Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxiii. Value Added Tax (VAT)
VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income, unless it is a rebate from previous years.

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

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

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

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

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

Business Rates
See Non-Domestic Rates (NDR).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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