SURREY COUNTY COUNCIL

STATEMENT OF ACCOUNTS

2014-15

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

We have audited the financial statements of Surrey County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the annex containing the accounting policies, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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

Respective responsibilities of the Director of Finance and auditor
As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's and Group’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the financial position of Surrey County Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters
In our opinion, the information given in the explanatory foreword and the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception
We are required to report to you if:

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

We have nothing to report in these respects.

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

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

Basis of qualified conclusion

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

Qualified conclusion

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

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of Surrey County Council included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2015. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

Andy Mack
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP
DRAFT July 2015

1. Introduction

Welcome to Surrey County Council's Statement of Accounts for 2014/15. The statement of accounts reports the income and expenditure on service provision for the year and the value of the council's assets and liabilities at the end of the financial year. This is done in accordance with proper accounting practices as defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

In addition to demonstrating best practice in relation to the speed of our accounts closure, the finance service also aspires to develop a statement of accounts which is more accessible to users. Surrey County Council is a large and diverse organisation and the information contained in these accounts is technical and complex. The aim of this foreword, therefore, is to provide a general guide to the items of interest and highlights some of the more significant matters that have determined this position for the financial year ending 31 March 2015.

2. Key financial statements (known as Primary Statements)

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

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

Movement in Reserves Statement (page 18) shows the movement during the 2014/15 financial year on the different reserves held by the council, analysed into usable reserves and other unusable reserves

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

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

Comprehensive Income & Expenditure Statement (CIES) (page 20) shows the true economic accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The deficit on the provision of services for 2014/15 was £162.7m which is shown in the movement in reserves statement (in 2013/14 there was a deficit of £189.3m). This represents the accounting deficit on the provision of services in accordance with International Financial Reporting Standards (IFRS), not a deficit in relation to what has been spent over the funding raised. The main reasons for the deficit are:

- the writing off of £56.8m of assets in relation to schools which have transferred to academy status. This is shown as an expense within the Education & Children's Services line of the CIES.
- £49.6m adjustment for the current service cost of pensions required under International Accounting Standard 19 compared to actual employer pension contributions paid

Balance Sheet (page 21) shows the value of the assets and liabilities recognised by the council as at 31 March. The balance sheet of the council shows a net liability of -£207.0m, which is matched by reserves (as set out in the movement in reserves statement). This negative balance sheet position as at the 31 March is due to the pension liability which does not need to be met within the next year, but over the lifetime of the scheme members. This is explained further in Section 5.

Cash Flow Statement (page 22) shows the changes in cash and cash equivalents during the financial year. The total increase in cash and cash equivalents for the council during 2014/15 was £9.2m which is shown in the cash flow statement and note 17.

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

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

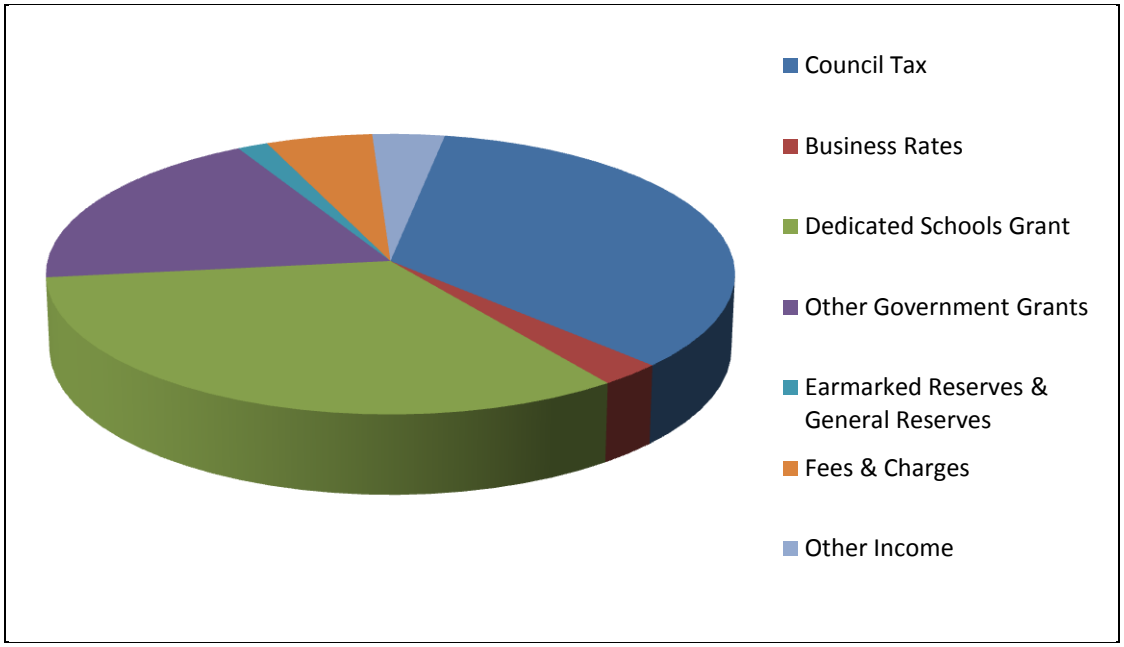
3. Budgeted income & expenditure

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

For the fifth year in succession, the council ended 2014/15 with an underspend, demonstrating its tight grip on financial management. The outturn position for 2014/15 provides a clearer indication of the council's strong financial stewardship during the year than is apparent from the accounting deficit provided in the Comprehensive Income & Expenditure Statement (CIES), which takes a different view of financial performance.

The outturn position is more important to residents because it records only those expenses which statute allows to be charged against the county council's annual budget and the amounts to be collected from council tax. The amounts which are charged to the CIES for items such as depreciation, impairment, capital grants and pension charges are eliminated in

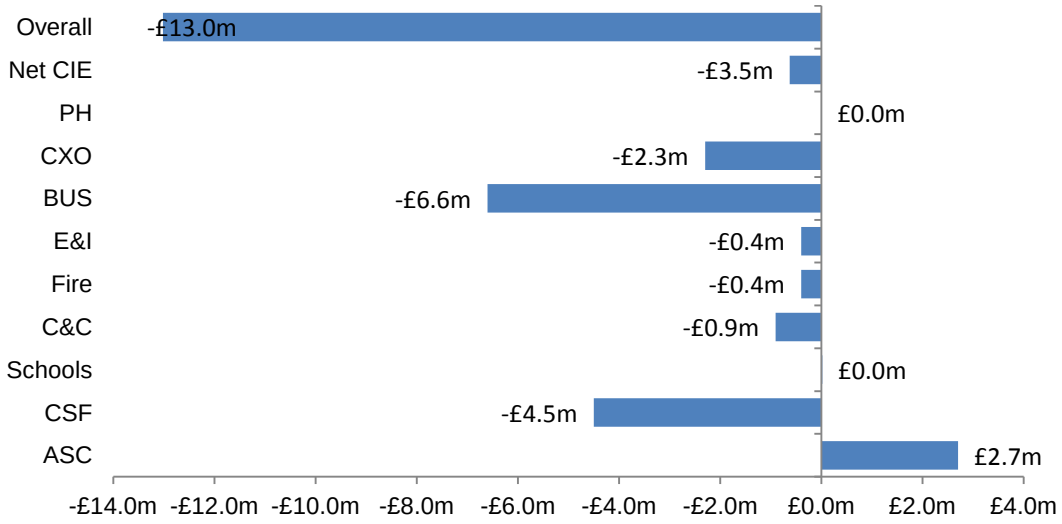
the General Fund expenditure analysis. The movement in reserves statement and supporting note (note 7) show how these items are removed from the General Fund position. The 2014/15 revenue budget approved in February 2014 was to be funded as follows:



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

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

The graph below shows services' gross expenditure variances at outturn



The Cabinet has approved £8.0m revenue carry forwards from 2014/15 to 2015/16 to ensure funding is available for schemes, projects and commitments that need to be funded in the new financial year. This leads to a residual underspend of -£5.0m, which has been transferred to the budget equalisation reserve.

Since December 2011 the council has performed a 'quarterly hard close', which is reported for in accordance with accounting standards, for which it won an award for transparency in 2012. These quarterly position statements are published in the public interest to aid transparency and ease comparisons with private sector entities. The council has for a second year running worked to an accelerated closing timetable which allows audited financial statements to be produced by the end of July.

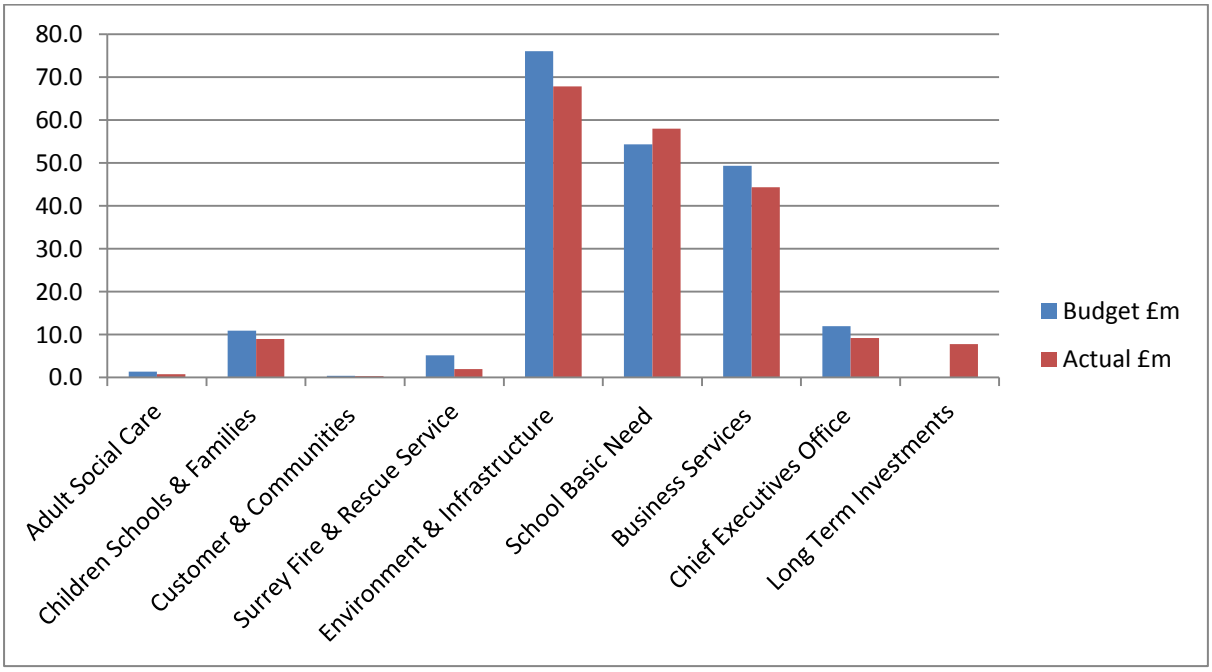
During the year the monthly budget monitoring year end forecasts are reported to Cabinet within 3 weeks after the end of the month. The timeliness of this reporting means variations from the budget are considered early and management action can be put in place promptly.

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

4. Capital expenditure

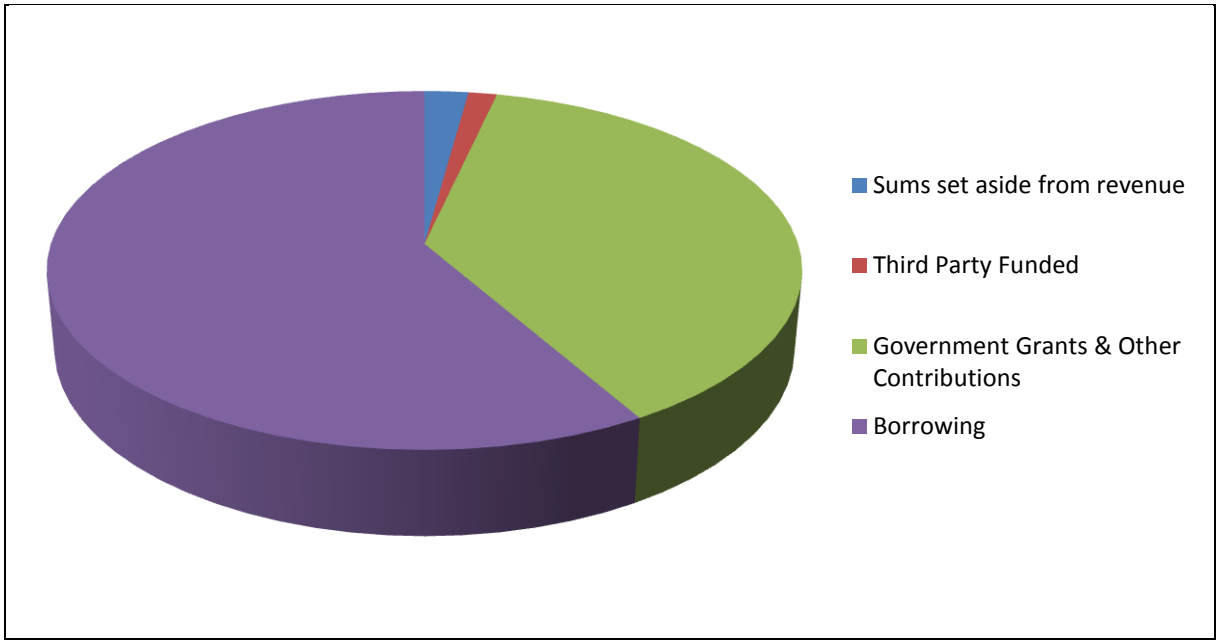
In agreeing significant capital investment as part of the Medium Term Financial Plan (MTFP) for 2014-19, the council demonstrated its firm long term commitment to supporting Surrey's economy. A key element of Surrey County Council's corporate vision is to create public value by improving outcomes for Surrey's residents. This vision is at the heart of the capital programme. In July 2014, Cabinet reprofiled the 2014-19 capital programme to increase it to £780m. The council also wants to reduce its reliance on the council tax payer. To this end, it invested £40.2m in long term capital investment assets in 2013/14 and a further £7.8m in 2014/15.

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



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

The 2014/15 capital expenditure was funded as follows:



5. Material items of income and expenditure, material assets acquired and liabilities incurred

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

Further details of these are disclosed in note 5. In addition, material expenditure is incurred in relation to the Private Finance Initiative Schemes the council is involved in, further details can be found in note 37.

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

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

During 2014/15, 19 schools transferred to academy status (27 in 2013/14). An academy is self-governing, directly funded by central government and independent of direct control by local government. Included in the Education and Children's Services line of the comprehensive income and expenditure statement is an impairment charge of £56.8m related to the derecognition of academy schools (£105m in 2013/14). When a school changes status to an academy, the ownership of the land and buildings transfers from the council to the school. The assets are written out of the balance sheet and an accounting adjustment is made against the service line in the CIES.

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

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

It is important to understand that pension benefits do not become payable until employees retire, however the council is required to account for the future obligations at the same time as the employees earn their future entitlement, in accordance with proper accounting practices.

The council's independent actuary Hymans Robertson estimated the Local Government Pension Scheme (LGPS) net liability to be £915.1m at the balance sheet date, an increase of £201.1m on the previous year. The DCLG firefighters' pension liability included within the council's accounts is estimated to be £581.3m an increase of £92m on the previous year. This increase in the valuation of the liabilities is due mainly to falling real bond yields which is only partially offset by stronger asset returns. The liability does not need to be met within the next year but over the working lifetime of the scheme members. The council is making appropriate lump sum payments to the pension fund in addition to the contributions related to current employees. Readers of the accounts should note that the pension fund deficit of £1,496m is based on a snapshot in time and it does not predict the fund's future financial condition or its ability to pay benefits in the future.

6. Changes in accounting policies

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

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

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

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

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

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

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

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

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

7. Borrowing

Long-term borrowing (repayable in more than 12 months) held on the balance sheet relates to the financing of capital expenditure incurred in previous years. The balance currently stands at £397.8m.

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

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

During the course of 2014/15 the council raised a series of fixed rate loans from the Public Works Loan Board equalling £160m. When undertaking long-term borrowing, the council ensures that its plans are prudent and affordable in the long term and that its borrowing is in accordance with its approved Treasury Management Strategy. Below is a summary of all new loans, with a weighted average interest rate of 3.29%.

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

Short term borrowing balance represents borrowing repayable in the next 12 months and also includes the balance which the council holds on behalf of the Office of the Police and Crime Commissioner for Surrey which stands at £31.5m as at 31 March 2015. The balance was £50.5m as at 31 March 2014 and included £24m of short term borrowing that was drawn in March 2014 for short-term cash flow purposes. The £24m was repaid in April 2014. No additional short term borrowing has been drawn throughout 2014/15.

8. Provisions

Where the council has a liability to make future payments, but the precise timing of the payment and the amount is uncertain, it creates a provision in the Balance Sheet. At 31 March 2015 the council has the following material provisions:

- Insurance of £5.7m. This provision was created to meet the cost of reported outstanding claims which are not covered by external insurance. The level of this provision is subject to review by the council's actuaries.
- Firefighters pension fund £8.9m. This provision was created against the potential requirement to repay some of the firefighters top up grant received by the council between 2006 and 2013. This is in respect of an element of firefighters' pensions relating to injury awards which should have been borne by the council under the terms of the scheme.

Further details on provisions can be found in Note 20.

9. Reserves & balances

Usable reserves

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

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

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

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

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

In developing the financial plan for the five years to 2020 (known as the Medium Term Financial Plan (MTFP)), the council took a multi-year approach to its budget setting and, in February, the council identified £0.9m of earmarked reserves to support the 2015/16 budget.

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

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

Unusable reserves

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

10. Icelandic deposits

When the Icelandic economy collapsed in October 2008, the council had £20m of outstanding investments with two Icelandic institutions, Landsbanki and Glitnir (£10m with each). During 2013/14, the council sold its outstanding claim in relation to Landsbanki through a competitive auction.

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

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

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

11. Investment properties

The council has several properties purchased for future service needs which are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2015, under the code of practice they are classed as investment properties.

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

12. Trading companies

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

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

13. Group accounts

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

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

- S.E. Business Services Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the provision of business services and was incorporated on 20 June 2013. For 2014/15 the economic activity of this company has been incorporated into the group accounts.

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

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

14. Trust funds

The council acts as a custodian trustee for 42 trusts and as one of several trustees for a further 4 funds. As a custodian trustee the council holds the assets but takes no decisions on its use. In neither case do the funds represent the assets of the council and therefore they have not been included in the balance sheet. The total value of all the fund balances as at the 31 March 2015 is £5.2m. Further information on these trusts can be obtained via the contact details provided on page 17.

15. Looking forward to 2015/16 and beyond

The current challenges facing the public sector look set to continue for the foreseeable future. Local authorities continue to experience budget cuts and at the same time Surrey County Council, continues to face unprecedented growth in demand for its services. Having a robust medium term financial plan is essential in these challenging times.

Surrey County Council has successfully delivered significant savings over recent years and did so again in 2014/15. The achievement of continued year on year savings is becoming increasingly challenging to deliver due to the risks associated with the increased uncertainty in a number of areas:

- the achievement of efficiencies and service reductions year on year;
- uncertainty regarding the level of funding to local authority as a result of the local government funding changes introduced from April 2013;
- the volatility implicit in the level of service demands;
- the current economic situation and long term austerity faced by the country.
- potential future funding changes owing to the May 2015 general election and the lack of a provisional Local Government Finance Settlement for 2016/17
- uncertainties about the policies of a new government after the May 2015 General Election.

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

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

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

In addition, the system for monitoring the progress on the implementation of efficiency savings has been sustained during 2014/15: regular review of efficiencies by the Chief

Executive and senior officers before onward reporting and scrutiny by the Leader and Cabinet as well as Council Overview & Scrutiny Committee. This will continue during 2015/16 alongside an additional mechanism whereby the Chief Executive and Chief Finance Officer will regularly review the progress of plans to deliver efficiencies across the whole MTFP period (not just 2015/16) highlighting any significant issues to the Leader and Cabinet as appropriate. This will ensure early action can be taken if it emerges that any plans are non-deliverable. A formal Cabinet report is due to be submitted after quarter 1 2015/16.

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

16. Business rate pool

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

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

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

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

17. Care Act

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

Key areas of change for April 2015 include:

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

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

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

18. Better Care Fund

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

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

19. Shared service partnership

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

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

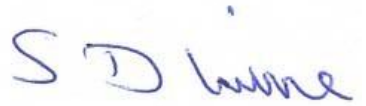
The ambition for Orbis is to create efficient, modern, agile and digitally enabled business services that will support Surrey and East Sussex County Councils, and partner organisations, through an unprecedented period of change and financial challenge in the public sector. Customer service and delivering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

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

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

20. Further information

Additional information on the council's overall revenue and capital budget outturn position and achieved efficiencies for 2014/15 can be found in the '2014/15 Outturn report' considered by the Cabinet on 28 April 2015. Surrey County Council's annual report can be viewed on the website www.surreycc.gov.uk. Further information on the financial statements presented in this document can be obtained from Jonathan Evans, Principal Accountant (020 8541 8636, jonathan.evans@surreycc.gov.uk)



Sheila Little BA CPFA
Director of Finance
31 July 2015

The council's responsibilities
The council is required to:

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

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

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

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

The Director of Finance has:

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

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

Sheila Little BA CPFA
Director of Finance
27 July 2015

Stuart Selleck
Chairman of Audit & Governance Committee
27 July 2015

Movement in Reserves Statement

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

Movement in Reserves Statement

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

Comprehensive Income & Expenditure Statement

6

Statement

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

Balance Sheet

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

Cash Flow Statement

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

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

Note 1. Summary of significant accounting policies

This note only contains the most significant polices used in the production of the statement of accounts. Full accounting policies can be found in annex 1 to the statement of accounts on page 138.

Significant changes in accounting policies

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

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

i. General principles
The statement of accounts summarises the council's transactions for the 2014/15 financial year and its position at the year end 31 March 2015. The council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011. The Regulations require the statement of accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15 supported by International Financial Reporting Standards (IFRS).

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

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

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

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

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

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

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

Faithful representation has three characteristics:

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

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

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

iii. Recognition of income and expenditure

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

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

iv. Property, plant and equipment

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

Recognition

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

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

Measurement
Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deprecation is calculated on the following bases:

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

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

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

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

Disposals and non-current assets held for sale

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

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

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

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

v. Investment properties

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

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

vi. Private Finance Initiative (PFI) and similar contracts

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

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

- **fair value of the services received during the year** is debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- **finance cost** is an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **contingent rent** is an increase in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **payment towards liability** is applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **lifecycle replacement costs** reflect a proportion of the amounts payable to be posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

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

- Anchor Homes
- Waste
- Street Lighting
- Care UK

vii. Charges to revenue for non-current assets

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

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

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

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. It is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance. This contribution is known as the Minimum Revenue Provision (MRP). Depreciation, revaluation

and impairment losses and amortisation are therefore replaced by MRP in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

viii. Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used so that the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

ix. Employee benefits

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

Post-employment benefits

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

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

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

The teachers' pension scheme and NHS pension scheme are administered nationally and arrangements mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. Therefore, the schemes are accounted for as if they are a defined

contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to teachers' pensions in the year and the Public Health line for NHS pensions.

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

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

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

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

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

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

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

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

Note 2: Accounting standards issued not adopted

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

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

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

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

Note 3: Critical judgements in applying accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

    - S.E. Business Services Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the provision of business services and was incorporated on 20 June 2013. For 2014/15 the economic activity of this company has been incorporated into the group accounts.

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

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

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

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

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

Note 5: Material items of income and expenditure

Included in the Education and Children's Services line of the comprehensive income and expenditure statement is an impairment charge of £33.9m related to the derecognition of academy schools (£105m in 2013/14). When a school changes status to an academy, the ownership of the land and buildings transfers from the council to the school. The assets are written out of the balance sheet and an accounting adjustment is made against the service line in the CIES. During 2014/15, 19 schools transferred to academy status (27 in 2013/14).

Note 6: Events after the balance sheet date

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

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

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

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

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

The following table sets out the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the 2014/15 financial year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

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

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

Restated 2013/14	Usable Reserves			
	General Fund Balance £000	Capital grant & contributions unapplied reserve £000	Capital Receipts Reserve £000	Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement				
Charges for depreciation & impairment of non-current assets	-81,022			81,022
Revaluation losses on property, plant & equipment	-42,164			42,164
Amortisation of intangible assets	-2,331			2,331
Impairment of academies	-104,526			104,526
Revenue expenditure funded from capital under statute	-42,427			42,427
Net gain/loss on sale disposal of non-current assets	528		-2,933	2,405
Deferred Income in respect of PFI schemes	166			-166
Reversal of donated asset adjustment	44			-44
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	78,920	-78,920		
Application of grants to capital financing transferred to the Capital Adjustment Account		100,407		-100,407
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	-109,088			109,088
Employer's pensions contributions and direct payments to pensioners payable in the year	72,874			-72,874
Amount by which the local taxation income credited to the Comprehensive Income & Expenditure Statement is different from the local taxation income calculated for the year in accordance with statutory requirements	905			-905
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,466			-1,466
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment (MRP)	24,877			-24,877
Capital expenditure charged against the general fund balance	3,830			-3,830
TOTAL ADJUSTMENTS	**-197,948**	**21,487**	**-2,933**	**179,394**

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Note 8: Transfers to / from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves, to provide financing for future expenditure plans, commitments and possible liabilities and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

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

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

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

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

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

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

Budget equalisation reserve: The Budget Equalisation Reserve was set up to support future years' revenue budgets from unapplied income and budget carry forwards. The balance includes £8m service budget carry forwards into 2015/16.

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

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

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

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

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

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

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

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

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

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

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

Revolving investment & infrastructure fund: The Revolving Infrastructure & Investment Fund was established in the 2013-18 Medium Term Financial Plan in order to provide the revenue costs of funding infrastructure and investment initiatives that will deliver savings and enhance income in the longer term. The net income generated by the portfolio in 2014/15 has been transferred to the reserve.

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

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

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

Note 9: Other operating income and expenditure

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

Note 10: Financing and investment income and expenditure

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

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

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

Note 11: Council tax and general grants & contributions

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

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

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

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

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

	Land and Buildings	Vehicle, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost (revalued)							
Restated Balance at 1 April 2013	**1,414,179**	**67,234**	**645,886**	**4,575**	**32,379**	**53,661**	**2,217,914**
Additions*	64,088	4,044	80,577		10,301		159,010
Donations		44					44
Revaluations recognised in the Revaluation Reserve	96,911	30					96,941
Disposals		-6,592					-6,592
Impairment academies	-148,441	-383					-148,824
Reclassifications	-1,138						-1,138
Assets reclassified (-to)/from Assets Held for Sale	-1,063				7,887		6,824
Other Movements in assets and valuation	65		24,312			-24,377	
At 31 March 2014	**1,424,601**	**64,377**	**750,775**	**4,575**	**50,567**	**29,284**	**2,324,179**
Accumulated Depreciation and Impairment							
Restated at 1 April 2013	-361,241	-40,928	-394,127	0	-116	0	-796,412
Depreciation charge	-39,793	-6,181	-35,048	0	0	0	-81,022
Impairment losses recognised in the Revaluation Reserve	-11,498						-11,498
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-21,702		-1,112				-22,814
Disposals		6,518					6,518
Impairment - academies	44,042	256					44,298
Reclassifications							0
At 31 March 2014	**-390,192**	**-40,335**	**-430,287**	**0**	**-116**	**0**	**-860,930**
Net Book Value							
at 31 March 2013	**1,052,938**	**26,306**	**251,759**	**4,575**	**32,263**	**53,661**	**1,421,502**
at 31 March 2014	**1,034,409**	**24,042**	**320,488**	**4,575**	**50,451**	**29,284**	**1,463,249**

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

Capital commitments

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

Schools Basic Need Capital Projects,

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

Revaluations

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

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

Impairment losses

During 2014/15 the council has recognised an impairment loss of £97.2m in total. The land and building assets are re-valued based on existing use value, as part of the five year rolling programme by external valuers. The result was an impairment loss of £22.5m charged to the Comprehensive Income and Expenditure Statement and £2.6m offset from the balance in the revaluation reserve in relation to these assets. £14.2m relates to capital expenditure which is below the council's de minimis levels and consequently is written off to the Comprehensive Income & expenditure Statement in the year it is incurred. A further £56.8m impairment relates to academy school conversions and £1.1m impairment relates to Infrastructure assets, where the council has replaced the street lighting assets under the PFI contract. The replacement assets have been added to the balance sheet in line with the appropriate accounting treatment for PFIs and similar contracts and the replaced assets impaired and charged to the Comprehensive Income and Expenditure Statement.

Note 13: Investment properties

The council has several properties purchased for future service needs which are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2015, under the code of practice they are classed as investment properties.

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

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

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

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

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

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

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

Foundation

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

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

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

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

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

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

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

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

This change in accounting policy has lead to the restatement of the balance sheet for 2013/14, so the accounts presented here are produced on a consistent basis between

financial years. A third balance sheet showing the opening position of 2013/14 based on the new policy is also provided.

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

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

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

Note 15: Financial instruments

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

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

* adjusted for provision for bad debt

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Income, expense, gains & losses

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

Fair value of assets and liabilities

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

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

The fair values calculated are as follows:

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

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

Fair value shows a notional future loss (based on economic conditions at 31 March 2015) arising from a commitment to pay interest to lenders above current market rates.

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

All the investments held by the council at the 31 March 2015 are due to mature within one year therefore the fair value is equal to the carrying amount, which includes accrued interest. Available for sale assets are carried on the Balance Sheet at their fair value. Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

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

Nature and extent of risks arising from financial instruments

The council's activities expose it to a variety of financial risks, the key risks are:

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

Overall procedures for managing risk

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

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a treasury policy statement and treasury management clauses within its financial regulations;
- by approving annually in advance prudential indicators for the following three years limiting:
    - the overall borrowing;
    - the maximum and minimum exposures to fixed and variable rates;
    - the maximum and minimum exposures for the maturity structure of its debt;
    - the maximum annual exposures to investments maturing beyond a year.

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

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

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

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

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

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

Estimated maximum exposure to default		Amount	Historical experience of default	Adjustment for market conditions	**Estimated maximum exposure to default**
£000s 31/03/14		£000s 31/03/15	% 31/03/15	% 31/03/15	**£000s 31/03/15**
	Deposits with banks and financial institutions	(a)	(b)	(c)	**(a x c)**
	Local Authorities	88,000	0.00%	0.00%	
	AAA rated counterparties	43,600	0.00%	0.00%	
	AA rated counterparties	0	0.03%	0.03%	
33	A rated counterparties	20,000	0.08%	0.08%	**16**
	Other counterparties	0			
9,588	Trade debtors*	114,023			**6,868**
9,621	Total	265,623			**6,884**

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

The council does not generally allow credit for its trade debtors, such that £18.7m of the £126.9m balance (see note 16) is past its due date for payment. The past due amount can be analysed by age as follows:

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

Liquidity risk

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

Refinancing and maturity risk

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

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

The maturity analysis of financial liabilities is as follows:

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

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

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

Market risk

Interest rate risk

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

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

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

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

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

Price risk

The council, excluding the pension fund, does not generally invest in equity shares or marketable bonds. The council does have holdings to the value of £362,636 in seven companies. These companies are not quoted and the shares are held at book value. The council is therefore not exposed to losses arising from movements in the prices of the shares although if any of the companies were to go into liquidation there is a risk that the shares would become worthless.

Foreign exchange risk

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

Icelandic bank investments

Early in October 2008, the Icelandic banks Landsbanki and Glitnir, with which the council had invested £20m (£1.5m related to the Office of the Police & Crime Commissioner for Surrey), collapsed and went into administration. On 28 October 2011 the Icelandic Supreme Court ruled that UK local authorities' claims qualified as priority claims under Icelandic bankruptcy legislation. The Landsbanki holding was then sold to a private bidder in January 2014.

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

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

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

Note 16: Short term debtors

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

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

Note 17: Cash and cash equivalents

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

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

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Note 18: Assets held for sale

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

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

Note 19: Creditors

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

Note 20: Provisions

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

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

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

Business rates

Since the introduction of Business Rates Retention Scheme effective from 1st April 2013, local authorities have been liable for successful appeals against business rates charged to businesses since 2012/13 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2015. The council's provision for the business rates appeals is based on a 10% share of the provision calculated by each of the 11 borough and district councils in Surrey. The provision as at 31st March 2015 is £4.218m (£2.168m 2013/14).

Insurance

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

Fire fighters Pensions

The council has been receiving a firefighters top up grant since 2006. In May 2014 it became apparent that between 2006 and 2013 the council had received funding under this grant for an element of firefighters' pensions relating to injury awards that should have been borne by the council under the terms of the scheme. The council is currently in discussion with DCLG on resolving this issue but a liability may arise for the council to repay some or all of the additional funding received in previous years. A provision for total potential liability was created during the year totalling £8.949m.

Unequal pay claim

In July 2005 the council introduced new pay and conditions arrangements for its employees in respect of equal pay and harmonisation legislation. These arrangements were fully implemented by July 2006. The 2006/07 accounts made a provision to cover the cost of any harmonisation claims. The period for claims has now expired without any claims being made. During 2014/15 the council became aware of two other cases related to pay and conditions with a potential liability of up to £4m and has therefore used the residual balance of £1.6m on the provision plus made an additional £2.4m contribution to meet this potential liability for a potential breach of national minimum wage requirements for 'on call ' payments to sleepover carers and holiday pay entitlements for peripatetic tutors.

Redundancy costs

As at 31 March there is a provision of £0.423m to cover the cost of redundancies agreed during 2014/15 but for which the expenditure will not be incurred until 2015/16. During the year £0.219m in respect of the provision relating to 2013/14 was reversed due to an over provision. This was due to the redeployment of employees who were previously expected to be made redundant and also due to differences in the final amounts paid compared to the estimates set aside.

Carbon reduction scheme

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

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

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

Note 21: Usable reserves
Movements in the council's usable reserves are summarised in the table below (see Movement in Reserves Statement and notes 7 and 8 for detail).

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

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

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

Revaluation Reserve

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

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

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

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

Capital Adjustment Account

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

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

Financial Instrument Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The balance on the financial instrument adjustment account at the 31 March 2015 is in relation to the loss of interest on soft loans issued by the council in 2007/08 to Painshill Park Trust and foster carers, there have been no movements on this reserve during 2014/15 (No movements 2013/14).

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Pensions Reserve

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

31/03/14 £000		**31/03/15 £000**
1,070,712	Balance at 1 April	**1,203,285**
96,359	Actuarial gains or losses on pensions assets and liabilities	**243,514**
109,088	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Account	**125,811**
-72,874	Employer's pensions contributions and direct payments to pensioners payable in the year	**-76,171**
1,203,285	**Balance at 31 March**	**1,496,438**

Collection Fund Adjustment Account

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

31/03/14 £000		**31/03/14 £000**
-6,240	Balance at 1 April	**-7,145**
-905	Amount by which local taxation income credited to the Comprehensive Income and Expenditure Statement is different from local taxation income calculated for the year in accordance with statutory requirements	**-4,424**
-7,145	**Balance at 31 March**	**-11,569**

Accumulated Absences Account

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

31/03/14 £000		31/03/15 £000	**31/03/15 £000**
13,613	Balance at 1 April		**12,147**
-13,613	Settlement or cancellation of accrual made at the end of the preceding year	-12,147	
12,147	Amounts accrued at the end of the current year	9,745	
-1,466	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		**-2,402**
12,147	**Balance at 31 March**		**9,745**

Note 23: Amounts reported for resource allocation decisions

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

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

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

Restated comparator for 2013/14	Adult Social Care	Children, Schools & Families	Customer& Communities	Environment & Infrastructure	Central Services & Financing	TOTAL
	£m	£m	£m	£m	£m	£m
Amounts reported to management						
Directorate budgets:	**337.3**	**180.8**	**60.0**	**130.5**	**-696.7**	**11.9**
Income						
- Local taxation					-600.6	**-600.6**
- Government grants & contributions	-2.4	-649.3	-10.1	-4.5	-275.0	**-941.3**
- Fees, charges & other service income	-79.1	-30.8	-13.6	-15.6	-23.7	**-162.8**
- Interest & investment income					-2.3	**-2.3**
Expenditure						
- Employee expenses	68.2	527.7	57.0	23.3	54.0	**730.2**
- other service expenditure	355.8	331.5	26.1	128.8	127.3	**969.5**
- Interest payments					11.2	**11.2**
- Precepts & levies					1.1	**1.1**
Actual income & expenditure	**342.5**	**179.1**	**59.4**	**132.0**	**-708.0**	**5.0**
Full year variance	5.2	-1.7	-0.6	1.5	-11.3	**-6.9**
Contribution to reserves (carry-forward)	0.1	0.7	0.8	1.0	2.9	**5.5**
Net revenue expenditure (cont to General Fund)	5.3	-1.0	0.2	2.5	-8.4	**-1.4**
Budgeted contribution from General Fund						**11.9**
Contribution of underspend back to General Fund						**-1.4**
Actual movement in General Fund						**10.5**
Accounting adjustments to CIES (not reported for budget purposes)						
- Depreciation, amortisations & impairment						**270.1**
- Adjustments in relation to pension contributions						**36.2**
- Recognition of capital grants & contributions						**-78.9**
- Other accounting adjustments						**-0.2**
- Gain or loss on disposal of non-current assets						**-0.5**
Items reported for budget purposes but not charged to the CIES						
- Statutory provision for financing of capital						**-24.9**
- Capital expenditure financed from revenue						**-3.8**
Contributions to/from reserves						**-19.2**
Surplus on Provision of Services						**189.3**
Surplus on revaluation of non-current assets						**-85.4**
Actuarial losses on pension assets / liabilities						**96.3**
Total Comprehensive Income & Expenditure						**200.2**

Note 24: Trading operations

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

The table below shows the income and expenditure for 2014/15

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

Note 25: Pooled budgets

Section 75 of the National Health Service Act 2006 (formerly Section 31 of the Health Act 1999) enables health and local authorities to work together for a common objective. This may involve a pooled budget, where all partners make a contribution. The council entered into five such schemes with Surrey Primary Care Trust (PCT): The PCT has since been disbanded and replaced with seven Clinical Commission Groups (CCG) in Surrey. During 2014/15 the local CCG assumed the role of the PCT in the pooled budget arrangements.

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

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

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

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

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

Surrey integrated community equipment service

2013/14 £000		**2014/15 £000**
	Funding provided to the pooled budget	
-2,100	- Surrey County Council	-2,100
-2,100	- North West Surrey CCG*	-2,100
-4,200		-4,200
4,200	Expenditure met from the pooled budget	4,200
0	Surplus(-) or deficit	0
0	Surrey County Council share	0

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

Child and adolescent mental health service

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

HOPE services

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

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Surrey safeguarding children board

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

Note 26: Member allowances

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

*Includes the employer's contributions for national insurance and superannuation £334k (2013/14, £233k).

Note 27: Officer remuneration – senior officers

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

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

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

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

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

2. The Interim Strategic Director of Adult Social Care was appointed on the 1 November 2013. The annualised salary for 2013/14 was £120,000 (excluding pension contributions). Sarah Mitchell left her post as Strategic Director of Adult Social Care on 31 December 2013. The basic salary for 2013/14 was £78,255. She received an additional £119,328 as part of her exit package.

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

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

5. Position title changed to 'Director of Legal Services' in June 2015

6. The Director of Public Health started on 1 May 2013. The annualised salary for 2014/15 was £100,000 (excluding pension contributions).

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

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

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

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

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

***Includes cost of pension fund strain where applicable
** Included in the total cost charged to the CIES are movements in the redundancy provision forredundancies that had been approved in 2014/15 but for which no payment had yet been made.

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

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

Note 31: Dedicated Schools Grant
The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools' budget, as defined in the School Finance (England) Regulations 2013. The school budget includes elements for a range of educational services provided on a council-wide basis and for the individual school's budget, which is divided into a budget share for each maintained school. Central expenditure includes items such as:

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

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

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

*Individual Schools Budget

Reference:

A Final DSG figure advised by DfE in March 2015, before the January 2015 early years block adjustment. It does not include an estimated additional £330,000 expected to be received in 2015/16 as a result of correcting the September 2014 – March 2015 Early Years allocation using January 2015 pupil numbers.

A1 Deduction from gross DSG in respect of funding for places in non maintained special schools, special academies, SEN units and resources in mainstream academies and post 16 SEN places in maintained schools, for which funding is paid directly to the academy or school by the Education Funding Agency

B Figure recouped by DfE for conversion of maintained schools into academies

B1 Deduction by Education Funding Agency for special educational needs place funding paid direct to providers

C Total figure after DFE academy recoupment and place funding deduction

D Figure brought forward from 2013/14 as agreed with DfE

E Any amounts which the council decided after consultation with the Schools Forum, to carry forward to 2015/16 rather than distribute in 2014/15. This was DSG underspent in 2013/14 which was not committed in the initial 2014/15 budget and which has been allocated to support the 2015/16 budget, plus additional DSG allocated after the initial Schools Budget had been agreed with the Schools Forum.

F Initial budgeted distribution of DSG as agreed with the schools forum.

G Changes to the initial distribution comprise changes to DSG made by DfE in 2014/15, adjustments to budgets for maintained early years providers and adjustments for permanently excluded pupils

H Budgeted distribution of DSG as at the end of the financial year

I Actual amount of central expenditure items in 2014/15
J Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the council once it is deployed to schools' budget shares). Includes final budget shares for private nursery providers
K Contribution from local authority which has the effect of substituting for DSG in 2014/15 (none in 2013/14).
L Amount carried forward to be spent in 2015/16

Note 32: Grants and contributions

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

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

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

Grants credited to services are analysed in the following table:

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

Note 33: Related parties

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

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

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

The total of members' allowances paid in 2014/15 is shown in Note 26.

In addition, a survey of the related party interests of members in office during the 2014/15 financial year and their immediate family members was carried out in preparing this statement of accounts. There were responses from 81 of 81 members. The council had transactions with 201 bodies that members declared an interest in, with a total value of £78.6m. Of this, payments of £55.3m were to SITA UK, in which 1 member declared an interest, £14.4m to Surrey and Borders Partnership NHS Trust in which 1 members declared an interest, £2.3m was to National Centre for Young Epilepsy in which 1 member declared an interest, £1.6m to Ashford and St. Peter's NHS Trust in which 2 members declared an interest, £1.2m to Surrey Wildlife Trust in which 2 members declared an interest, £0.9m to Disability Challengers in which 1 member declared an interest, £0.5m to London Care Partnership in which 1 member declared an interest.

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

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

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

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

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

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

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

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

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

Note 34: Capital expenditure and capital financing

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

The CFR is analysed in the following table:

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

Note 35: Leases

Council as lessee

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

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

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

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

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

Council as lessor

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

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

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

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

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

Note 36: Other short-term and long-term liabilities

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

Note 37: Private finance initiatives and similar contracts

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

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

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

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

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

Property plant and equipment

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

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

The table below summarises the movement:

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

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

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

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

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

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

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

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

Note 38: Pension schemes accounted for as defined contribution schemes

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

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

In 2014/15, the council paid £49.9m to teachers' pensions in respect of retirement benefits, representing 14.1% of pensionable pay. The figures for 2013/14 were £52.8m and 14.1%. The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and the council is not liable to the scheme for any other entities' obligations under the scheme.

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

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

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

Note 39: Defined benefit pension schemes

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

Surrey County Council contributes to two defined benefit schemes:

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

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

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

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

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

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

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

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

	Funded Liabilities Local Government Pension Scheme		Unfunded Liabilities Firefighters' pension scheme	
	2013/14 £000	**2014/15 £000**	2013/14 £000	**2014/15 £000**
Opening Balance at 1 April	-1,833,753	**-2,042,976**	-442,581	**-489,324**
Current service cost	-67,840	**-69,910**	-11,300	**-12,400**
Interest cost	-82,182	**-87,567**	-19,900	**-21,100**
Contributions by scheme participants	-18,980	**-19,118**	-2,600	**-2,700**
Remeasurements:				
- Actuarial gains and losses arising on changes in demographic assumptions	42,018		-11,000	
- Actuarial gains and losses arising on changes in financial assumptions	-12,009	**-314,473**	-18,200	**-71,500**
- Other experience	96,439	**17,917**	100	**400**
Actuarial gains and losses				
Pensions and lump sum expenditure			13,000	**14,900**
Benefits paid	63,039	**65,103**		
Past service costs	456	**302**		
Losses/(gains) on curtailments	24,763	**16,484**		
Settlements				
Employer contributions adjustment*	-2,031	**-2,542**	3,157	**429**
Closing balance at 31 March	-2,042,976	**-2,436,780**	-489,324	**-581,295**

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

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

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

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total net liability of £1,496m has a substantial impact on the net worth of the council as recorded in the Balance Sheet. The statutory arrangements for funding the deficit, however, mean that the financial position of the council remains stable:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid;
- The council is making lump sum payments to the pension fund in addition to the contributions related to current employees. This has the aim of eliminating the council's share of the pension fund deficit by 2033.

Basis for estimating assets and liabilities

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

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

active members' pension liabilities. The liability will also be subject to change as life expectancy changes.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2013/14	**2014/15**	2013/14	**2014/15**
Mortality assumptions:				
- longevity at 65 for current pensioners (60 for firefighters):				
- Men	22.5 years	22.5 years	29.3 years	29.5 years
- Women	24.6 years	24.6 years	31.5 years	31.7 years
- longevity at 65 for future pensioners (60 for firefighters):				
- Men	24.5 years	24.5 years	30.9 years	31.1 years
- Women	26.9 years	26.9 years	33.0 years	33.2 years
Rate of inflation	3.6%	3.0%	3.7%	3.4%
Rate of increase in salaries*	4.1%	3.8%	3.9%	3.5%
Rate of increase in pensions	2.8%	2.4%	2.9%	2.5%
Rate for discounting scheme liabilities	4.3%	3.2%	4.3%	3.3%
Take-up of option to convert annual pension into retirement lump sum	25%		-	-

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

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

Sensitivity analysis

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

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	Approximate % increase to employer liability	Approximate monetary amount	Approximate % increase to employer liability	Approximate monetary amount
		£000		£000
0.5% decrease in real discount rate	10%	248,724	10%	58,000
1 year increase in member life expectancy	3%	72,874	3%	17,500
0.5% increase in the salary increase rate	3%	76,851	2%	11,000
0.5% increase in the pension increase rate	7%	166,877	8%	48,700

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Investment assets

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

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

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

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

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

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

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

The council expects to make employer contributions of £65.2m to the LGPS in 2014/15.

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

	LGPS		**Firefighters'**	
	Liability split	**Weighted average duration (years)**	**Liability split**	**Weighted average duration (years)**
Active members	48.3%	24.0	53.0%	25.8
Deferred members	19.7%	23.1	2.6%	25.2
Pensioner members	32.0%	11.3	44.4%	12.3
Total	**100.0%**	**18.5**	**100.0%**	**19.8**

Note 40: Contingent liabilities

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

- The council embarked upon a PFI for waste disposal in 1999. By the end of 2014/15 £135.1m has been received in PFI credits. In return, the council has an obligation to invest in waste disposal infrastructure. A large proportion of this obligation is still to be delivered. If these obligations are not met then a liability may arise to repay some or the entire PFI grant received to date.

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

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

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

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

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

Note 43: Prior period adjustments

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

Movement in Reserve Statement –Usable Reserves

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

Movement in Reserve Statement –Unusable Reserves

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

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow

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

Note 12 – Movements in Property, Plant and Equiptment

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

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

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

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

Group Accounts 2014/15

Group Movement in Reserve Statement

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

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

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Group Comprehensive Income & Expenditure Statement

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

Group Balance Sheet

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

Group Cash Flow Statement

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

Note 1: General

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

Note 2: Group Boundary

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

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

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

Note 3: Accounting policies

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

Context
Surrey County Council (the council) has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The council is required to prepare an Annual Governance Statement (AGS) under the Accounts and Audit (England) Regulations 2011.

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

The annual review of governance is overseen by the Governance Panel (the panel). The panel comprises the Director of Legal and Democratic Services [chair], the Director of Finance, senior representatives from HR and Organisational Development and Policy and Performance, the Chief Internal Auditor and the Risk and Governance Manager. The panel meets four times a year and reports to the Statutory Responsibilities Network and the Audit and Governance Committee. The 2014/15 review has provided a satisfactory level of assurance on the governance arrangements for the year.

The governance environment during 2014/15
Purpose and Outcome
The Corporate Strategy, 'Confident in Surrey's future', provides clear direction for staff as well as a signpost for residents, businesses and partner organisations and has the council's four values of Listen, Responsibility, Trust and Respect at its heart. It is underpinned by a suite of supporting documents such as the interactive Medium Term Financial Plan, Investment Strategy and service plans. The Chief Executive reports progress on delivering the Corporate Strategy to full County Council on a six-monthly basis.

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

There has been an increased emphasis on commercial activity and Boards have been put in place to provide oversight. A Shareholder Board monitors the council's trading activity and ensures satisfactory performance of the trading companies created and owned by the council. An Investment Advisory Board provides strategic oversight of the Investment Strategy and evaluates investment opportunities prior to presentation to Cabinet. Both these Boards are member led and are supported by relevant internal and external professional advisors. A high level Programme Board, including the Strategic Director for Business Services, Section 151 Officer and Monitoring Officer, monitors the overall progress of the New Models of Delivery Programme. The arrangements have been further strengthened by a new member led Transformation Sub-Group that will scrutinise partnership models and the Shareholder Board.

Scorecards are used to monitor progress against the corporate strategy objectives, measured through a variety of key indicators related to staff, costs, residents, and performance. Finance, performance and risk information is reviewed by senior management and scrutinised by member Boards. A Continual Improvement and Productivity Network oversees and tracks performance and improvement.

Leadership & Behaviour

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

The Chief Executive continues to engage with and support staff by providing regular updates and key messages through emails and the intranet via a blog. He also regularly visits offices across the county by himself and with the Leader to meet, listen, learn and engage with staff. All heads of service have quarterly meetings with the Chief Executive.

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

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

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

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

The Staff and Member Codes of Conduct set out the expected high standards of conduct and training is provided through induction. The Codes of Conduct are supplemented by the Member/Officer Protocol, which provides principles and guidance for good working relations, and the Strategy Against Fraud and Corruption. The Monitoring Officer and the Member Conduct Panel deal with allegations of breaches of the Member Code of Conduct. The register of pecuniary interests for all members can be viewed online. The Staff Code of Conduct is being refreshed following the internal audit of Organisational Ethics so that it explicitly references the Standards in Public Life.

Transparency and Stewardship

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

A Capital Working Group, comprising of senior managers, recommends the council's capital budget and oversees monthly monitoring. The Investment Panel continues to ensure all proposed service capital investments have robust business cases before formal decision by Cabinet or Cabinet Member as appropriate. It is chaired by the Director of Finance and comprises senior leaders including the Chief Property Officer, Chief Internal Auditor and Head of IMT, as well as other heads of service to ensure a broad perspective for challenge.

The council's risk management strategy are part of the Constitution and is reviewed annually. The Strategic Risk Forum, chaired by the Director of Finance, brings together lead officers from across the council to review and challenge risks and ensure a consistent risk approach is adopted. The Leadership risk register is regularly reviewed by the Statutory Responsibilities Network, Audit and Governance Committee and Cabinet. The Cabinet attended a risk workshop, facilitated by the Director of Finance, to review the Leadership risk register.

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

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

As part of the Council's policy on transparency and openness, information is made available to residents and businesses through the publication of expenditure invoices for spend over £500 and salaries of staff who earn over £58,200 (named from £100,000). The gifts and hospitality register is online and provides a means for staff to register anything offered or accepted, making the entire process transparent.

The council has six member Boards who provide challenge to the Cabinet. Each Board will have a Performance & Finance Sub-Group to undertake scrutiny of budgets and corporate performance measures. The Council Overview Board, comprising the Board chairmen, takes a council-wide view and leads on collaborative scrutiny issues. Every County Council, Cabinet and Planning and Regulatory Committee meeting is webcast to enable people to watch meetings online.

The Audit and Governance Committee comprises six councillors (the Chairman is a Residents' Association/Independent Councillor) who have been specifically chosen to enable robust challenge and assurance from a position of knowledge and experience. The committee provides independent assurance on the council's control environment, the adequacy of the risk and governance arrangements, financial reporting and ethical standards. During the year a task group of the committee undertook a self-assessment of the committee's effectiveness in line with CIPFA best practice. The review concluded that the committee is generally effective and made a number of recommendations that are being implemented and progress will be reported through the committee's annual report.

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

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

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

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

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

People

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

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

Engagement and collaboration

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

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

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

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

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

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

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

Continually strengthening governance

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

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

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

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

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

Focus for 2015/16

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

The new Government brings potential changes to policy and future funding and long term financial planning will be challenging. We know we are going to have to continue thinking and working differently to find the best solutions for Surrey. Realising the opportunities identified

by innovation work and seizing opportunities opened up by latest technology and digital developments will help to support the changes we want to make for residents, manage growing demands and ensure our county's economy remains strong and sustainable.

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

Signed:

Leader of the Council	Chief Executive
July 2015	July 2015

Explanatory Foreword

Legal status

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

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

Fund operations

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

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

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

Estimating the net liability to pay pensions depends upon a number of complex judgements relating to salary increase projections, changes in retirement ages and mortality, expected returns on pension fund assets and the discount rate used for financial modelling. A sensitivity analysis carried out by the actuary revealed that a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £11.6m.

Significant accounting policies

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

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

Net Asset Statement

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

Note 1 - Contributions receivable
Contributions represent the total amounts receivable from the council and the pensionable employees. The employer's contributions are made at the rates determined by the Government Actuaries Department, at a nationally applied rate of 21.3% for the 1992 Firefighter' Pension Scheme and 11% for the 2006 Scheme. The council is required to make payments into the pension fund in respect of ill health retirements, when they are granted. No provision is been made for employee and employer contributions for sums due on pay awards not settled.

Note 2 - Benefits and refunds
Benefits and refunds are accounted for in the year in which they become due for payment.

Note 3 - Transfer values

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

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

Note 4 – Top up grant

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

The council has been receiving the top up grant since 2006. In May 2014 it became apparent that between 2006 and 2013 the council had received funding under this grant for an element of firefighters' pensions relating to injury awards that should have been borne by the council under the terms of the scheme.. The council is currently in discussion with DCLG on resolving this issue but a liability may arise for the council to repay some or all of the additional funding received in previous years. This issue does not impact on the pension fund itself as the funding will ultimately be provided by the council or the central government. During 2014/15 the council made a provision for the total amount of top-grant received for injury awards between 2006 and 2013 of £8.9m.

SURREY PENSION FUND ACCOUNTS 2014/2015

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

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

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

The number of employees in the fund and the number of pensioners as at 31 March 2014 and 31 March 2015 are:

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

Surrey pension fund account

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

Net asset statement

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

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

Note 1: Description of the fund

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

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Public Services Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

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

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

During 2014/15 the investment decision making and governance of the fund was undertaken by the Pension Fund Board, a committee of the Administering Authority, with representation on behalf of employers and members.

b) Membership

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

Organisations participating in the Surrey Pension Fund include:

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

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and new rates will apply from April 2014 onwards. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits

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

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

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

e) New LGPS Scheme 2014

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

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

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

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

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

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

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2014/15 financial year and its position at the year end at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

These accounts have been prepared on a going concern basis. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

Note 3: Summary of significant accounting policies

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

Fund account – revenue recognition

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

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

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

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

c) Investment income
   i) Interest income

Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

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

Fund account – expense items

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

e) Taxation
The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2015 is reported as a current liability.

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

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

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

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

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

Net assets statement

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

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

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

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

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

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.

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

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

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

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

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

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

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

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

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would

arise if the outstanding contract were matched at the year end with an equal and opposite contract.

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

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

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

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

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

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

Note 4: Critical judgements in applying accounting polices

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2015 was £113 million (£102 million at 31 March 2014).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 26. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The items in the net assets statement as at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability of the fund would change. An increase in the discount rate would result in a corresponding decrease in the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy.
Private equity	Private equity investments, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Where	The total private equity investments in the financial statement are £113 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be	The total private equity fund of fund investments are £74 million. There is a risk that asset or investment transaction misclassification

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

Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in July 2015. The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Funds assets and liabilities. No such adjustments have been deemed necessary.

Note 7: Contributions receivable

By category

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

By authority

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

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

Note 8: Transfers in from other pension funds

2013/2014 £000	2014/2015 £000

6

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

Note 9: Benefits payable

By category

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

By employer

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

Note 10: Payments to and on account of leavers

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

Note 11: Current assets

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

Analysis of current assets

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

Note 12: Long term debtors

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

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

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2015 is £14.520m but £1.815m is due in 2014/15, leaving a long term debtor of £12.705m.

Note 13: Current liabilities

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

Analysis of current liabilities

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

Note 14: Investment and governance expenses

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

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

Note 15: Taxes on Income

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

Note 16: Investment income

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

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

Note 17a: Reconciliation of movements in investments and derivatives

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

	Market value at 31 Mar 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2014
	£000	£000	£000	£000	£000
Fixed interest securities	**347,863**	65,341	-52,108	-8,962	**352,134**
Index linked securities	**99,100**	3,190	-4,096	-3,519	**94,675**
Equities	**1,574,687**	396,377	-363,306	139,373	**1,747,131**
Property unit trusts	**120,748**	49,281	-13,330	9,125	**165,824**
Diversified growth	**238,986**	25,135	0	6,816	**270,937**
Private equity	**90,336**	47,550	-36,250	178	**101,814**
Derivatives					
- Futures	**-310**	347	-345	273	**-35**
- Forex contracts	**-5,347**	5,727	-25,720	33,202	**7,862**
	2,466,063	**595,037**	**-496,335**	**176,486**	**2,740,342**
Cash	**59,723**			-158	**39,212**
Other investment balances	**7,318**				**1,958**
Borrowing	**-**				**-4,500**
	2,533,104			**176,328**	**2,777,012**

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

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

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

Note 17b: Analysis of investments

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

Note 17c: Analysis of derivatives

Futures

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

2014/15

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

2013/14

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

Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2015 the Fund had forward currency contracts in place with a net unrealised loss of £8,419k (net unrealised gain of £7,862k at 31 March 2014).

2014/15

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
1	One Month	AUD	HKD	63	-380	0	-1
1	One Month	CHF	GBP	69	-48	0	0
1	One Month	EUR	GBP	98	-71	0	0
2	Two Months	EUR	GBP	5,183	-3,831	0	-78
1	One Month	GBP	DKK	176	-1,817	0	0
1	One Month	GBP	EUR	142	-196	0	0
1	Two Months	GBP	EUR	11,511	-15,348	399	0
5	Three Months	GBP	EUR	101,285	-136,236	2,603	0
4	Three Months	GBP	JPY	60,634	-11,040,774	0	-1,458
1	One Month	GBP	MXN	24	-535	0	0
1	Two Months	GBP	MXN	1,095	-24,670	7	0
1	One Month	GBP	NOK	78	-931	0	0
1	One Month	GBP	SEK	133	-1,708	0	0
5	Two Months	GBP	USD	16,218	-24,789	0	-486
7	Three Months	GBP	USD	262,793	-403,768	0	-9,308
1	One Month	GBP	ZAR	13	-228	0	0
1	One Month	HKD	SGD	463	-82	0	0
1	One Month	JPY	USD	1,117,909	-9,437	0	-76
1	One Month	USD	BRL	1,265	-4,002	14	0
1	One Month	USD	GBP	777	-525	0	-2
1	One Month	USD	JPY	9,412	-1,117,909	59	0
1	Three Months	USD	JPY	10,576	-1,283,435	0	-92
						3,082	**-11,501**

2013/14

No of contracts	Contract settlement date within	Currency Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'000
1	One month	AUD	HKD	8	-56	0	0
1	One month	EUR	DKK	31	-234	0	0
11	One month	EUR	GBP	260	-215	0	0
6	Two months	GBP	EUR	105,885	-127,629	351	0
1	One month	GBP	HKD	34	-443	0	0
3	Two months	GBP	JPY	55,062	-9,092,353	2,079	0
5	One month	GBP	USD	1,918	-3,191	4	0
10	Two months	GBP	USD	242,455	-395,044	5,431	0
1	One month	HKD	SGD	495	-80	0	0
3	One month	JPY	GBP	80,204	-470	0	-3
1	One month	USD	AUD	9	-9	0	0
						7,865	**-3**

Stock Lending

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

Note 17d: Investments analysed by fund manager

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

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

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

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

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Note 18a: Classification of financial instruments

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

As at 31 March 2014				As at 31 March 2015		
Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			Financial assets			
352,134	0	0	Fixed interest securities	350,859	0	0
94,675	0	0	Index linked securities	161,260	0	0
1,747,131	0	0	Equities	1,908,092	0	0
165,824	0	0	Property unit trusts	199,410	0	0
270,937	0	0	Diversified growth	360,061	0	0
101,814	0	0	Private equity	112,642	0	0
7,896	0	0	Derivatives	3,082	0	0
0	39,212	0	Cash	0	77,218	0
9,676	0	0	Other investment balances	9,033	0	0
0	35,281	0	Debtors	0	31,654	0
2,750,087	**74,493**	**0**	**Total financial assets**	**3,104,439**	**108,872**	**0**
			Financial liabilities			
-69	0	0	Derivatives	-11,789	0	0
-7,718	0	0	Other investment balances	-2,441	0	0
0	0	-4,793	Creditors	0	0	-5,561
-4,500	0	0	Borrowings	0	0	0
-12,287	**0**	**-4,793**	**Total financial liabilities**	**-14,230**	**0**	**-5,561**
2,737,800	**74,493**	**-4,793**		**3,090,209**	**108,872**	**-5,561**

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

31 March 2015	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,877,727	93,600	133,112	3,104,439
Total financial assets	**2,877,727**	**93,600**	**133,112**	**3,104,439**
Financial liabilities				
Financial liabilities though profit & loss	14.230	0	0	14,230
Total financial liabilities	**14.230**	**0**	**0**	**14,230**
Net financial assets	**2,863,497**	**93,600**	**133,112**	**3,090,209**

31 March 2014	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,537,799	70,289	141,999	2,750,087
Total financial assets	**2,537,799**	**70,289**	**141,999**	**2,750,087**
Financial liabilities				
Financial liabilities though profit & loss	12,287	0	0	12,287
Total financial liabilities	**12,287**	**0**	**0**	**12,287**
Net financial assets	**2,525,512**	**70,289**	**141,999**	**2,737,800**

Note 18c: Book cost

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

Note 19: Outstanding commitments

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

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

Risk and risk management

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

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

a) **Market risk**

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

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

Other price risk

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

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

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

Other price risk – Sensitivity Analysis

The WM Company has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2014/15 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

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

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

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

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

Interest rate risk

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

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages

this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

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

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

Interest rate risk sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2015	Change in net assets +100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	77,218	772	-772
Fixed interest securities	350,859	3,509	-3,509
Total	**428,077**	**4,281**	**-4,281**

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

Currency risk

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

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

Currency risk – sensitivity analysis

The WM Company has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2014/15 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

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

For comparison last year figures are included below.

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

b) Credit risk

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

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality

counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

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

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

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

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

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

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

c) Liquidity risk

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

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

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

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

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

d) Derivative risk

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

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

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected

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

Note 21: Related party transactions

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

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

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

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

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

Note 22: Key management personnel

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

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

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

Note 23: Custody

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

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

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

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

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

Description of funding policy

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

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

strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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

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

Funding Position as at the last formal funding valuation

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

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

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

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

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

Experience over the year since April 2014

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

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

Barry McKay FFA

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

June 2015

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2014/15 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

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

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

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

Balance sheet

Year ended	**31 March 2014 £m**	**31 March 2015 £m**
Present value of promised retirement benefits	4,151	4,984

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2015 comprises £2,384m in respect of employee members, £989m in respect of deferred pensioners and £1,611m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £662m.

Financial assumptions

My recommended financial assumptions are summarised below:

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

Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

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

*Future pensioners are assumed to be currently aged 45.

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

Commutation assumption

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 15 April 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston AFA

21 May 2015

For and on behalf of Hymans Robertson LLP

Note 26: Additional Voluntary Contributions

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

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

Note 27: Statement of investment principles

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

Note 28: Annual report

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

Annex 1. Accounting policies

i. General principles

The statement of accounts summarises the council's transactions for the 2014/15 financial year and its position at the year end 31 March 2015. The council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011. The Regulations require the statement of accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15 supported by International Financial Reporting Standards (IFRS).

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

Ii Accounting concepts and principles

The accounting concepts followed in the application of accounting policies are:

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

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

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

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

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

Faithful representation is a new concept and has three characteristics:

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

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

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

ii. Recognition of income and expenditure

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

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

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

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

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

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

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

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

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

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

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

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

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

v. Charges to revenue for non-current assets

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

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

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

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

vi. Employee benefits

Benefits payable during employment

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

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

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

The Local Government Pension Scheme (LGPS) & The Firefighters' Pension Scheme

The Local Government Pension Scheme and the Firefighters' Scheme are administered by Surrey County Council and are accounted for as a defined benefits scheme:

- liabilities of the pension funds attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees);
- liabilities are discounted to their value at current prices, using a discount rate of 4.5%. This rate is based on the indicative rate of return on a high quality corporate bond which is defined as having been "rated at the level of AA or equivalent status". In this instance the 4.5% is made up of a 3.2% yield on 20 year UK Government Bonds and a suitable addition of 1.3% to reflect the extra risk involved in using AA corporate bond yields. The 1.3% was derived by comparing the iBoxx Sterling Corporates AA over 15 year index and the corresponding over 15 year Government Bond index.

The assets of the pension funds attributable to the council are included in the Balance Sheet at their fair value:

- *quoted securities* – current bid price;
- *unquoted securities* – professional estimate;
- *unitised securities* – current bid price;
- *property* – market value.

The change in the net pensions' liability is analysed into the following components:

- Service cost comprising:
  - *current service cost* – the increase in liabilities as a result of years of service earned this year are allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - *past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - *net interest on the defined benefit liability* – the net interest expense for the council. The change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment income and expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability as a result of contribution and benefit payments.

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

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

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

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

Discretionary benefits

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

vii. Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

viii. Exceptional items

When items of income and expense are material their nature and amount is disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts depending on how significant the items are to an understanding of the council's financial performance.

ix. Financial instruments

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

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

The council entered into a Lender Option Borrower Option (LOBO) in 2003/04. This is carried on the balance sheet at a higher amortised cost than the outstanding principal and interest is charged at a marginally higher effective rate of interest than the current rate of interest payable to the lender. This is to smooth the effect of the scheduled stepped interest rate rises over the life of the loan.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial assets
Financial assets are classified into two types:

- loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market;
- available-for-sale assets are assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables
Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset

multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the council has made loans to the Painshill Park Trust and to foster carers at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate actually receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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:

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

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

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

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

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

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

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

xiii. Intangible assets

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

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

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

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

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

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

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

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

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

xv. Inventories and long-term contracts

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

xvi. Leases

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

The council as lessee

Finance leases

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

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

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

Local authorities are not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted

by a revenue contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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

The council as lessor

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

Lease rentals receivable are apportioned between:

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

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

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

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

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

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

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

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

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

- **fair value of the services received during the year** is debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- **finance cost** is an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **contingent rent** is an increase in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **payment towards liability** is applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **lifecycle replacement costs** reflect a proportion of the amounts payable to be posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

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

- Anchor Homes
- Waste
- Street Lighting
- Care UK

xix. Property, plant and equipment (including assets held for sale)

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

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

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

Measurement
Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deprecation is calculated on the following bases:

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

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

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

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

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

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

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

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

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

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

xxi. Provisions, contingent liabilities and contingent assets

Provisions
Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) this is recognised as income for the relevant service only if it is certain that reimbursement will be received if the council settles the obligation.

Contingent liabilities
A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent assets
A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

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

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

xxii. Revenue expenditure funded from capital under statute
Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxiii. Value Added Tax (VAT)
VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income, unless it is a rebate from previous years.

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

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

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

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

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

Business Rates
See Non-Domestic Rates (NDR).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue Expenditure Funded by Capital under Statute (REFCUS) is capital expenditure which does not give rise to an asset owned by the council. Examples include capital expenditure on foundation and voluntary aided schools.

Revenue Support Grant (RSG)
The principal way that central government funds local government revenue expenditure. This grant is non-specific and is based upon the government's assessment of how much a local authority should spend to provide a common level of service.

The Service Reporting Code of Practice (SeRCOP) sets out the financial reporting guidelines for local authorities, it supplements the principles and practices set out in the Code of Practice in Local Authority Accounting and aims to achieve consistency and comparability in the presentation of local authority service expenditure.

Soft Loans
Loans made by the authority at less than the prevailing market rate of interest.

Useful life
The period over which the council will benefit from the use of a non-current asset.

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