Surrey County Council

Statement of Accounts

2016/17

SURREY

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

The following few pages are intentionally blank awaiting further information.

Introduction

Welcome to Surrey County Council's Statement of Accounts for 2016/17. 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 prepared 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 2016/17, Surrey County Council has again delivered the Finance Service's vision of producing audited financial statements by the end of July 2017. 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 and therefore the council is well ahead in compliance with this requirement. The annual report for 2016/17 will again contain financial information based on the audited Statement of Accounts.

In addition to demonstrating best practice in relation to the speed of our accounts closure, the finance service aims to develop a statement of accounts that 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 narrative statement, 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 2017.

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:

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. In previous editions of the Statement of Accounts the CIES has been produced based on the service level analysis required under the CIPFA Service Reporting Code of Practice (SeRCOP). For the 2016/17 accounts CIPFA have removed this requirement and the CIES is now presented based on the standard Surrey County Council service headings used in monthly budget monitoring reports and other financial information.

The 'Deficit on the Provision of Services' for 2016/17 was £152m which is also shown in the movement in reserves statement (in 2015/16 the comparable figure was £130m). This represents an accounting shortfall on the provision of services in accordance with International Financial Reporting Standards (IFRS), rather than spending being greater than funding raised. The Financial Performance section on the bottom of page 8 summarises the outturn position, which shows spending compared to funding raised, and the Expenditure and Funding Analysis (Note 6 on page 43) reconciles the revenue budget outturn position to the CIES. The main reasons for the deficit on the CIES are:

- the writing off of £113m of assets in relation to schools which have transferred to academy status. This is shown as an expense within the Financing and Investment Income and Expenditure line of the CIES.
- £33m adjustment for the current service cost of pensions required under International Accounting Standard 19 compared to actual employer pension contributions paid (see section on

'material balances' on page 11 for further information).

Movement in Reserves Statement (page 22) shows the movement during the 2016/17 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 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 2016/17 is £360m (a decrease of £384m in unusable reserves, partially off-set by an increase of £24m in usable reserves). The decrease in unusable reserves was primarily caused by an increase in the pension liability (£309m), a reduction in the Capital Adjustment Account (£139m), mainly caused by writing out of £113m of school assets in relation to schools that have transferred to academy status, off-set by growth in the revaluation reserve (£56m). The increase in usable reserves was from an increase of £55m in the capital receipts and unapplied capital grants reserves off-set by a £32m reduction in revenue reserves, including £24.7m of revenue reserves which were approved to support the 2016/17 budget in the 2016-21 medium term financial plan.

Balance Sheet (page 23) shows the value of the assets and liabilities recognised by the council as at 31 March. The balance sheet of the council shows net liabilities of £278m, which is matched by reserves (as set out in the movement in reserves statement).

Cash Flow Statement (page 24) shows the changes in cash and cash equivalents during the financial year. The total increase in cash and cash equivalents for the council during 2016/17 was £76m which is shown in the cash flow statement and note 18. The primary reason for this increase was due to the council's bankers removing the ability for the council to utilise school balances to off-set the balance on the council's general account. This meant the council had to increase cash balances to prevent the general account being overdrawn.

The cash flow 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.

Expenditure and Funding Analysis

This is a new addition to the accounts for 2016/17 (Note 6 on page 43) and has been introduced to show for each of the council's services a comparison of the net resources applied in the Comprehensive Income and Expenditure Statement compared to the net charge against council tax. The Expenditure and Funding Analysis (EFA) promotes accountability and stewardship by providing this direct link between the Statement of Accounts and the budget outturn position on the General Fund.

2016/17 Budget Setting

The council set its budget for the 2016/17 financial year in the context of the continuing government austerity programme with a

significant reduction in central government funding.

In December 2015 the Council learnt that it faced a 42% reduction of core central Government funding in 2016/17 when compared to the previous year. This was due to a greater decrease in the Revenue Support Grant than had previously been indicated by Government.

At the same time, the Council faces significant pressures from the care market as well as increasing year on year demographic demand for services, in particular, but not exclusively, for social care. Public expectation about, for example, the Highways service is also increasing.

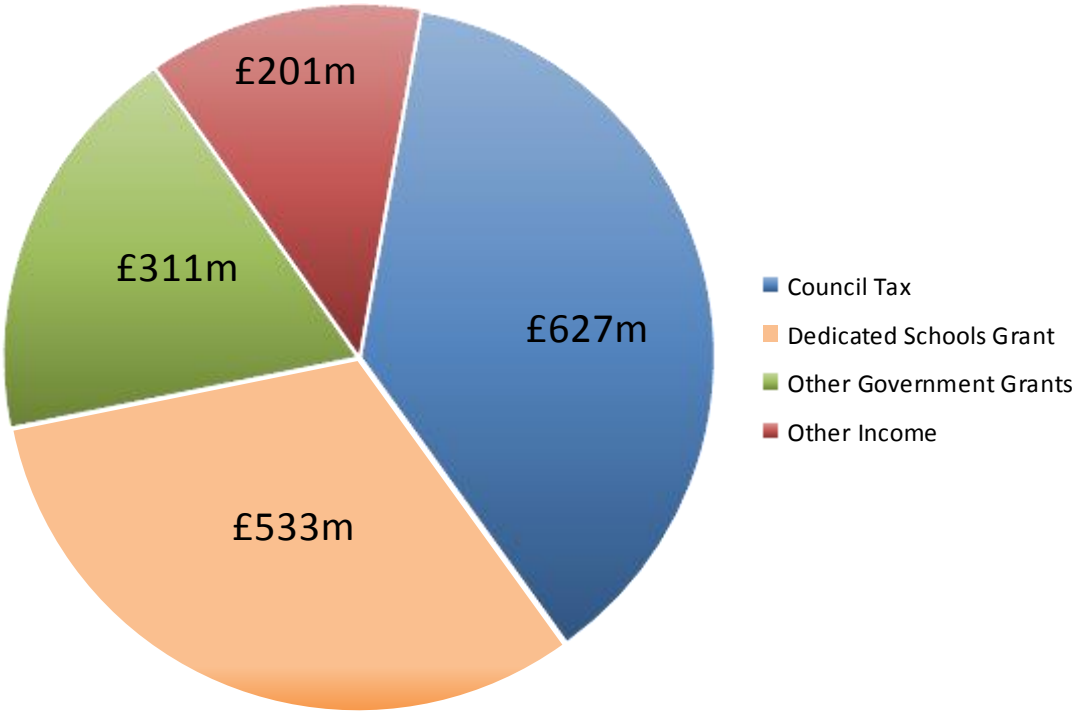
For 2016/17 the Government set the general Council Tax precept limit, without referendum, at 2% with an additional 3% for authorities with social care responsibilities as recognition of the increasing social care pressures across the sector. This additional precept raised £11.8m for the Council in 2016/17, although this is less than the demographic demand for adult services which increases by over £20m each year.

Following the reduction in core government funding the council could only balance the budget for 2016/17 by a combination of the following:

For 2016/17 by a combination of the following:

- deeper and earlier efficiencies from services
- utilising a significant proportion of its reserves
- the Government providing transitional relief funding to compensate the Council for part of the reduction in core funding.

The 2016/17 revenue budget, approved in February 2016 set expenditure at £1.7bn, to be funded as follows:



Other income includes business rates, grants & contracts with other organisations, fees & charges, income from property & investments and contributions from reserves.

Financial Resilience Review

In recognition of the seriousness of the financial challenges facing the Council the Director of Finance, supported by the Chief Executive and Leader, requested the Chartered Institute of Public Finance and Accountancy (CIPFA) to carry out a financial resilience review in November 2016. As well as looking at comparative spending and costs, the review focused on the accuracy of the council's budget planning assumptions and figures and the long term financial resilience of the Council.

The key conclusions were:

- The budget planning assumptions and figures were sound
- The Council's financial resilience is not sustainable over the short or medium term unless it identifies and implements the full scale of savings required as soon as possible to match its currently allowed income profile going forward
- the Council cannot manage until 2019/20 through reliance wholly on reserves

Financial Performance 2016/17

For the seventh year in succession, the council ended 2016/17 with an underspend, demonstrating a tight grip on financial management despite reduced funding and significant demand pressures. In September 2016, the council was reporting a significant overspend for the current financial year and a recovery action plan was put in place to address this. Measures taken over the remaining months of the financial year by the Council's leadership, monitored monthly by the Cabinet, succeeded in bringing the budget back into balance. Actions included one-off measures, delays in spend, as well as on-going efficiencies, such as achieving future years' savings early. The revenue budget outturn position for 2016/17 provides a clearer indication of the council's strong financial stewardship during the year than is apparent from the accounting shortfall 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 8) show how these items are removed from the General Fund position.

In line with the council's multi-year approach to financial management, which aims to smooth resource fluctuations over three years, the revenue budget for the 2016/17 financial year, included the use of £24.7m from reserves. The outturn position for services' net revenue budget is -£6.5m underspent and-£6.7m for the council overall, including additional income of -£0.1m on general government grant and -£0.1m on local taxation (business rates). The council also achieved £66.4m out of £82.9m of planned efficiencies. The shortfall of £16.5m was primarily caused by £19.1m of savings in Adults Social Care being unachievable due to issues affecting savings planned from: Friends, Family & Community programme, demand management, health and social care integration, staff turnover and optimising transitions.

Details of the outturn position by service are area are included in the table below and further information on financial performance during the year can be found in the Financial Budget Outturn Report 2016/17 presented to Cabinet on 27 April 2017.

Service	Full year final budget £m	Full year position £m	Full year variance £m
Economic Growth	1.7	0.9	-0.8
Strategic Leadership	1.0	0.9	-0.1
Adult Social Care	367.3	381.9	14.6
Children's Services	92.4	103.1	10.7
Commissioning & Prevention	40.7	40.1	-0.6
Schools & SEND	63.1	62.6	-0.5
Delegated Schools	0.0	0.5	0.5
Community Partnership & Safety	3.4	2.4	-1.0
Coroner	1.8	1.6	-0.2
Cultural Services	9.6	9.1	-0.5
Customer Services	3.5	3.3	-0.2
C&C Directorate Support	1.0	0.9	-0.1
Emergency Management	0.5	0.4	-0.1
Surrey Fire & Rescue Service	33.3	32.8	-0.5
Trading Standards	2.0	2.0	0.0
Environment & Planning	79.6	80.4	0.8
Highways & Transport	45.0	43.7	-1.3
Public Health (budget is net of specific Government Grant)	0.0	0.0	0.0
Central Income & Expenditure	58.9	42.0	-16.9
Communications	2.2	2.0	-0.2
Finance	3.1	2.2	-0.9
Human Resources & Organisational Development	4.3	3.6	-0.7
Information Technology & Digital	13.1	11.7	-1.4
Legal Services	3.9	3.8	-0.1
Democratic Services	4.5	4.4	-0.1
Strategy & Performance	1.8	1.5	-0.3
Procurement	0.9	0.8	-0.1
Property	21.0	16.8	-4.2
Joint Operating Budget ORBIS	37.6	35.3	-2.3
Business Operations	-0.1	-0.1	0.0
Total services' net revenue expenditure	**897.1**	**890.6**	**-6.5**
General funding sources			
General Government grants	-200.1	-200.2	-0.1
Local taxation (council tax and business rates)	-672.2	-672.3	-0.1
Total general funding	**-872.3**	**-872.5**	**-0.2**
Total movement in reserves	**24.8**	**18.1**	**-6.7**

Note: All numbers have been rounded - which might cause a casting difference

Against this underspend of £6.7m the council has created a provision of £1m for the possible payment of legal costs relating to a number of contract compliance issues.

Cabinet has also approved £1.6m revenue carry forwards from 2016/17 to 2017/18 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 -£4.1m, which has been transferred to the Budget Equalisation Reserve, to support future years' budgets.

Capital

Creating public value by improving outcomes for Surrey's residents is a key element of Surrey County Council's corporate vision and it is at the heart of its £638m capital programme in the MTFP 2016-21. The capital expenditure budget for 2016/17 was initially set at £194m plus £13m of carry forwards from 2015/16.

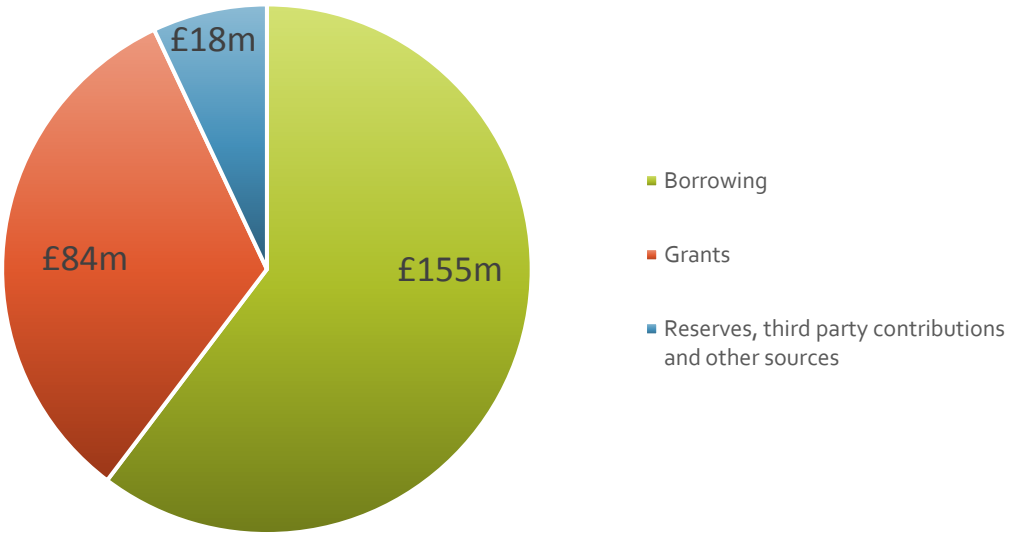
During the 2016/17 financial year, the council has invested and delivered significantly, especially on highways infrastructure and school places. Over the year the budget was revised to £147m, primarily due to various building projects being reprofiled to later years in the MTFP, including £34m related to Schools Basic Need.

In addition, the council has continued its programme of investment in revenue generating assets that will improve its self-sufficiency and reduce reliance on government funding over the longer term. During 2016/17 the council invested a further £131m under the approved investment strategy.

	Full year budget £m	Full year outturn £m	Variance £m	Reprofiled/ carry fwd £m	Full year variance £m
Schools basic need	33.3	32.9	-0.4	0.4	0.0
Highways recurring programme	47.9	47.4	-0.5	0.5	0.0
Property & IT recurring programme	31.2	24.9	-6.3	6.3	0.0
Other capital projects	34.6	21.2	-13.4	9.4	-4.0
Service capital programme	**147.0**	**126.4**	**-20.6**	**16.6**	**-4.0**
Long term investments	0.0	131.3	131.3	0.0	131.3
Overall capital programme	**147.0**	**257.7**	**110.7**	**16.6**	**127.3**

The table above shows the outturn expenditure (including re-profiling and use of the capital underspend) for the service capital programme and long term investments of £257m.

The 2016/17 capital expenditure budget was funded as follows:



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

These are defined as amounts either incurred or received to or from the same supplier or customer for the same good or service, which amount to more than £25m. Further details of these are disclosed in note 4.

In addition to those disclosed, material expenditure is incurred on the council's Private Finance Initiative Schemes. Further details can be found in note 37.

Material items of income include government grants and council tax, which are further disclosed in notes 12 and 32.

During 2016/17, 25 schools transferred to academy status (14 in 2015/16). An academy is self-governing, directly funded by central government and independent of direct control by local government. Included in the Comprehensive Income and Expenditure Statement is a disposal of £113.0m related to the de-recognition of academy schools (£74.4m in 2015/16). 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 Financing and Investment Income & Expenditure line in the CIES.

During the year the council incurred the following material items of capital expenditure as part of the long-term capital strategy:

- £108.8m in long-term loans to Halsey Garton Property Ltd. Included as a long term debtor on the balance sheet.
- £41.5m equity investment in Halsey Garton Property Ltd. Included as a long term investment on the balance sheet.

Material balances

The pension liability recognised on the council's balance sheet at the 31 March 2017, has a significant impact on the net worth of the council. The council contributes to four pension 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.

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 £923m at the balance sheet date, an increase of £191m on the previous year. The DCLG firefighters' pension liability included within the council's accounts is estimated to be £637m an increase of £119m on the previous year.

This increase in the valuation of the liabilities is due mainly to rising real bond yields decreasing the net discount rate. 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 £1,560m 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.

Non-Financial performance

The council's corporate strategy sets out three strategic goals against which organisational performance is measured. The Annual Report for 2016/17 details the progress made on each goal during the year and a summary of achievements is included here.

Wellbeing – Everyone in Surrey has a great start to life and can live and age well

Year one of the Get Active 50+ project saw 1,769 Surrey people taking part in sports and physical activities, including walking football, bowls, swimming, jogging, badminton, inclusive multi-sports, golf and exercise classes.

More than 100 "Dementia Friends" sessions took place in Surrey between September 2016 and January 2017, resulting in over 1,400 new Dementia Friends. They advise local businesses, leisure services and other organisations how they can become more dementia friendly.

The council has agreed a 20 year local strategy with key partners to ensure there is adequate accommodation for people with care and support needs. This aims to ensure that residents have a choice about accommodation to meet their health and wellbeing needs that is flexible enough to be adapted as their needs change. There is a commitment to build 600 Extra Care flats by 2025 across the county. Extra care housing is designed for older, frail people who can live independently in their own self-contained flats, with their own front door, but benefit from personal care support on the premises. Improving services for people with dementia will also be a focus of this strategy.

Economic prosperity – Surrey's economy remains strong and stable

The county council completed 18 highway safety schemes in consultation with the police last year, resulting in a 35% drop in collisions. The schemes were introduced following analysis of police data showing 18 hotspots accounted for a total of 163 collisions over three years.

Recycling of food waste has increased by 19% in the last year following a campaign to attach 'No food waste' stickers to household rubbish bins across Surrey, saving over £340,000 in disposal costs.

Some of the important projects in 2016-17 to maintain and renew Surrey's roads, pavements and other infrastructure are highlighted below:

- Operation Horizon – an ongoing programme of major works, which last year resulted in about 30 miles of highway being resurfaced.
- Pavement Horizon - a six-year programme to restore Surrey's pavements in key locations. Nearly 50 miles of footpaths have been resurfaced during 2016-17.
- In 2016-17 Surrey was allocated just over £1m from the Government's £50m-a-year Pothole Action Fund. Surrey has used its allocation as part of a preventative programme to deal with potholes. The programme has repaired or prevented about 35,000 potholes at a cost of £3m.

Resident Experience – Residents in Surrey experience public services that are easy to use, responsive and value for money

The council's highways and transport service has had its prestigious Customer Service Excellence accreditation renewed for a further three years, following a rigorous external assessment. The service, which receives over 100,000 enquiries a year from residents, was particularly praised for the quality of its roadworks information for residents. Surrey is the first highways authority to win the award.

Around 2,800 children and young people with special needs receive transport from the council to get to school, college or training placements. A survey last year of around half the parents and carers of children with special educational needs or a disability (SEND) who use school transport drew 466 responses (a response rate of 28.6%). The headline findings were:

- 85% said their children enjoyed their journey to and from school
- 77% were "very satisfied" with the driver; and 93% were "very satisfied" with the escort
- 68% were "very satisfied" with vehicle punctuality.

The council is committed to putting the voices of children and young people at the centre of its services. Listening to the voice of the child or young person is an essential part of the council's social work practice. It is at the heart of ensuring

the right support can be put in place at the right time to keep children and young people safe, and equip them to grow up to live independent and fulfilled lives. Events and initiatives have been held throughout the year as a direct result of what young people say they want, which focus on boosting life skills, preventing social isolation and raising awareness of young people's issues with care professionals.

In 2016 these included:

- Skills Fest 2016
- Total Respect Training
- Christmas Party for looked after children and care leavers
- Apprenticeships for care leavers

Changes in accounting policies

The 2016/17 Code of Practice on Local Authority Accounting introduces the requirement for the council to report service segments based on the way in which it operates and manages services. This change ends the requirement for the service analysis in the Comprehensive Income & Expenditure Statement to be based on the service expenditure analysis in the Service Reporting Code of Practice (SeRCOP).

The objective of this change is to allow the reporting requirements on the face of the Comprehensive Income and Expenditure Statement to align with how a local authority reports its performance internally to its management. This should help make the accounts easier for users to understand as the information is presented in a format they are familiar with.

A new Expenditure and Funding Analysis (EFA) has been introduced that shows for each of the council's services a comparison of the net resources applied in the Comprehensive Income and Expenditure Statement compared to the net charge against council tax. The EFA promotes accountability and stewardship by providing this direct link between the Statement of Accounts and the budget outturn position on the General Fund.

Borrowing

Long-term borrowing (repayable in more than 12 months) on the balance sheet relates to the financing of capital expenditure incurred in previous years. The balance currently stands at £397.8m. No additional long-term borrowing was undertaken during 2016/17.

The council continues to pursue a strategy of temporarily using its internal cash resources to finance capital expenditure rather than borrowing externally. This results in the interest payable costs of borrowing being reduced and is considered a prudent strategy in an economic climate when interest rates achievable on holding large cash balances are at historic lows. This strategy has resulted in the council being 'under-borrowed' against its borrowing limits and capital financing requirement.

During 2016/17 changes to the borrowing strategy were agreed by Council. No long term borrowing was undertaken during the year, in favour of short term borrowing for cash flow purposes. This borrowing is from other Local Authorities. The balance at 31 March 2017 stands at £152m compared to £36m at 31 March 2016. Within this figure is £37m which the council holds on behalf of the Office of the Police and Crime Commissioner for Surrey.

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 2017 the main provisions held by the council are:

- Insurance (£5.1m). This provision was created to meet the cost of reported outstanding claims that are not covered by external insurance and those claims arising from the collapsed Mutual Municipal Insurance Company. The level of this provision was reviewed by the council's actuary in 2015/16.
- 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.

Further details on provisions can be found in Note 21.

Reserves & balances

Usable reserves

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

- earmarked reserves - providing financing for future expenditure plans, commitments and possible liabilities, including 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 the Medium Term Financial Plan (MTFP) 2017-21 the council identified £11.8m of earmarked reserves to support the 2017/18 budget.

	Balance at 31/03/16 £m	Transfers In £m	Transfers Out £m	Balance at 31/03/17 £m	Support for 2017/18 Budget £m	2016/17 Carry-forwards £m	Balance at 01/04/17 £m
Revolving Infrastructure & Investment Fund	21.1		-10.0	11.1			11.1
Eco Park Sinking Fund	11.7		-7.3	4.4			4.4
Investment Renewals Reserve	8.8	1.6	-5.4	5.0			5.0
Insurance Reserve	11.9	1.8	-6.0	7.7			7.7
General Capital Reserve	5.2	0.2	-0.1	5.3			5.3
Budget Equalisation Reserve	13.1	19.3	-6.2	26.2	-11.8	-1.8	12.6
Street lighting PFI Reserve	5.1		-0.7	4.4			4.4
Economic Downturn Reserve	9.2			9.2			9.2
Vehicle Replacement Reserve	3.9		-3.9	0.0			0.0
Child Protection Reserve	1.1		-1.0	0.1			0.1
Equipment Replacement Reserve	2.0	1.9	-3.3	0.7			0.7
Business Rate Appeals Reserve	1.3			1.3			1.3
Pensions Stabilisation Reserve	1.1		-1.1	0.0			0.0
Interest Rate Reserve	1.0			1.0			1.0
Economic Prosperity Reserve	2.5			2.5			2.5
Earmarked Reserves	**99.0**	**24.8**	**45.0**	**78.9**	**-11.8**	**-1.8**	**65.3**

Over recent years the level of earmarked reserves has continued to fall. These had previously been built up over a number of years in anticipation of austerity and are now being utilised. During 2016/17, £24.7m was used to support expenditure and a further £11.8m is planned for 2017/18. The level of savings required to produce a balanced budget in 2017/18 and beyond are significant and

higher than ever before. There will be focused monitoring of the delivery of the necessary savings identified, to avoid the depletion of levels of reserves below minimum acceptable levels.

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 23 provides further details on unusable reserves.

Orbis Partnership

Orbis is a partnership between Surrey and East Sussex County Councils that aims to provide seamless and resilient business services to the public sector, creating a compelling alternative to other providers.

The Orbis Partnership incorporates Human Resources and Organisational Development, Property, IT, Procurement, Finance (including Internal Audit), and Business Operations (Shared Services).

The partnership is established under a Joint Committee with East Sussex County Council (ESCC). The Joint committee is responsible for delivering services from a Joint Operating budget. SCC and ESCC contribute to the Joint Operating budget in proportion to their service delivery requirements, which was 70% and 30% respectively in 2016/17.

The Joint Operating budget comprises primarily of staffing costs. The staff within the Orbis partnership manage budgets for each council. For example staff within Property manage the cost of utilities for SCC's buildings. Budgets that are managed in this way are not part of the Joint Operating budget and are instead referred to as 'budgets managed by the Orbis partnership' in management reports and the MTFP.

In December 2016 the Orbis joint committee approved Brighton & Hove City Council (BHCC) joining Orbis as a founding partner. A key action for the forthcoming year will be to increase collaboration and integration of BHCC into the partnership.

Investment properties

The council has several properties purchased for future service needs or for the purposes of economic development 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 2017, under the code of practice they are classed as investment properties.

During 2016/17 the value of the investment property portfolio decreased by £8.8m to £54.1m. This was due to the sale of an asset with a book value of £7.8m and fair value adjustment on the properties currently in the portfolio of £1.0m. More information on investment properties can be found in Note 14 on page 61.

Group accounts

The council has considered all its relationships and interests in other entities and has made a judgement that it exercises control or significant influence over the economic activities of the following organisations:

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 in 2013. 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 in 2014. The economic activity of this company has been incorporated into the group accounts.

Halsey Garton Ltd – is a Local Authority Trading Company wholly owned by the council to make property investments. It is a holding company and has three subsidiaries; Halsey Garton Investments Ltd, Halsey Garton Developments Ltd and Halsey Garton Residential Ltd. During 2015/16 only the holding company and Halsey Garton Investments Ltd were active and trading and therefore only the economic activity of

these companies has been incorporated into the group accounts.

Henrietta Parker Trust - the council exercises 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.

Trust funds

During 2016/17 the council undertook a review of its Trust Funds. There were 42 Trusts where the council was a custodian trustee, with 38 of those as the sole trustee.

The review recommended transferring the majority of funds where the council was the sole trustee to the Community Foundation for Surrey (CFS) as many of the trusts have been dormant for a number of years and their value is low.

In March 2017 the funds held by 31 Trusts were transferred to the CFS totalling £224,000. Further transfers are expected to take place in 2017/18 following the redemption of some investments currently held by a third party.

The CFS is an independent charitable trust established to inspire local giving for local needs. It works with donors who want to give something back to their local communities and voluntary groups providing vital services for local people and disadvantaged individuals. The decision to transfer trusts to the CFS is in line with similar transfers by other authorities and is supported by the Charity Commission.

For the remaining Trusts the council holds the assets but takes no decisions on its use. The funds do not 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 2017 is £4.8m. Further information on these trusts can be obtained via the contact details provided on page 18.

Better Care Fund

The Better Care Fund (BCF) is a programme spanning both the NHS and local government which seeks to join-up health and care services, so that people can manage their own health and wellbeing, and live independently in their communities for as long as possible.

The BCF has been created to improve the lives of some of the most vulnerable people in our society, placing them at the centre of their care and support, and providing them integrated health and social care services, resulting in an improved experience and better quality of life.

The Council works with Surrey's seven Clinical Commissioning Groups (CCGs) to determine use of these shared resources. These resources are managed through pooled budget arrangements and information on the income and expenditure in 2016/17 is available in Note 25 on page 79.

Looking forward to 2017/18 and beyond

Strategically the financial and economic context facing the council remains similar to recent years, which is a continuation of austerity, significant reduction in central Government funding at the same time as increasing demographic pressures for core council services, adult and children's social care in particular.

The Provisional Settlement in December 2016 confirmed a very significant reduction of core central Government funding (-£88m over the period from 2016/17 to 2019/20).

Although the four year settlement offer made in the Final Settlement last year (covering 2016/17 to 2019/20) was intended to add certainty, it is worth noting that this covered only around half of the total gross funding of the council. Further, in October 2016 this council decided not to accept the Government's four year offer, one implication of which was to expose the council to the risk of further grant loss if Government needed to find more fiscal reductions in future years. Although Government haven't been required to do this for 2017/18, there remains a risk that this could occur in the remaining two years of the four year offer (2018/19 and 2019/20). This increases the level of uncertainty. To provide the basis for longer term sustainability, the council established a transformation programme in February 2016. A Public Value Transformation (PVT) Board

comprising the Leader of the Council (Chair), the Chief Executive and the Director of Finance provided strategic oversight and challenge to ensure the transformation programme is driven by public value and contributes significantly to the council's financial sustainability. In September 2016 the PVT Board reported to Cabinet that the PVT programme had increased the level of confidence in delivery of the current year budget savings but also confirmed that the programme would not produce the level of additional savings required to ensure a sustainable budget for 2017/18 onwards.

As a result of this and the increased budgetary pressures the Council faces, the Cabinet agreed in January 2017 to set up a task and finish Sustainability Review Board to include three cross party Members, the Strategic Director for Adult Social Care and Public Health, the Deputy Chief Executive and the Director of Finance. The Board focused on identifying permanent service reductions to help inform the council's longer term financial strategy and reported back to Cabinet its recommendations on 28 March 2017.

The Council has made over £450m of savings and service reductions since 2010 but its ability to continue to achieve this level of savings in the context of growing demand for its services and reductions in Government funding is increasingly difficult without leading to potential service failures. The Public Value Transformation review conducted this year to find additional changes confirmed this view.

The trends of increasing demographic demand alongside declining funding require us to continue to focus on the sustainability of our resources. The level of savings required to produce a balanced budget in 2017/18 and beyond are significant and higher than ever before. There will be focused monitoring of the delivery of the necessary savings identified, to avoid the depletion of levels of reserves below minimum acceptable levels.

In addition, the Council will continue to try to influence strategy and raise awareness nationally of the demands on services and the challenges posed by this and the current Government funding methodology.

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 as an area has operated a business rates pool in 2016/17 in partnership with: London Borough of Croydon, Guildford Borough Council, Runnymede Borough Council, Spelthorne Borough Council, Waverley Borough Council and Woking Borough Council.

Following a review, the optimum pool to maximise projected business rates income in the Surrey area for 2017/18 involves joining Surrey County Council with the London Borough of Croydon, Elmbridge Borough Council, Guildford Borough Council, Mole Valley District Council, Spelthorne Borough Council, and Surrey Heath Borough Council.

These seven authorities submitted a bid to form a business rates pool for the financial year 2017/18 and succeeded in receiving the relevant designation by DCLG. The pool's financial modelling projects retaining up to £4m 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 a third of this additional income.

Business Rates Retention

There are national pilots taking place during 2017/18 for the 100% local retention of business rates but none of these include two-tier authorities such as Surrey. There is currently some uncertainty surrounding the future of the scheme however if the government does decide to proceed with a pilot for two-tier local authorities in 2018/19 the council will carefully consider the value for the county of being a pilot authority.

Highways Network Asset

The Narrative Report in the 2015/16 Statement of Accounts mentioned that in 2016/17 there was

due to be a change in the accounting for infrastructure assets. This change would have seen the Highways Network Asset replace infrastructure assets and the valuation method changed dramatically from depreciated historical cost to depreciated replacement cost.

In November 2016 the implementation of the Highways Network Asset was postponed until at least 2017/18 pending a review by the CIPFA Local Authority Accounting Code Board. At its meeting on 8 March 2017, the Board decided not to proceed with the introduction of the Highways Network Asset for the foreseeable future. The Board decided that, currently and in particular in the absence of central support for key elements of the required valuation, the benefits are outweighed by the costs of implementation for local authorities. Based on this decision the Highways Network Asset has not been implemented in these accounts and infrastructure assets continue to be accounted for at depreciated historical cost.

Further information

Additional information on the council's overall revenue and capital budget outturn position and achieved efficiencies for 2016/17 can be found in the '2016/17 Outturn report' considered by the Cabinet on 27 April 2017. 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 (jonathan.evans@surreycc.gov.uk)

Sheila Little BA CPFA

Director of Finance

July 2017

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 20 to 117 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 2017; that the firefighter pension fund accounting statements on pages 124 to 126 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2017; that the statement of accounts on pages 127-170 presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2017 and its income and expenditure for the year then ended.

Sheila Little BA CPFA	David Harmer
Director of Finance	Chairman of Audit & Governance Committee
27 July 2017	27 July 2017

Comprehensive Income & Expenditure Statement

Restated year ended 31 March 2016				Year ended 31 March 2017		
Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	**Net Expenditure £000**
1,288	-61	**1,227**	Economic Growth	1,067	-77	**990**
467		**467**	Strategic Leadership	980		**980**
438,692	-63,492	**375,200**	Adult Social Care	458,372	-73,130	**385,242**
106,653	-10,242	**96,411**	Children's Services	117,361	-11,227	**106,134**
84,367	-47,261	**37,106**	Commissioning & Prevention	90,271	-47,100	**43,171**
207,156	-68,657	**138,499**	Schools & SEND	193,887	-69,932	**123,955**
509,937	-508,762	**1,175**	Delegated Schools Budget	481,266	-471,591	**9,675**
4,801	-1,894	**2,907**	Community Partnership & Safety	2,824	-364	**2,460**
1,469		**1,469**	Coroner	1,609		**1,609**
24,024	-12,913	**11,111**	Cultural Services	24,809	-13,579	**11,230**
3,796	-179	**3,617**	Customer Services	3,689	-159	**3,530**
1,245	-171	**1,074**	Directorate Support (Com)	1,107	-179	**928**
596	-26	**570**	Emergency Management	588	-114	**474**
836	-220	**616**	Magna Carta			
34,216	-2,341	**31,875**	Surrey Fire & Rescue Service	32,349	-1,795	**30,554**
3,966	-1,628	**2,338**	Trading Standards	3,914	-1,808	**2,106**
95,588	-10,060	**85,528**	Environment & Planning	93,984	-8,774	**85,210**
75,637	-7,780	**67,857**	Highways & Transport Services	79,143	-7,663	**71,480**
33,806	-33,479	**327**	Public Health	41,164	-38,486	**2,678**
-3,599	-25,000	**-28,599**	Central Income & Expenditure	-10,592	-30,611	**-41,203**
2,016	-57	**1,959**	Communications	2,065	-31	**2,034**
8,792	-2,220	**6,572**	Finance	1,277	-340	**937**
8,535	-192	**8,343**	Human Resources & Org. Dev.	3,789	-360	**3,429**
27,487	-514	**26,973**	Information Management & Tech.	13,215	-444	**12,771**
4,924	-522	**4,402**	Legal Services	4,622	-567	**4,055**
4,760	-281	**4,480**	Democratic Services	4,726	-199	**4,527**
3,697	-621	**3,076**	Policy & Performance	1,729	-663	**1,066**
3,471	-107	**3,364**	Procurement	830		**830**
66,293	-9,769	**56,524**	Property	63,086	-6,569	**56,517**
			Orbis joint operating budget	38,850	-120	**38,730**
10,757	-5,215	**5,542**	Business Operations	-70		**-70**
1,765,674	**-813,664**	**952,010**	**Cost of Services - continuing operations**	**1,751,911**	**-785,882**	**966,029**

Comprehensive Income & Expenditure Statement

Restated year ended 31 March 2016				Year ended 31 March 2017		
Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	**Net Expenditure £000**
1,765,674	**-813,664**	**952,010**	**Cost of Services - continuing operations**	**1,751,911**	**-785,882**	**966,029**
31,056	-31,994	**-938**	Other Operating Income & Expenditure (note 10)	29,988	-45,486	**-15,498**
204,961	-56,701	**148,260**	Financing & Investment Income & Expenditure (note 11)	235,738	-69,704	**166,034**
	-642,732	**-642,732**	Local Taxation (Note 12)		-670,312	-670,312
	-326,557	**-326,557**	General grants & contributions (note 12 and note 32)		-294,233	-294,233
	969,289	**969,289**	Taxation, general grants & contributions		**-964,545**	**-964,545**
2,001,691	**-1,871,648**	**130,043**	**Surplus(-) or Deficit on Provision of Services**	**2,017,637**	**-1,865,617**	**152,020**
		-111,165	(Surplus) or deficit on revaluation of non-current assets			**-67,777**
		-300,332	Remeasurement of the net defined benefit liability			**275,768**
		-411,497	**Other Comprehensive Income & Expenditure**			**207,991**
		-281,454	**Total Comprehensive Income & Expenditure**			**360,011**

2015/16 Restatement of Comprehensive Income & Expenditure Statement and Movement in Reserves Statement

The 2016/17 Code of Practice on Local Authority Accounting introduces the requirement for the council to report service segments based on the way in which it operates and manages services. This change ends the requirement for the service analysis in the Comprehensive Income & Expenditure Statement to be based on the definition of total cost and the service expenditure analysis in the Service Reporting Code of Practice (SeRCOP).

The objective of these changes is to allow the reporting requirements on the face of the Comprehensive Income and Expenditure Statement to align with how the council reports its performance internally to its management.

The 2015/16 figures presented here have restated the 2015/16 figures published in the 2015/16 Statement of Accounts into the new presentational requirements..

A further breakdown of a restatement to the 2015/16 Fire and Rescue service figures can be found in note 43 on page 107.

Movement in Reserves Statement

2016/17	General Fund and 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 2016	**-192,298**	**-75,319**	**-49,491**	**-317,108**	**234,968**	**-82,140**
(Surplus) or deficit on provision of services (accounting basis)	152,020			**152,020**		**152,020**
Other comprehensive income & expenditure					207,991	**207,991**
Total comprehensive income & expenditure	**152,020**			**152,020**	**207,991**	**360,011**
Adjustments between accounting basis & funding basis under regulations (note 8)	-120,390	-28,082	-27,545	**-176,017**	176,017	**-**
Increase/decrease in year	**31,630**	**-28,082**	**-27,545**	**-23,997**	**384,008**	**360,011**
Balance at 31 March 2017	**-160,668**	**-103,401**	**-77,036**	**-341,105**	**618,976**	**277,871**
2015/16 Restated						
Balance at 31 March 2015	**-195,188**	**-30,475**	**-42,320**	**-267,983**	**467,297**	**199,314**
(Surplus) or deficit on provision of services (accounting basis)	130,043			**130,043**		**130,043**
Other comprehensive income & expenditure					-411,497	**-411,497**
Total comprehensive income & expenditure	**130,043**			**130,043**	**-411,497**	**-281,454**
Adjustments between accounting basis & funding basis under regulations (note 8)	-127,153	-44,844	-7,171	**-179,168**	179,168	**-**
Increase/decrease in year	**2,890**	**-44,844**	**-7,171**	**-49,125**	**-232,329**	**-281,454**
Balance at 31 March 2016	**-192,298**	**-75,319**	**-49,491**	**-317,108**	**234,968**	**-82,140**

The Movement in Reserves Statement has been consolidated in line with new guidance in the Code. Previously Earmarked Reserves and the General Fund balances were reported in separate columns these have been consolidated into one column which means the row previously entitled 'transfers between earmarked reserves is now redundant and can be removed. The aim of this change is to simplify the MIRS to help make it more understandable to users of the accounts.

Balance Sheet

As at 31.03.2016 £000		Note:	**As at 31.03.2017 £000**
1,793,016	Property, plant & equipment	13	1,752,293
1,024	Heritage assets		1,024
62,850	Investment property	14	54,050
5,477	Intangible assets		7,016
3,190	Long term investments	16	46,735
28,694	Long term debtors	16	124,547
1,894,251	**Long term assets**		**1,985,665**
	Short Term:		
65,000	Investments	16	-
836	Intangible assets		785
24,160	Assets held for sale	19	10,850
1,369	Inventories		1,397
152,080	Short term debtors	17	144,710
	Cash & cash equivalents	18	56,120
243,445	**Current Assets**		**213,862**
	Short Term:		
-19,615	Cash & cash equivalents	18	-
-30,876	Borrowing	16	-140,699
-182,084	Creditors	20	-190,762
-3,053	Provisions	21	-4,277
-142	Revenue grants receipts in advance		-91
-281	Capital grants receipts in advance		-9,152
-7,623	Other current liabilities	36	-13,281
-243,674	**Current liabilities**		**-358,262**
-30,573	Provisions	21	-25,180
-397,798	Long term borrowing	16	-397,786
-1,383,511	Other long term liabilities	36	-1,696,170
-1,811,882	**Long term liabilities**		**-2,119,136**
82,140	**Net assets/liabilities(-)**		**-277,871**
-317,108	Usable reserves	9,22	-341,105
234,968	Unusable reserves	23	618,976
-82,140	**Total Reserves**		**277,871**

Cash Flow Statement

2015/16 £000		Note	**2016/17 £000**
130,043	Net surplus (-) / deficit on the provision of services		152,020
-226,061	Adjustments to net surplus / deficit on the provision of services for non-cash movements	41	-268,694
-23,674	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities		-21,962
-119,692	**Net cash flows from operating activities**		**-138,636**
218,904	Purchase of property, plant & equipment, and investment property	42	131,401
-44,955	Proceeds from the sale of property, plant & equipment		-28,446
182,566	Payments for short-term and long-term investments		41,545
-222,738	Receipts of short-term and long-term investments		-65,000
13,465	Other receipts & expenditure from investing activities		85,648
147,242	**Net cash flows from investing activities**		**165,148**
6,955	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		7,564
51,154	Payments for short-term and long-term borrowing		166,589
-49,450	Receipts of short-term and long-term borrowing		-276,400
8,659	**Net cash flows from financing activities**		**-102,247**
36,208	**Net increase (-) / decrease in cash & cash equivalents**		-75,735
-16,593	Cash & cash equivalents at the beginning of the reporting period		19,615
19,615	Cash & cash equivalents at the end of the reporting period	18	**-56,120**

The cash flows from operating activities in 2016/17 include interest received of £5.1m (2015/16, £1.2m) and interest paid of £23.6m (2015/16, £27.2m).

Note 1. Accounting policies

Significant changes in accounting policies

The 2016/17 Code of Practice on Local Authority Accounting introduces the requirement for the council to report service segments based on the way in which it operates and manages services. This change ends the requirement for the service analysis in the Comprehensive Income & Expenditure Statement to be based on the definition of total cost and the service expenditure analysis in the Service Reporting Code of Practice (SeRCOP).

The objective of these changes is to allow the reporting requirements on the face of the Comprehensive Income and Expenditure Statement to align with how a local authority reports its performance internally to its management.

A new Expenditure and Funding Analysis (EFA) has been introduced that shows for each of the council's services a comparison of the net resources applied in the Comprehensive Income and Expenditure Statement compared to the net charge against council tax. The EFA promotes accountability and stewardship by providing this direct link between the Statement of Accounts and the budget outturn position on the General Fund.

i. General principles

The statement of accounts summarises the council's transactions for the 2016/17 financial year and its position at the year end 31 March 2017. The council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015. 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 2016/17 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. 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, rather than when income is received.
- 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.

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. 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.

v. 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 the Surplus or Deficit on the Provision of Services but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account 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 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 Local Government Pension Scheme is administered by Surrey County Council;
- the Firefighters' Pension Scheme is administered by Surrey County Council;
- the Teachers' Pension Scheme is administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- 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 the NHS pension scheme are administered nationally and arrangements mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. Therefore, both scheme are accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable in 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 3.5%.

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 the present value of the defined benefit obligation resulting from employee service in the current period. The cost to the employer of benefits accruing over the period 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 are 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.

vi. 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.

vii. 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) loan in 2003/04. The lender converted this into a fixed long-term loan during 2016/17. The loan 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 rate of interest payable to the lender. This is to smooth the effect of previous stepped interest rate changes over the life of the loan.

Financial assets

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.

viii. Fair value measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

ix. Government grants and contributions

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

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

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

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

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

x. Interests in companies and joint operations

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.

The council has determined that it exerts significant control over S.E. Business Services Limited, Surrey Choices Limited and Halsey Garton Limited as these are all Local Authority Trading Companies wholly owned by the council.

In 2016/17 group accounts have been produced due to material balances held by subsidiary companies. In order to provide a full picture of the financial performance of the group, group accounts have been produced for 2016/17.

The single entity county council accounts include the value of shares in subsidiary companies as long-term investments, long-term loans provided to the subsidiaries are held as long-term loans and any debtor and creditor balances between the council and the subsidiaries are also included within the relevant balance. In the group accounts, the single entity county council accounts are combined with the accounts of the subsidiary companies and any intra-group transactions and balances are excluded as part of the consolidation process to give the overall group position.

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators.

In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

In April 2015 the Surrey Better Care Fund was established. This is a joint operation between the council and seven NHS Clinical Commissioning Groups to provide integrated healthcare and support within the area. The council is the lead partner in the fund but shares control with each partner and as such will account for its share of assets, liabilities, revenue and expenditure in the accounts.

The council is also part of five other minor pooled budget arrangements with NHS bodies to provide services in the local area.

The council is part of a partnership with East Sussex County Council and Brighton & Hove City Council that aims to provide business services to the public sector. The Orbis Partnership incorporates Human Resources and Organisational Development, Property, IT, Procurement, Finance (including Internal Audit), and Business Operations (Shared Services).

The partnership is established under a Joint Committee. The Joint Committee is responsible for delivering services from a Joint Operating budget. During 2016/17 Surrey County Council and East Sussex County Council contributed to the Joint Operating budget in proportion to their service delivery requirements, which were 70% and 30% respectively.

xi. 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 does not have any material finance leases

The council as lessee

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

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.

xii. Overheads and support services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance. As support services are included as service lines in management reporting arrangements they also appear on the face of the Income Expenditure Statement rather than recharged over front line services, except a small proportion charged to Public Health and Commercial Services.

xiii. 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

xiv. 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 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;
- school buildings and fire stations are held at current value but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- surplus assets are held at fair value estimated at highest and best use from a market participant's perspective
- all other assets are held at current value determined as the amount that would be paid for the asset in its existing use.

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 current value.

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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).

Depreciation is calculated on the following bases:

- buildings use a straight-line allocation over the useful life of the property as estimated by the valuer; usually up to 40 years.
- vehicles, plant, furniture and equipment use a straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer. This can be between 3 and 15 years depending on the type of asset.
- infrastructure assets use a straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer. This can be 7 years for minor works and up to 40 years for bridge strengthening.

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.

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 Other Operating Income & Expenditure 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 a charge to the Investing & Financing Income & Expenditure line the Comprehensive Income & Expenditure Statement and then reversed out to the Capital Adjustment Account through the Movement in Reserve Statement to ensure there is no impact on the General Fund. .

xv. 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, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. 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.

xvi. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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 accounted for prospectively, ie 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 authority'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.

xvii. 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.

xviii. 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. 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 non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the council; these reserves are explained in the relevant policies.

xix. 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 is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement. 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.

xx. 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.

Note 2: 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:

Issue	Judgement
Local government funding	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.
Grant conditions	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 unapplied) 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.
Fair value measurement of surplus assets	In 2015/16 the council's valuers, Bruton Knowles, valued 54 surplus assets in line with the fair value measurement requirements of IAS13 as part of the rolling valuation programme. A further 48 assets were valued at fair value by qualified council staff. It is judged that this method provides the council with a materially accurate valuation of the surplus asset portfolio without the expense of having every minor asset in the portfolio valued.
Schools accounting	The Code specifies 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 of Practice also 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.

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.

The non-current assets of Foundation schools that convert to academy status are impaired to nil and an impairment charge is made against the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement. The impairment charge is then reserved out of the general fund and applied against the capital adjustment account (CAA) through the movement in reserves statement. This ensures that the taxpayer is not double charged for the same asset and is consistent with the statutory accounting regulations for charges against the general fund.

PFI and similar contracts

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 37 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 £53.8m for the Eco Park as at 31 March 2017 (£37.0m as at 31 March 2016).

Interests in other entities

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:

- 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. 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. The economic activity of this company has been incorporated into the group accounts.

- Halsey Garton Ltd – is a Local Authority Trading Company wholly owned by the council to make property investments. It is a holding company and has three subsidiaries; Halsey Garton Investments Ltd, Halsey Garton Developments Ltd and Halsey Garton Residential Ltd. During 2015/16 only the holding company and Halsey Garton Investments Ltd were active and trading and therefore only the economic activity of these companies has been incorporated into the group accounts.
- 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

Income and Expenditure Statement - 2015/16 Restatements

The 2015/16 figures in the I&E statements have been restated to take account of any organisational restructures that took place during 2016/17. This ensures the figures are produced on a consistent basis and year on year comparisons can be made.

2016/17 is the first year the Orbis joint operating budget with East Sussex County Council has been in operation. The joint budget funds shared business services (IT, HR, Finance, Procurement, Property Services and Business Operations) at each council. Each council also maintains some sovereign costs in each of these areas that is not funded by the joint budget.

The introduction of the joint budget is a fundamental change in service delivery rather than a restructure of services, therefore the 2015/16 figures have not been restated into the new service delivery model. It is felt that it would mislead users of the accounts if comparator figures were provided for costs which the joint budget would have hypothetically funded if it was operation in 2015/16. The figures in the Comprehensive Income & Expenditure Statement reflect the reality of the change in service delivery and comparisons between years can be made at the overall Business Services level.

Carrying value of assets not revalued in 2016/17

The council revalues its land & buildings assets on a 5 year rolling programme. This is permitted under the Code provided that the carrying value of the assets on the balance sheet is not materially different to the current value at the balance sheet date.

In consultation with the council's valuers, the council has determined that whilst there have been inflationary pressures in the market that would increase the value of assets valued at Depreciated Replacement Cost, such as schools, these increases would be mitigated by deprecation to the asset over the relevant period. This means that the values are unlikely to be materially different at the balance sheet date.

Note 3: 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 40.

The items in the council's Balance Sheet at 31 March 2017 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 £1.3m 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 £268.9m for the LGPS and £59.7m for the firefighters' pension fund. A 1 year increase in member life expectancy would potentially result in an increase in the pension liability of up to £134.5m for the LGPS and £15.4m for the firefighters' pension fund.
Debtors	At 31 March 2017, the council had a balance of £161.0m 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 £16.9m for doubtful debts was sufficient.	Debtors are monitored regularly and should general debtors rise in 2017/18 the council may consider raising its provision for bad and doubtful debt. This provision is reviewed quarterly.

Fair value measurements	When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets.	The authority uses a combination of valuation techniques to measure the fair value of some of its investment properties and surplus assets. These include comparable open market value, floor areas, tenancies, rent reviews, planning and all other ongoing management issues.
	Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example the investment properties and surplus asset valuations are done by expert firms).	Significant changes in any of the observable inputs would result in a significantly lower or higher fair value measurement for the investment properties and surplus assets

Note 4: Material items of income and expenditure

Included in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement (CIES) is a disposal of £113.0m related to the derecognition of academy schools (£74.4m in 2015/16). 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 Financing and Investment line in the CIES. During 2016/17, 25 schools transferred to academy status (14 in 2015/16).

Included in the CIES is also a £33m adjustment spread across all the service headings for the current service cost of pensions required under International Accounting Standard 19 compared to actual employer pension contributions paid.

During the year the council incurred the following capital expenditure as part of the long-term capital strategy:

- £108.8m in long-term loans to Halsey Garton Property Ltd. Included as a long term debtor on the balance sheet.
- £41.5m equity investment in Halsey Garton Property Ltd. Included as a long term investment on the balance sheet.

Note 5: Events after the balance sheet date

The statement of accounts will be authorised for issue by the chief finance officer in July 2017. 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.

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Note 6: Expenditure and Funding Analysis

2016/17	As reported for resource management in outturn report	Adjustments to arrive at the net amount chargeable to the General Fund	Net Expenditure Chargeable to the general fund	Adjustments between the funding and accounting basis (Note 6a)	Net expenditure in the Comprehensive Income & Expenditure Statement
	£000	£000	£000	£000	£000
Economic Growth	949		949	41	990
Strategic Leadership	907		907	73	980
Adult Social Care	381,943	383	382,326	2,916	385,242
Children's Service	103,090	1,228	104,318	1,816	106,134
Commissioning & Prevention	40,086	447	40,533	2,638	43,171
Schools and SEND	62,636	1,797	64,433	59,522	123,955
Delegated Schools Budget*	479	6,127	6,606	3,069	9,675
Community Partnership & Safety	2,368	2	2,370	90	2,460
Coroner	1,585		1,585	24	1,609
Cultural Services	9,087	-109	8,978	2,252	11,230
Customer Services	3,299		3,299	231	3,530
Directorate Support (Com)	855		855	73	928
Emergency Management	403	36	439	35	474
Magna Carta					
Surrey Fire & Rescue Service	32,824	-21	32,803	-2,249	30,554
Trading Standards	1,975	-95	1,880	226	2,106
Environment & Planning	80,378	1,003	81,381	3,829	85,210
Highways & Transport Services	43,713	-6,355	37,358	32,157	69,515
Public Health*		2,674	2,674	4	2,678
Central Income & Expenditure**	41,890	-64,795	-22,905	-18,298	-41,203
Communications	2,012	-77	1,935	99	2,034
Finance	2,206	-1,269	937		937
Human Resources & Org. Dev.	3,558	1,728	5,286	108	5,394
Information Management & Tech.	11,727	-1,908	9,819	2,952	12,771
Legal Services	3,824	-5	3,819	236	4,055
Democratic Services	4,364	26	4,390	137	4,527
Policy & Performance	1,500	118	1,618	-552	1,066
Procurement	787	-12	775	55	830
Property	16,821	-384	16,437	40,080	56,517
Orbis Joint Operating Budget	35,288	-3	35,285	3,445	38,730
Business Operations	-54	-25	-79	9	-70
	890,500	-59,489	831,011	135,018	966,029
Other income & expenditure	-872,479	73,098	-799,381	-14,628	-814,009
Surplus or deficit	18,021	13,609	31,630	120,390	152,020

Comparator information showing the 2015/16 Expenditure and Funding is below:

2015/16	As reported for resource management in outturn report	Adjustments to arrive at the net amount chargeable to the General Fund	Net Expenditure Chargeable to the general fund	Adjustments between the funding and accounting basis (Note 6a)	Net expenditure in the Comprehensive Income & Expenditure Statement
	£000	£000	£000	£000	£000
Economic Growth	1,179		1,179	49	1,228
Strategic Leadership	428		428	39	467
Adult Social Care	372,642	-2,091	370,551	4,649	375,200
Children's Service	93,095	-524	92,571	3,840	96,411
Commissioning & Prevention	32,996	811	33,807	3,299	37,106
Schools and SEND	59,768	-1,238	58,530	79,969	138,499
Delegated Schools Budget*		-4,670	-4,670	5,845	1,176
Community Partnership & Safety	2,771		2,771	137	2,908
Coroner	1,435		1,435	34	1,469
Cultural Services	9,256	223	9,479	1,633	11,111
Customer Services	3,284		3,284	333	3,617
Directorate Support (Com)	967		967	107	1,074
Emergency Management	471	47	518	51	569
Magna Carta	610		610	5	615
Surrey Fire & Rescue Service	34,541	-1,664	32,877	-1,001	31,876
Trading Standards	2,041	-37	2,004	334	2,338
Environment & Planning	80,601	1,069	81,670	3,859	85,528
Highways & Transport Services	43,529	-6,710	36,819	30,417	67,236
Public Health*	324	-12	312	15	327
Central Income & Expenditure**	53,190	-56,884	-3,694	-24,906	-28,600
Communications	1,940	-96	1,844	114	1,959
Finance	7,538	-1,577	5,961	609	6,571
Human Resources & Org. Dev.	7,896	548	8,444	521	8,965
Information Management & Tech.	24,771	-1,799	22,974	4,001	26,975
Legal Services	4,067		4,067	335	4,402
Democratic Services	4,315	-33	4,282	197	4,479
Policy & Performance	2,318	489	2,807	268	3,075
Procurement	3,065	-16	3,049	316	3,365
Property	26,485	-349	26,136	30,388	56,524
Business Operations	4,480	256	4,736	806	5,541
	880,003	-74,256	805,747	146,263	952,010
Other income & expenditure	-883,613	80,756	-802,857	19,110	-821,976
Surplus or deficit	-3,610	6,500	2,890	127,153	130,043

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General fund balance (including earmarked) reserves reconciliation

2015/16 £000		2016/17 £000
-195,188	Opening general fund balance (including earmarked reserves)	-192,298
2,890	Deficit on general fund	31,630
-192,298	**Closing general fund balance (including earmarked reserves)**	-160,668

*Delegated schools budget and Public Health expenditure is reported net of specific grants

** For Central Income and Expenditure the adjustment to arrive at the general fund position is required to get from the outturn position reported to Cabinet to a position that is compliant with the Code for financial accounting purposes. For example, interest payable is reported within Central Income & Expenditure in the outturn report but reported under 'Other Income & Expenditure' in the accounts.

Note 6a: Note to the Expenditure and Funding Analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
2016/17	£000	£000	£000	£000
Economic Growth		41		41
Strategic Leadership		69	4	73
Adult Social Care	-1,545	4,415	46	2,916
Children's Service	102	1,694	20	1,816
Commissioning & Prevention	685	1,848	105	2,638
Schools and SEND	54,555	2,206	2,761	59,522
Delegated Schools Budget	223	2,846		3,069
Community Partnership & Safety		90		90
Coroner		24		24
Cultural Services	1,050	1,142	60	2,252
Customer Services		230	1	231
Directorate Support (Com)		73		73
Emergency Management		35		35
Surrey Fire & Rescue Service	1,395	-3,648	4	-2,249
Trading Standards		226		226
Environment & Planning	3,108	726	-5	3,829
Highways & Transport Services	31,095	1,049	13	32,157
Public Health		5	-1	4
Central Income & Expenditure	-18,298			-18,298
Communications		98	1	99
Finance				
Human Resources & Org. Dev.		108		108
Information Management & Tech.	2,887	65		2,952
Legal Services		235	1	236
Democratic Services		137		137
Policy & Performance	-662	113	-3	-552
Procurement		55		55
Property	40,044	36		40,080
Orbis Joint Operating Budget		3,669	-224	3,445
Business Operations		9		9
Net cost of service	114,639	17,596	2,783	135,018
Other income & expenditure	-32,319	15,731	1,960	-14,628
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit	82,320	33,327	4,743	120,390

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Comparator information relating to the 2015/16 adjustments between accounting basis and funding basis under regulations is provided in the table below:

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
2015/16	£000	£000	£000	£000
Economic Growth		49		49
Strategic Leadership		39		39
Adult Social Care	-1,607	6,321	-65	4,649
Children's Service	927	2,888	25	3,840
Commissioning & Prevention	95	3,209	-5	3,299
Schools and SEND	76,928	3,071	-30	79,969
Delegated Schools Budget	197	7,694	-2,046	5,845
Community Partnership & Safety		137		137
Coroner		33		33
Cultural Services	24	1,588	21	1,633
Customer Services		332	1	333
Directorate Support (Com)		109	-2	107
Emergency Management		52		52
Magna Carta		5		5
Surrey Fire & Rescue Service	1,068	-2,067	-2	-1,001
Trading Standards		329	5	334
Environment & Planning	2,730	1,129		3,859
Highways & Transport Services	29,120	1,296		30,416
Public Health		15		15
Central Income & Expenditure	-24,906			-24,906
Communications		115		115
Finance		612	-3	609
Human Resources & Org. Dev.		523	-2	521
Information Management & Tech.	2,850	1,143	7	4,000
Legal Services		335		335
Democratic Services		197		197
Policy & Performance	44	224		268
Procurement		317	-1	316
Property	29,504	880	4	30,388
Business Operations		806	1	807
Net cost of service	116,974	31,381	-2,092	146,263
Other income & expenditure	-44,744	23,608	2,026	-19,110
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit	72,230	54,989	-66	127,153

Note 1: Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure –

- Capital grants are adjusted for income not chargeable under generally accepted accounting practices.
- Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year.
- The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note 2: Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure - the net interest on the defined benefit liability is charged to the CIES.

Note 3: Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Note 6b: Customer income - segmental analysis

The table below provides a breakdown of income received from external customers broken down by service segments.

2015/16 £000	Service	2016/17 £000
-16	Economic Growth	**-7**
-48,061	Adult Social Care	**-51,923**
-277	Children's Service	**-186**
-3,141	Commissioning & Prevention	**-3,678**
-32,307	Schools and SEND	**-34,462**
-17,034	Delegated Schools Budget	**-17,357**
-300	Community Partnership & Safety	**-327**
-8,178	Cultural Services	**-8,715**
-29	Customer Services	**-1**
-171	Directorate Support (Com)	**-174**
-2	Emergency Management	**-4**
-462	Surrey Fire & Rescue Service	**-438**
-1,178	Trading Standards	**-1,189**
-4,472	Environment & Planning	**-3,780**
-6,681	Highways & Transport Services	**-7,974**
-32	Communications	**-31**
-1,552	Finance	**-1,491**
-30	Human Resources & Org. Dev.	**-6**
26	Information Management & Tech.	**-45**
-323	Legal & Democratic Services	**-275**
-3,354	Property	**-2,180**
-1,382	Orbis Joint Operating Budget	**-3,606**
-128,956	**Total**	**-137,849**

Note 7: Income and expenditure analysed by nature

The council's income and expenditure is analysed as follows:

2015/16 £000	Expenditure	2016/17 £000
545,405	Employee benefits expenses	516,119
142,488	Staff expenditure at Voluntary Aided and Foundation schools	126,461
226,521	Depreciation, amortisation and impairment	230,073
963,185	Other service expenses	1,022,529
122,981	Interest payments	121,378
1,111	Precepts and levies	1,077
2,001,691	**Total expenditure**	**2,017,637**
	Income	
-977,339	Government grant and contributions	-891,341
-193,155	Fees, charges and other service income	-219,535
-1,723	Gain or loss on disposal of non-current assets	-14,725
-642,732	Income from council tax and business rates	-670,312
-56,699	Interest and investment income	-69,704
-1,871,648	**Total income**	**-1,865,617**
130,043	**Deficit on the provision of services**	**152,020**

Note 8: Adjustments between accounting basis and funding basis under regulations

This note sets out the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the 2015/16 financial year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2016/17	General Fund and Earmarked Reserves £000	Capital Receipts Reserve £000	Capital grant & contributions unapplied reserve £000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs (transferred to Pension Reserve)	-33,328		
Council tax and business rates (transfers to Collection Fund)	-1,962		
Holiday pay (transferred to the Accumulated Absences Reserve)	-2,778		
Financial Instruments (Financial Instrument Reserve)	18		
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):			
Charges for depreciation, impairment of non-current assets and de minimis expenditure	-90,367		
Revaluation losses on property, plant & equipment	-26,175		
Other movements in valuation on property, plant and equipment	310		
Movement on fair value on investment property	-1,000		
Amortisation of intangible assets	-870		
Disposal of academies	-112,969		
Revenue expenditure funded from capital under statute	-21,962		
Deferred Income in respect of PFI schemes	195		
Reversal of donated asset adjustment	68		
Net book value of non-current asset disposals	-21,298		
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	121,592		-121,592
Total Adjustments to the Revenue Resources	**-190,526**		**-121,592**
Adjustments between Revenue & Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	28,446	-28,446	
Transfer of non-current asset sale proceeds from revenue to the Deferred Capital Receipts Reserve	12,113		
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	24,339		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	5,238		
Total Adjustments between Revenue & Capital Resources	**70,136**	**-28,446**	
Adjustments to Capital Resources			
Application of capital grants to finance capital expenditure			94,047
Application of capital receipts to finance capital expenditure		364	
Total Adjustments to capital resources		**364**	**94,047**
Total Adjustments	**-120,390**	**-28,082**	**-27,545**

Comparator information relating to the 2015/16 adjustments between accounting basis and funding basis under regulations is provided in the table below:

2015/16 Restated	General Fund and Earmarked Reserves	Capital Receipts Reserve	Capital grant & contributions unapplied reserve
	£000	£000	£000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs (transferred to Pension Reserve)	-54,989		
Council tax and business rates (transfers to Collection Fund)	-2,026		
Holiday pay (transferred to the Accumulated Absences Reserve)	2,092		
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):			
Charges for depreciation, impairment of non-current assets and de minimis expenditure	-90,843		
Revaluation losses on property, plant & equipment	-32,183		
Other movements in valuation on property, plant and equipment	-190		
Movement on fair value on investment property	-4,255		
Amortisation of intangible assets	-700		
Disposal of academies	-74,406		
Revenue expenditure funded from capital under statute	-23,674		
Deferred Income in respect of PFI schemes	185		
Reversal of donated asset adjustment	224		
Net book value of disposals	-43,233		
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	113,101		-113,101
Total Adjustments to the Revenue Resources	**-210,897**		**-113,101**
Adjustments between Revenue & Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	44,844	-44,844	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	30,615		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	8,285		
Total Adjustments between Revenue & Capital Resources	**83,744**	**-44,844**	
Adjustments to Capital Resources			
Application of capital grants to finance capital expenditure			105,930
Total Adjustments to capital resources			**105,930**
Total Adjustments	**-127,153**	**-44,844**	**-7,171**

Note 9: 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 2016/17.

	Restated Balance at 31/03/15	Transfers In	Transfers Out	**Restated Balance at 31/03/16**	Transfers In	Transfers Out	**Balance at 31/03/17**
	£000	£000	£000	**£000**	£000	£000	**£000**
Schools Balances	**39,621**	9,275	-2,215	**46,681**	5,542	-4,898	**47,325**
Transfer of Schools Balances to Academies	**6,493**		-2,300	**4,193**		-4,193	
Investment Renewals	**9,983**	123	-1,260	**8,846**	1,550	-5,441	**4,955**
Equipment Replacement	**1,927**	1,880	-1,754	**2,053**	1,880	-3,264	**669**
Vehicle Replacement	**5,572**	1,091	-2,738	**3,925**	23	-3,948	
Budget Equalisation	**16,573**	8,182	-11,695	**13,063**	19,321	-6,187	**26,197**
Private Finance Initiative	**5,754**		-689	**5,065**		-673	**4,392**
Insurance	**10,597**	2,038	-692	**11,943**	1,756	-5,953	**7,746**
Eco Park Sinking Fund	**15,988**		-4,252	**11,736**		-7,333	**4,403**
Child Protection	**1,890**	493	-1,263	**1,120**		-1,000	**120**
Revenue Grants Unapplied	**18,267**	18,157	-18,267	**18,157**	13,089	-18,157	**13,089**
General Capital	**7,938**	553	-3,253	**5,238**	157	-131	**5,264**
Interest Rate	**1,000**			**1,000**			**1,000**
Economic Downturn	**4,239**	5,000		**9,239**			**9,239**
Revolving Investment & Infrastructure Fund	**20,605**	534		**21,139**		-10,000	**11,139**
Public Health	**2,512**	4,164	-4,002	**2,674**		-2,674	
Pension Stabilisation	**1,139**			**1,139**		-1,100	**39**
Business Rate Appeals	**1,258**			**1,258**			**1,258**
Economic Prosperity	**2,505**			**2,505**			**2,505**
	173,862	51,490	-54,380	**170,972**	43,318	-74,952	**139,338**

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

Investment 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.

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 £1.6m service budget carry forwards into 2017/18 and a further £11.8m which has been agreed to support the 2017/18 budget.

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 £4.2m 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.

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

Child protection reserve: This reserve is to provide funding for additional staffing costs as a result of the increased number of children subject to a child protection order.

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.

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 10: Other operating income and expenditure

Net Expenditure 2015/16 £000		Gross Expenditure 2016/17 £000	Income 2016/17 £000	**Net Expenditure 2016/17 £000**
1,111	Land Drainage Precept	1,077		**1,077**
-695	Miscellaneous Income			
262	Contributions from Trading Services (note 24)	28,911	-30,759	**-1,848**
106	Change in Provisions			
-1,722	Gain on disposal of non-current assets		-14,727	**-14,727**
-938		**29,988**	**-45,486**	**-15,498**

Note 11: 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.

2015/16 £000		**2016/17 £000**
26,146	Interest payable and similar charges	**23,581**
47,870	Net interest on the net defined benefit liability (Note 39)	**43,351**
-1,933	Interest receivable and similar income	**-6,505**
1,771	Income & expenditure in relation to investment properties	**-7,360**
74,406	Disposal charge for the derecognition of schools that transfer to Academy status	**112,967**
148,260		**166,034**

Note 12: Council tax and general grants & contributions

2015/16 £000			2016/17 £000
	Local taxation:		
594,858	- Council tax income	624,538	
47,874	- Business rate income	45,774	**670,312**
	Grants and contributions:		
168,714	- Formula grant	126,484	
44,742	- Non-ringfenced government grants	46,157	
113,101	- Capital grants and contributions	121,592	**294,233**
969,289			**964,545**

The formula grant figure for 2016/17 includes Revenue Support Grant and also top-up funding received through the Business Rate Retention Scheme.

Note 13: Property, plant & equipment

	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)							
Balance at 1 April 2016	1,687,640	68,098	883,414	6,273	40,275	118,482	2,804,182
Additions*	17,516	4,781	41,767			47,642	111,706
Donations		68					68
Revaluations recognised in the Revaluation Reserve	43,639						43,639
Disposals	-2,482	-1,275					-3,757
Derecognition - academies	-144,769						-144,769
Reclassifications	19,342	2,282	1,727			-23,351	
Assets reclassified to Intangible Assets						-345	-345
Other Movements in assets and valuation	715	13				-142	586
At 31 March 2017	**1,621,601**	**73,967**	**926,908**	**6,273**	**40,275**	**142,286**	**2,811,310**
Accumulated Depreciation and Impairment							
at 1 April 2016	-442,785	-42,102	-519,293		-6,986		-1,011,166
Depreciation charge	-36,023	-4,608	-37,203				-77,834
Depreciation written out to the Revaluation Reserve	25,104						25,104
Impairment losses recognised in the Revaluation Reserve	-2,316						-2,316
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-26,175						-26,175
Disposals	450	1,120					1,570
Derecognition - academies	31,800						31,800
Other Movements in Depreciation							
At 31 March 2017	**-449,945**	**-45,590**	**-556,496**		**-6,986**		**-1,059,017**
Net Book Value							
at 31 March 2016	**1,244,855**	**25,996**	**364,121**	**6,273**	**33,289**	**118,482**	**1,793,016**
at 31 March 2017	**1,171,656**	**28,377**	**370,412**	**6,273**	**33,289**	**142,286**	**1,752,293**

* These amounts include assets acquired under PFI schemes (see note 37 for additional details) and excludes £12.5m de-minimis capital expenditure and £24.8m revenue expenditure funded from capital under statute.

	Land and Buildings £000	Vehicle, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant & Equipment £000
Restated Cost (revalued)							
Balance at 1 April 2015	1,674,673	68,754	832,141	5,697	50,567	64,150	2,695,982
Additions*	36,179	5,411	51,358	486	4	78,253	171,691
Donations		224					224
Revaluations recognised in the Revaluation Reserve	60,434				9,727		70,161
Disposals	-11,026	-7,968			-5,348		-24,342
Derecognition - academies	-103,172						-103,172
Assets reclassified to Assets Held for Sale					-4,423	-261	-4,684
Reclassifications	32,017	1,677	-85	90	-10,252	-23,447	
Assets reclassified to Heritage Assets						-213	-213
Other Movements in assets and valuation	-1,465						-1,465
At 31 March 2016	**1,687,640**	**68,098**	**883,414**	**6,273**	**40,275**	**118,482**	**2,804,182**
Restated Accumulated Depreciation and Impairment							
at 1 April 2015	-440,643	-45,630	-483,989		-116		-970,378
Depreciation charge	-35,515	-4,439	-35,304				-75,258
Depreciation written out to the Revaluation Reserve	34,984						34,984
Impairment losses recognised in the Revaluation Reserve	-7,673				-4,844		-12,517
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-30,347				-2,026		-32,373
Disposals	5,988	7,967					13,955
Derecognition - academies	28,766						28,766
Other Movements in Depreciation	1,655						1,655
At 31 March 2016	**-442,785**	**-42,102**	**-519,293**		**-6,986**		**-1,011,166**
Net Book Value							
at 31 March 2015	**1,234,030**	**23,124**	**348,152**	**5,697**	**50,451**	**64,150**	**1,725,604**
at 31 March 2016	**1,244,855**	**25,996**	**364,121**	**6,273**	**33,289**	**118,482**	**1,793,016**

*These amounts have been restated as the accumulated depreciation for assets revalued in year had previously been written out on revaluation had been applied to the cost of the asset, rather than written out of the accumulated depreciation figure. This overstated both accumulated depreciation

and the cost of the asset. This has no impact on the net value of the assets and does not change the value of the assets presented on the balance sheet.

** These amounts include assets acquired under PFI schemes (see note 37 for additional details) and excludes £15.6m de-minimis capital expenditure and £26.3m revenue expenditure funded from capital under statute.

Capital commitments

At 31 March 2017, the council has entered into a contract for the acquisition/enhancement of Property, Plant & Equipment in 2017/18 and future years, budgeted to cost £7.6m (£10.2m as at 31 March 2016). The major commitments as at 31 March 2017 are:

Schools Basic Need Capital Projects,

- Reigate Parish Church School £2.4m
- Danetree Primary £2.1m
- Ashley Primary £1.6m
- St John The Baptist Catholic £1.5m

Revaluations

The council carries out a rolling programme that ensures that all Land and Buildings, except a small proportion of the portfolio for school's tied accommodation, required to be measured at fair value is revalued at least every five years. Valuations of land and buildings were carried out by Bruton Knowles, 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	615
Carried at current value	7,736
Carried at current value. Last revalued as at:	
31 March 2013	52,790
31 March 2014	220,551
31 March 2015	413,545
31 March 2016	314,447
31 March 2017	169,702
Total	**1,179,386**

Surplus assets are held at fair value and are excluded from the table above.

Impairment losses

During 2016/17 the council has recognised an impairment loss of £41.0m 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 £26.2m charged to the Comprehensive Income and Expenditure Statement and £2.3m offset from the balance in the revaluation reserve in relation to these assets. £12.5m 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.

Note 14: Investment properties

The council has several properties purchased for future service needs or for the purposes of economic development, 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 2017, 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:

2015/16 £000		2016/17 £000
3,307	Rental income from investment property	**4,218**
-823	Direct operating expenses arising from investment property	**-392**
2,484	**Net gain**	**3,826**
	Gain on sale of investment property	**4,534**
-4,255	Net loss on fair value adjustments	**-1,000**
-1,771	**Income & expenditure in relation to investment properties (Note 11)**	**7,360**

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

2015/16 £000		2016/17 £000	Offices £000	Retail £000	Leisure £000	Fair Value Hierarchy
30,850	Balance at start of the year	**62,850**	56,350	5,400	1,100	Level 2
36,255	Purchases					
	Disposal	**-7,800**	-7,800			
-4,255	Net loss/gain from fair value adjustments*	**-1,000**	-900	-150	50	
62,850	**Balance at end of the year**	**54,050**	47,650	5,250	1,150	Level 2

*the valuation of Investment Properties is based on prevailing market conditions and existing lease agreements as at 31 March 2017.

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The methodology used to determine fair value incorporates some estimation techniques based on floor areas, tenancy agreements, and local market conditions which mean the valuations are categorised as being level two in the fair value hierarchy (see Note 3 on page 41 for more information).

The revaluation exercise has resulted in an overall reduction in asset values of £1.0m. The majority of the assets have increased in value compared to the original purchase price and compared to the March 2016 valuation. There are however two exceptions; the property at Pixham Lane, Dorking has significantly reduced in value since the end of the tenant's lease draws closer and the valuation is not able to take into account the possibility of a further lease or alternative use and a reduction in value for the property at Staines High Street due to vacant upper floors and the impact of lower values in the town. Planning permission has been granted for a change of use to residential for these upper floors and this should contribute to improved values in the future.

The revaluation loss does not impact upon the general fund of the council – there are no adverse implications for the tax payer since financial adjustments of this nature are excluded from the calculation of the revenue requirements of the council by statute. The loss is unrealised and it would only become a realised loss if the council decided to sell the asset at the time of the revaluation and at the revaluation value. The council however is free to determine whether to continue to hold the asset or whether to sell at a time of its choosing and as this is the case it is unlikely that there will be a realised loss since assets will generally only be sold when it is beneficial to do so.

During 2016/17 the council sold one investment asset as noted in the movement table. This asset, in Epsom, had a fair (book) value of £7.8m on the balance sheet and was purchased at a total capital expenditure cost of £9.9m (including stamp duty). Following the agreement by the tenant to a new lease the asset increased in value and the council decided to sell the asset to realise the increase in value. The asset was sold for £12.3m securing a gain of £2.4m on the original cost of purchase and a gain of £4.5m against the fair value. This is shown in the financing and investment income line of the Income & Expenditure account.

Note 15: 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.

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 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.

Foundation

Foundation schools are owned by a trust and the local council have a significant control over the school 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 since 2014/15.

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 2016/17, 25 schools had transferred to academy status (10 Community Schools, 10 Voluntary Aided Schools, 4 Foundation Schools and 1 Voluntary Controlled). 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 16: Financial instruments

Categories of financial instruments

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

31/03/2016			31/03/2017	
Long-Term	Short-Term		**Long-Term**	**Short-Term**
£000	£000		**£000**	**£000**
		Investments		
26	65,000	Loans & receivables	**40**	
3,163		Available for sale financial assets	**46,695**	
3,190	65,000	**Total Investments**	**46,735**	
		Debtors		
28,694	126,383	Financial assets carried at contract amounts*	**124,547**	**113,398**
		Cash		
	-19,031	Cash & Cash Equivalents		**56,120**
		Borrowings		
-397,798	-30,876	Financial liabilities at amortised cost	**-397,786**	**-140,699**
		Other Long-term Liabilities		
-120,436	-7,623	PFI, finance lease liabilities and third party balances	**-124,194**	**-13,281**
		Creditors		
	-134,551	Financial liabilities carried at contract amounts		**-139,051**

- Short-term debtors excludes payments in advance and collection fund debtors

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Income, expense, gains & losses

2015/16 Financial Liabilities Measured at amortised cost £000	2015/16 Financial Assets Loans & receivables £000	2015/16 Total £000		2016/17 Financial Liabilities Measured at amortised cost £000	2016/17 Financial Assets Loans & receivables £000	2016/17 Total £000
27,233		27,233	Interest expense	**23,581**		**23,581**
			Net impairment on financial asset			
27,233		27,233	**Total expense in Surplus or Deficit on the Provision of Services**	**23,581**		**23,581**
	-1,057	-1,057	Interest Income		**-5,166**	**-5,166**
	-876	-876	Dividend Income		**-1,339**	**-1,339**
	-1,933	-1,933	**Total income in Surplus or Deficit on the Provision of Services**		**-6,505**	**-6,505**

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) prevailing discount 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 recognised;
- 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.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is derived from quoted prices in active markets for identical assets or liabilities
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability
- Level 3 – fair value is determined using unobservable inputs.

31/03/2016 Carrying value £000	31/03/2016 Fair Value £000	Financial liabilities	Fair Value Level	31/03/2017 Carrying value £000	31/03/2017 Fair Value £000
387,247	**491,633**	Long-term loans from PWLB	**2**	**387,247**	**577,344**
10,545	**16,245**	Long-term Commercial loans	**2**	**10,539**	**14,934**
6	**6**	Other long-term loans	**2**		
120,436	**120,436**	PFI and other lease liabilities	**2**	**124,194**	**124,194**
518,234	**628,320**			**521,980**	**716,472**

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 2017) arising from a commitment to pay interest to lenders above current market rates.

The fair value of short-term financial liabilities including short-term borrowing, creditors and the bank overdraft is assumed to approximate the carrying value.

31/03/2016				**31/03/2017**	
Carrying Amount £000	Fair Value £000	**Financial assets**	**Fair Value Level**	**Carrying Amount £000**	**Fair Value £000**
3,163	3,163	Shares in unlisted companies	**3**	**46,695**	**46,695**
28,421	28,421	Long-term loans to companies	**2**	**123,633**	**123,633**
299	299	Other long term loans	**2**	**913**	**913**
31,883	31,883			**171,241**	**171,241**

The shares in unlisted companies are not traded in an active market and there are no similar companies whose shares are traded that might provide comparable data, therefore the fair value is taken to be the cost less impairment i.e. the current nominal value of the shares.

For Halsey Garton Ltd the validity of using the nominal value as representative of the fair value is supported by an analysis of the value of the net assets at the underlying company plus the present value of projected future cash flows. This shows that the nominal value is not materially different to the fair value.

Movement of shares in unlisted companies

2015/16 £000	**Shares in unlisted companies**	2016/17 £000
403	Opening balance	**3,163**
2,992	Purchases	**43,539**
-232	Sales	**-7**
3,163	Closing balance	**46,695**

The fair value of all short-term financial assets including short-term investments and debtors is assumed approximate to the carrying value.

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-, (Fitch or equivalent rating), with the lowest available rating being applied to the criteria. Institutions outside the UK must domiciled in a country with 3 AAA sovereign ratings in order for any deposits to be viable.

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

Estimated maximum exposure to default		Amount	Historical experience of default	Adjustment for market conditions	**Estimated maximum exposure to default**
£000s		£000s	%	%	**£000s**
31/03/2016		31/03/17	31/03/17	31/03/17	**31/03/17**
	Deposits with banks and financial institutions	**(a)**	**(b)**	**(c)**	**(a x c)**
	Local Authorities		**0.00%**	**0.00%**	
	AAA rated counterparties	**21,802**	**0.00%**	**0.00%**	
	AA rated counterparties		**0.03%**	**0.03%**	
	A rated counterparties		**0.08%**	**0.08%**	
	Other counterparties				
7,443	Trade debtors*	**89,480**			**7,527**
7,443	**Total**	**111,282**			**7,527**

* 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 17).

The council does not generally allow credit for its trade debtors, such that £20.2m of the £168.9m balance (see note 17) is past its due date for payment. The past due amount can be analysed by age as follows:

31/03/2016		**31/03/2017**
£000		**£000**
11,168	Less than six months	**5,172**
5,846	Six months to one year	**3,560**
10,471	More than one year	**11,490**
27,486	**Total**	**20,223**

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:

31/03/2016		**31/03/2017**
£000		**£000**
-14,786	Less than one year	**107,206**
2,758	Between one and two years	**19,579**
55,216	Between two and five years	**53,923**
106,173	Between five and 15 years	**92,818**
409,670	More than 15 years	**404,792**
559,031		**678,318**

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

31/03/2016		**31/03/2017**
£000		**£000**
172,352	Less than one year	**174,022**

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.

If interest rates had been 1% higher (with all other variables constant) then the fair value of the PWLB loan portfolio would have been £92.4m lower.

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 £46.7m in eight companies. £44.1m of this is in the council's property investment trading company Halsey Garton Property Ltd. These companies are not quoted and the shares are held at book value as an estimate of fair value.

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.

Note 17: Short term debtors

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

31/03/2016 £000		**31/03/2017 £000**
37,559	Central government bodies	**20,964**
51,289	Other local authorities	**65,492**
3,242	NHS bodies	**3,512**
274	Public corporations and trading funds	**224**
76,534	Bodies external to general government (i.e. All other bodies)	**70,793**
168,897	**Total**	**160,985**
	Less:	
	Provision for doubtful debts	
-6,929	- Social services and health services	**-6,947**
-1,490	- Other services	**-580**
-8,398	- Local taxation arrears	**-8,748**
152,080		**144,710**

Note 18: Cash and cash equivalents

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

31/03/16 £000		**31/03/17 £000**
-22,510	General account	**34,318**
2,895	Money market funds	**21,802**
-19,615	**Total cash and cash equivalents**	**56,120**

Note 19: Assets held for sale

Assets held for sale (current) 31/03/2016 £000		**Assets held for sale (current) 31/03/2017 £000**
33,975	**Balance outstanding at 1 April**	**24,160**
	Assets newly classified as held for sale:	
4,684	- Property, plant and equipment	
18,347	Revaluation gains	
-32,846	Assets sold*	**-13,310**
24,160	**Balance outstanding at 31 March**	**10,850**

***** Of the total assets sold (i.e. £13.310m) in 2016/17, all relates to land and property included in the opening balance.

Note 20: Creditors

31/03/16 £000		**31/03/17 £000**
-15,647	Central government bodies	**-18,518**
-40,502	Other local authorities	**-28,992**
-11,683	NHS bodies	**-9,426**
-418	Public corporations and trading funds	**-629**
-113,835	Bodies external to general government (i.e. All other bodies)	**-133,197**
-182,084	**Total**	**-190,762**

Note 21: Provisions

2016/17	Business Rates Appeals Provision	Insurance liabilities	Equal pay	Fire fighters Pensions Fund	Redundancy	Other provisions	Total provisions
	£000	£000	£000	£000	£000	£000	**£000**
Balance at 1 April 2016	11,778	5,846	4,000	8,949	1,319	1,734	**33,626**
Additional provisions made in 2016/17		11			2,729	1,030	**3,770**
Amounts used in 2016/17	-3,709	-695			-1,030		**-5,434**
Unused amounts reversed in 2016/17			-2,000		-289	-216	**-2,505**
Balance at 31 March 2017	8,069	5,162	2,000	8,949	2,729	2,548	**29,457**
Current Provisions					2,729	1,548	**4,277**
Non-Current Provisions	8,069	5,162	2,000	8,949		1,000	**25,180**
	8,069	5,162	2,000	8,949	2,729	2,548	**29,457**
2015/16							
Balance at 1 April 2015	4,218	5,664	4,000	8,949	423	2,203	**25,457**
Additional provisions made in 2015/16	7,560	713			1,278	216	**9,767**
Amounts used in 2015/16					-248	-163	**-411**
Unused amounts reversed in 2015/16		-531			-134	-522	**-1,187**
Balance at 31 March 2016	11,778	5,846	4,000	8,949	1,319	1,734	**33,626**
Current Provisions					1,319	1,734	**3,053**
Non-Current Provisions	11,778	5,846	4,000	8,949			**30,573**
	11,778	5,846	4,000	8,949	1,319	1,734	**33,626**

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 2017. 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 2017 is £8,069m (£11.778m 2015/16).

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 and the last review took place during 2015/16. The council has an

earmarked reserve to cover any unknown future liabilities. In May 2016, a levy payment of £695,000 in relation to Municipal Mutual Insurance (MMI) was drawn down from this provision.

Unequal pay claim

The balance on the unequal pay provision is to fund any potential liability resulting from a potential breach of national minimum wage requirements for 'on call' payments to sleepover carers.

Firefighters 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 has been 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 the total potential liability of £8.949m was created in 2014/15.

Redundancy costs

As at 31 March 2017 there is a provision of £2.729m to cover the cost of redundancies agreed during 2016/17 but for which the expenditure will not be incurred until 2017/18.

Note 22: Usable reserves

Movements in the council's usable reserves are summarised in the table below (see Movement in Reserves Statement and notes 8 and 9 for detail).

	Balance at 1 April 2016	Transfers In	Transfers Out	**Balance at 31 March 2017**
Revenue				
General Fund Balance	21,326	5		**21,331**
Earmarked Reserves	170,972	40,644	-72,278	**139,338**
Total revenue reserves	192,298	40,649	-72,278	**160,669**
Capital				
Capital Grant Unapplied	49,491	124,364	-96,820	**77,035**
Capital Receipts Reserve	75,319	28,535	-453	**103,401**
Total capital reserves	124,810	152,899	-97,273	**180,436**
Total usable reserves	317,108	193,548	-169,551	**341,105**

Note 23: 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.

31/03/16 £000		31/03/17 £000
-731,042	Revaluation Reserve	-787,477
-283,232	Capital Adjustment Account	-144,494
	Deferred Capital Receipts	-12,113
37	Financial Instruments Adjustment Account	19
1,251,095	Pensions Reserve	1,560,191
-9,543	Collection Fund Adjustment Account	-7,581
7,653	Accumulated Absences Account	10,431
234,968		**618,976**

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.

31/03/16 £000		31/03/17 £000	31/03/17 £000
-629,277	**Balance at 1 April**		-731,042
-123,492	Upward revaluation of assets	-68,743	
12,517	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services	2,316	
	Asset reclassification	-624	
	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the Provision of Services		-67,051
9,210	Difference between fair value depreciation and historical cost depreciation	10,615	
	Amount written off to the Capital Adjustment Account		10,615
-731,042	**Balance at 31 March**		**-787,477**

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.

31/03/16 £000		31/03/17 £000	31/03/17 £000
-398,077	**Balance at 1 April**		**-283,232**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
72,258	Charges for depreciation and impairment of non-current assets	77,834	
15,585	De minimis capital expenditure	12,534	
32,373	Revaluation losses on Property, Plant and Equipment	26,175	
-190	Other movements in valuation on Property, Plant and Equipment	-1,036	
4,255	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	1,000	
700	Amortisation of intangible assets	870	
23,674	Revenue expenditure funded from capital under statute	21,962	
-185	Deferred Income	-195	
-224	Donated Assets credited to the Comprehensive Income and Expenditure Statement	-68	
117,639	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	134,268	
268,885			273,344
-9,210	Adjusting amounts written out of the Revaluation Reserve		-10,615
259,675	Net written out amount of the cost of non-current assets consumed in the year		262,729
	Capital financing applied in the year:		
	Use of the Capital Receipts Reserve to finance new capital expenditure		-364
	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing		
-105,930	Application of grants to capital financing from the Capital Grants Unapplied Account		-94,049
-30,615	Statutory provision for the financing of capital investment charged against the General Fund		-24,339
-8,285	Capital expenditure charged against the General Fund		-5,238
-283,232	**Balance at 31 March**		**-144,494**

Deferred Capital Receipts Account

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve. During 2016/17 the council recognised £12.1m in relation to a sale of land. (Nil balance 2015/16).

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 2017 is for to the loss of interest on a soft loans issued by the council in 2007/08 to Painshill Park Trust. During 2016/17 the balance on the account reduced by £18k in relation to loans to foster carers. (No movements 2015/16).

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.

31/03/16		**31/03/17**
£000		**£000**
1,496,438	**Balance at 1 April**	**1,251,095**
-300,332	Actuarial gains or losses on pensions assets and liabilities	**275,768**
133,265	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	**115,415**
-78,276	Employer's pensions contributions and direct payments to pensioners payable in the year	**-82,087**
1,251,095	**Balance at 31 March**	**1,560,191**

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.

31/03/16 £000		31/03/17 £000
-11,569	**Balance at 1 April**	**-9,543**
2,026	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	**1,962**
-9,543	**Balance at 31 March**	**-7,581**

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.

31/03/16 £000		31/03/17 £000	31/03/17 £000
9,745	**Balance at 1 April**		**7,653**
-9,745	Settlement or cancellation of accrual made at the end of the preceding year	-7,653	
7,653	Amounts accrued at the end of the current year	10,431	
-2,092	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		**2,778**
7,653	**Balance at 31 March**		**10,431**

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 2016/17

2015/16 £000		2016/17 £000
-29,261	Turnover	**-30,759**
28,019	Expenditure	**27,982**
-1,243	Surplus(-)	**-2,777**
1,504	Support services recharged to Expenditure of Continuing Operations	**929**
262	**Net deficit/(surplus) debited to other Operating Expenditure**	**-1,848**

Note 25: Pooled budgets

Section 75 of the National Health Service Act 2006 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 main section 75 arrangement in Surrey is the Better Care Fund which was set up during 2015/16.

Better Care Fund

The Better Care Fund was announced in June 2013 to drive the transformation of local Adult Social Services to ensure that people receive better and more integrated care and support. The fund is deployed locally on health and social care through pooled budget arrangements between the council and the local Clinical Commissioning Group (CCG).

The Council entered into seven pooled budget arrangements in 2015/16, each representing a different CCG and area within Surrey. Each of the pooled budgets represents a joint arrangement with an equal proportion of ownership. The fund is managed by a Local Joint Commissioning Group (LJCG) which is a partnership between the council, the local CCG and other key partners in the area involved in the provision of Adult Social Care.

The council acts as the 'host' authority for all these pooled budgets. The table below summarises the financial position of each pooled budget arrangement for 2016/17. The council recognises its share of income, expenditure, assets and liabilities in its accounts.

2016/17

	North West Surrey LJCG	Surrey Downs LJCG	Guildford & Waverley LJCG	East Surrey LJCG	Surrey Heath LJCG	North East Hampshire & Farnham LJCG	Windsor, Ascot & Maidenhead LJCG	Total
Funding provided to the pooled budget								
- Surrey County Council	-9,862	-8,200	-5,746	-5,018	-2,690	-1,243	-330	**-33,089**
- North West Surrey CCG	-9,862							**-9,862**
- Surrey Downs CCG		-8,200						**-8,200**
- Guildford & Waverley CCG			-5,746					**-5,746**
- East Surrey CCG				-5,018				**-5,018**
- Surrey Heath CCG					-2,690			**-2,690**
- North East Hampshire & Farnham CCG						-1,243		**-1,243**
- Windsor, Ascot & Maidenhead CCG							-330	**-330**
	-19,724	-16,400	-11,492	-10,035	-5,379	-2,486	-660	**-66,178**
Expenditure met from the pooled budget	20,010	16,445	11,417	9,987	5,244	2,474	655	**66,232**
Surplus or (deficit)	286	45	-75	-49	-136	-12	-5	**54**
SCC Share	143	23	-38	-24	-68	-6	-3	**27**

2015/16

	North West Surrey LJCG	Surrey Downs LJCG	Guildford & Waverley LJCG	East Surrey LJCG	Surrey Heath LJCG	North East Hampshire & Farnham LJCG	Windsor, Ascot & Maidenhead LJCG	Total
Funding provided to the pooled budget								
- Surrey County Council	-9,681	-8,024	-5,491	-4,594	-2,690	-1,272	-264	**-32,015**
- North West Surrey CCG	-9,681							**-9,681**
- Surrey Downs CCG		-8,024						**-8,024**
- Guildford & Waverley CCG			-5,491					**-5,491**
- East Surrey CCG				-4,594				**-4,594**
- Surrey Heath CCG					-2,960			**-2,690**
- North East Hampshire & Farnham CCG						-1,272		**-1,272**
- Windsor, Ascot & Maidenhead CCG							-264	**-264**
	-19,362	-16,047	-10,982	-9,188	-5,379	-2,544	-528	**-64,030**
Expenditure met from the pooled budget	19,415	16,064	10,867	9,183	5,407	2,542	519	**63,997**
Surplus or (deficit)	53	17	-115	-5	28	-2	-9	**-33**
SCC Share	27	9	-58	-3	14	-1	-5	**-17**

Orbis Joint Operating Budget

Orbis is a partnership between Surrey and East Sussex County Councils that aims to provide seamless and resilient business services to the public sector, creating a compelling alternative to other providers. This decision is built on the successful collaboration between Surrey and East Sussex County Councils, established through a joint procurement function in 2012, and the provision of transactional shared services since April 2013.

The Orbis Partnership incorporates the following services: Human Resources and Organisational Development, Property, IT, Procurement, Finance (including Internal Audit), and Business Operations (Shared Services).

	2016/17 £000
Funding provided to the pooled budget	
- Surrey County Council	-35,004
- East Sussex County Council	-15,038
	-50,042
Expenditure met from the pooled budget	50,042
Net surplus on the pooled budget	0

The council is also part of the following pooled budgets 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;
- East Surrey Local Transformation Investment Fund is a pooled budget with East Surrey CCG to transform the provision of Adult Social Care services in the east of the county.

The financial performance of these budgets has been excluded from this note to the account on the basis of materiality.

Note 26: Member allowances

2015/16 £000		**2016/17 £000**
1,884	Member Allowances*	**1,859**
42	Member Expenses	**80**
1,926		**1,939**

*Includes the employer's contributions for national insurance and superannuation £282k (2015/16, £281k).

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 - David McNulty	2016/17	230,719	4,289	235,008	34,146	269,154
	2015/16	216,242	4,053	220,295	32,004	252,299
Deputy Chief Executive and Strategic Director of Children, Schools & Families (1) - Julie Fisher	2016/17	157,934		157,934	23,833	181,767
	2015/16	154,753		154,753	23,034	177,787
Strategic Director of Children, Schools & Families (2) - Nick Wilson	2016/17					
	2015/16	48,750		48,750	7,215	55,965
Assistant Chief Executive (3)	2016/17					
	2015/16	59,543		59,543	8,812	68,355
Strategic Director, Adults Social Care & Public Health	2016/17	133,797		133,797	19,112	152,909
	2015/16	108,488		108,488	15,514	124,002
Strategic Director of Adult Social Care (4)	2016/17					
	2015/16	97,426		97,426	14,630	112,056
Strategic Director of Environment & Infrastructure	2016/17	136,649		136,649	20,165	156,814
	2015/16	144,883		144,883	21,383	166,266
Strategic Director, Communities (5)	2016/17	133,806		133,806	19,803	153,609
	2015/16	130,838		130,838	19,364	150,202
Director of Finance (6)	2016/17	119,372		119,372	17,667	137,040
	2015/16	118,335		118,335	17,514	135,849
Director of Legal, Democratic and Cultural Services	2016/17	112,990		112,990	16,722	129,712
	2015/16	106,400		106,400	15,747	122,147
Head of Fire & Rescue	2016/17	122,648		122,648	15,601	138,249
	2015/16	122,498		122,498	14,417	136,915
Total	**2016/17**	**1,147,915**	**4,289**	**1,152,204**	**167,049**	**1,319,253**
	2015/16	**1,308,156**	**4,053**	**1,312,209**	**189,634**	**1,501,843**

Notes to the Accounts

1. Julie Fisher moved from being the Strategic Director of Business Services in July 2015.
2. Nick Wilson left his post in July 2015. His annualised salary was £146,250. He received a severance payment of £60,940.
3. The Assistant Chief Executive left the post in September 2015. The annualised salary in 2015/16 was £119,086. They received a redundancy payment of £90,373.
4. The Strategic Director of Adults Social Care left their post in December 2015. The annualised salary in 2015/16 was £129,901.
5. This post was previously titled 'Strategic Director of Customers and Communities'.
6. The Director of Finance is the Director of Finance for the Orbis partnership and therefore her salary is paid from the Orbis joint operating budget. This means it is ultimately paid 70% by Surrey County Council and 30% by East Sussex County Council. The full salary is shown in the table for the purposes of this note. .

Note 28: Officers' remuneration

2015/16				2016/17		
Non school numbers	Schools numbers	Total numbers	**Remuneration (£)**	**Non-schools numbers**	**Schools numbers**	**Total numbers**
109	114	223	50,000 - 54,999	**127**	**98**	**225**
125	93	218	55,000 - 59,999	**131**	**81**	**212**
67	57	124	60,000 - 64,999	**67**	**65**	**132**
38	50	88	65,000 - 69,999	**45**	**45**	**90**
22	26	48	70,000 - 74,999	**24**	**26**	**50**
31	12	43	75,000 - 79,999	**25**	**13**	**38**
7	9	16	80,000 - 84,999	**13**	**11**	**24**
13	5	18	85,000 - 89,999	**10**	**5**	**15**
1	3	4	90,000 - 94,999	**4**	**4**	**8**
9	3	12	95,000 - 99,999	**5**	**1**	**6**
1	4	5	100,000 - 104,999	**1**	**4**	**5**
3		3	105,000 - 109,999	**1**		**1**
			110,000 - 114,999	**3**		**3**
3		3	115,000 - 119,999	**2**		**2**
2	1	3	120,000 - 124-999	**2**		**2**
			125,000 - 129,999	**1**		**1**
1		1	130,000 - 134,999	**2**		**2**
			135,000 - 139,999	**1**		**1**
1		1	140,000 - 144,999			
1		1	145,000 – 149,999			
1		1	150,000 – 154,999		**1**	**1**
			155,000 – 159,999	**2**		**2**
			160,000 – 164,999			
			165,000 – 169,999	**2**		**2**
1		1	220,000 - 224,999			
			235,000 – 239,999	**1**		**1**
436	377	813		**469**	**354**	**823**

The table above includes 89 staff whose salary costs are paid from the Orbis joint operating budget and are therefore split 70% Surrey County Council and 30% East Sussex County Council. There are an additional 28 staff at East Sussex County Council that earned over £50,000 in 2016/17, not included in the above table above, that were paid from the Orbis joint operating budget and are therefore also split 70% Surrey County Council and 30% East Sussex County Council.

The table also includes the full salary costs of 2 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:

2015/16					2016/17			
Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total cost of exit packages in each band	Exit package cost band (including special payments)	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Total cost of exit packages in each band***
			£000	**Cost (£)**				**£000**
48	33	81	435	0-20,000	**65**	**24**	**89**	**621**
8	5	13	338	20,001-40,000	**9**	**2**	**11**	**274**
2	1	3	145	40,001-60,000	**1**	**1**	**2**	**92**
1	1	2	126	60,001-80,000	**0**	**3**	**3**	**189**
1	1	2	170	80,001-100,000	**1**	**1**	**2**	**178**
0	1	1	131	100,001-150,000	**3**	**0**	**3**	**481**
				150,001 – 200,000				
				200,001 – 250,000				
60	42	102	1,346	**Total cost included in bandings**	**79**	**31**	**110**	**1,834**
31	8	30	1,319	ADD: Amounts provided for in CIES not included in bandings**	**141**	**25**	**166**	**2,649**
91	50	132	2,665	**Total cost included in CIES**	**220**	**56**	**276**	**4,483**

* Includes cost of pension fund strain where applicable

** Included in the total cost charged to the CIES are movements in the redundancy provision for redundancies that had been approved in 2016/17 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;

2015/16 £000		2016/17 £000
142	Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year	**142**
4	Fees payable to the external auditors for the certification of grant claims and returns for the year	**4**
146	**Total**	**146**

Note 31: Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, 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 2015. 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, plus allocations for private nursery providers.

Details of the deployment of DSG receivable for 2016/17 are shown on the table below:

Ref:	2015/16 £000s				2016/17 £000s
A	759,438	Final DSG 2016/17 before academy recoupment (DFE gross allocation)			**764,410**
A1	-10,630	Less deducted by DfE for high needs placing			**-7,899**
B	-211,660	Academy figure recouped			**-248,585**
C	537,148	Total DSG after academy recoupment			**507,926**
D	6,645	Brought forward from 2015/16			**6,568**
E1		Estimate of additional Early Years DSG			**2,165**
E2	-2,056	Carry forward agreed in advance			
	541,737				**516,659**
			Central	ISB*	
F	541,737	Agreed initial budgeted distribution	128,968	387,691	**516,659**
G1		In year adjustments – early years grant	-636		**-636**
G2	326	In year adjustments - other	-4,004	1,839	**-2,165**
H	542,063	**Final distribution**	124,328	389,530	**513,858**
I	-118,317	Actual central expenditure	-126,471		**-126,471**
J	-420,187	Actual Individual Schools Budget (ISB)		-390,959	**-390,959**
K	953	Local authority contribution	5,620	1,429	**7,049**
L	4,512	**Amount carried forward to 2017/18**	3,477		**3,477**
	2,056	Pre-agreed carry forward			
	6,568	**Total amount carried forward to 2017/18**	3,477		**3,477**

*Individual Schools Budget

The DSG above excludes an additional sum of £239,000 which the council expects to receive from the DfE in 2017/18 because the number of 2, 3 and 4 year olds in January 2017 is higher than in January 2016.

In 2016/17 the council overspent its high needs block by an estimated £3m. There is provision for this in the Schools Budget in 2017/18. The council has not applied DSG against this overspend in 2016/17 but has funded it temporarily from its own resources, pending receipt of DSG in 2017/18, which will then be applied to release the council tax resources currently funding the overspend.

Reference:

A Final DSG figure before deducting academy recoupment and funding for places directly funded by the Education Funding Agency (EFA), and before the January 2017 early years block adjustment (which will be made in summer 2017).

A1 Figure deducted by EFA 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 EFA.

B Figure recouped from the authority in 2016/17 by the DfE for the conversion of maintained schools into academies.
C Total DSG after EFA academy recoupment and place funding deductions
D Figure brought forward from 2015/16 as agreed with the EFA.
D1 Amount recovered by DfE in 2016/17 in respect of 2015/16 because early years free entitlement takeup in Jan 2016 was lower than in Jan 2015.
E1 The council set the 2016/17 budget on the basis of a higher estimate of early years DSG than was actually received in 2016/17.
E2 Any amounts which the authority decided after consultation with the Schools Forum, to carry forward rather than distribute in year (Zero for 2016/17).
F Initial budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
G1 In year adjustment to DSG: deduction of £636,000 for early years funding recovered by DfE in 2016/17 due to January 2017 pupil numbers were lower than January 2016.
G2 Changes to DSG after the initial distribution comprise adjustments to budgets for maintained and private early years providers, adjustments for permanently excluded pupils and reductions in de-delegated budgets central services as more schools convert to academies..
H Budgeted distribution of DSG as at the end of the financial year
I Actual amount of central expenditure items in 2016/17
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 the council which has the effect of substituting for DSG in 2016/17
L Amount carried forward to 2017/18. For Central expenditure this is the difference between the final budgeted distribution of DSG and actual expenditure, plus any council contribution. For individual schools budgets this is the difference between the amount allocated to individual providers and funding budgeted for that purpose.

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:

2015/16 £000			**2016/17 £000**
	General grants & contributions		
168,714	Formula Grant*		**126,484**
11,044	Private Finance Initiative Grant	11,044	
11,126	Education Services Grant	9,507	
9,808	The Implementation of the Care Act RSG Transitional Funding	11,902	
5,193	New Homes Bonus	4,033	
3,517	Dedicated Schools Grant (Non-ringfenced)	3,479	
4,054	Other Revenue Grants	6,192	**46,157**
55,722	Education Funding Agency (Schools Basic Need & Schools Maintenance)	71,113	
21,498	Highways Maintenance & Integrated Transport Grant	22,076	

11,184	Capital developer contributions	11,669	
10,920	Local Growth Deal	10,220	
5,162	Fire Transformation grant		
3,266	Capital contributions from schools	4,104	
401	Local Sustainable Transport Fund		
4,948	Other Capital grants & Contributions	2,410	**121,592**
326,557			**294,233**

*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:

2015/16 £000		**2016/17 £000**
	Credited to services	
534,034	Dedicated Schools Grant	**503,817**
33,406	Public Health Grant	**38,452**
18,147	Young People Learning Agency	**14,171**
18,323	Pupil Premium	**17,043**
11,882	Universal Infant Free School Meals	**11,357**
32,406	Other revenue grants	**27,403**
	Government "Capital" Grant applied to Revenue Expenditure Funded by Capital under Statute:	
858	- Community Capacity grant	**1,428**
1,726	- Capital Contributions from Schools	**1,343**
650,782	**Total**	**615,014**

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 2016/17 is shown in Note 26.

In addition, a survey of the related party interests of members in office during the 2016/17 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 43 bodies that members declared an interest in, with a total value of £90.8m. Of this, payments of £62.9m were to SITA UK, in which 1 member declared an interest, £18.6m to Surrey and Borders Partnership NHS Trust in which 1 member declared an interest, £1.9m to Ashford & St Peter's NHS Trust in which 2 members declared an interest, £1.0m to London Care Partnership in which 1 member declared an interest, £0.9m was to Surrey Wildlife Trust in which 3 members declared an interest, £0.9m to South East Surrey YMCA in which 1 member declared an interest.

Senior Officers are deemed to include all officers earning over £61,292. The council had transactions with 7 other bodies in which an interest was declared totalling £1.3m.

Entities controlled or significantly influenced by the council

The council wholly owns the following 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.
- Halsey Garton Ltd – is a property investment company. It is a holding company with three subsidiaries; Halsey Garton Investments Ltd, Halsey Garton Developments Ltd and Halsey Garton Residential Ltd. The latter two companies are not yet active or trading.

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

Group accounts for 2016/17 have been prepared and are presented on page 108 to show the combined financial performance and position of the county council, SE Business Services, Surrey Choices and Halsey Garton.

During 2016/17 the council purchased £41.5m of shares in Halsey Garton Ltd (£1.8m 2015/16) and provided long-terms of £108.8m (£5.3m 2015/16). It received £3.9m in interest payments from Halsey Garton (£0.2m 2015/16) and £0.3m in recharges from the company for services provided in year (£0.1m 2015/16).

The council purchased £13.9m of Adult Social Care services from Surrey Choices Ltd (£12.1m 2015/16). It received £3.3m in recharges from the company for services provided in year (£4.4m in 2015/16).

The council received £0.5m in recharges from SE Business Services for services provided in year (£0.4m in 2015/16).

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 2016/17 was £1.5m (£1.4m in 2015/16). This is split into the fee for providing pension administration services £1.2m (£1.1m in 2015/16) and £0.3m (£0.3m in 2015/16) for treasury management, accounting and managerial services.

During 2016/17 the council paid employer pension contributions of £68.4m (£65.0m in 2015/16).

Net amounts owed by the council to the fund as at 31 March 2017 were £1.5m (£2.7m at 31 March 2016).

Orbis

Orbis is a partnership between Surrey County Council, East Sussex County Council and Brighton & Hove City Council that aims to provide seamless and resilient business services to the public sector, creating a compelling alternative to other providers. During 2016/17 Surrey and East Sussex operated a joint operating budget to fund business services at each council. (See Note 25 for more information)

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:

2015/16 £000		2016/17 £000
	Capital Financing	
781,587	**Opening Capital Financing Requirement**	**903,841**
	Capital investment:	
187,424	Property, Plant and Equipment	123,786
36,255	Investment Properties	
1,642	Intangible Assets	2,410
23,674	Revenue Expenditure Funded from Capital Under Statute	21,962
18,273	Long Term Debtor	135,244
	Sources of Finance	
	Capital receipts	-363
-105,930	Government grants and other contributions	-94,049
-7,611	Sums set aside from revenue	-4,361
-673	Direct revenue contributions	-878
-30,615	Minimum Revenue Provision	-24,339
-185	PFI Deferred Income	-195
903,841	**Closing Capital Financing Requirement**	**1,063,058**
	Explanation of movements in year	
122,963	Increase in underlying need to borrowing (unsupported by government financial assistance)	166,994
-30,615	Minimum Revenue Provision	-24,339
30,091	Assets acquired under finance leases	16,757
-185	PFI Deferred Income	-195
122,254	**Increase / (decrease) in Capital Financing Requirement**	**159,217**

Note 35: Leases

Council as lessee

Operating leases:

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

31 March 2016 £000		31 March 2017 £000
	Operating lease liabilities - land and buildings	
1,860	Not later than one year	2,427
6,320	Later than one year but not later than five years	8,082
9,026	Later than five years	6,204
17,206		**16,713**

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

31 March 2016 £000	**Amounts charged to the Comprehensive Income and Expenditure Statement during the year Operating leases - land and buildings**	31 March 2017 £000
3,161	Minimum lease payments for the year	3,295

Council as lessor

Operating leases:

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

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

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

31 March 2016 £000		31 March 2017 £000
	Lease liabilities - land and buildings:	
4,563	Not later than one year	6,360
14,337	Later than one year but not later than five years	18,683
12,025	Later than five year	12,271
30,925		**37,314**

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 2016 Other liabilities				31 March 2017 Other liabilities		
Short term	Long-term	Total		**Short term**	**Long-term**	**Total**
£000	£000	£000		**£000**	**£000**	**£000**
7,564	118,324	125,888	PFI finance lease liabilities (Note 37)	13,222	121,858	**135,080**
	11,980	11,980	Deferred income liabilities (Note 37)		11,785	**11,785**
59	442	501	Other finance lease liabilities	59	383	**442**
	1,251,095	1,251,095	Pension liabilities (Note 39)		1,560,191	**1,560,191**
	1,670	1,670	Balances held for third parties		1,953	**1,953**
7,623	1,383,511	1,391,134		**13,281**	**1,696,170**	**1,709,451**

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 40.

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 13.

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:

2015/16				2016/17		
Land & Buildings £000	Infra-structure £000	Asset Under Construction £000		**Land & Buildings £000**	**Infra-structure £000**	**Asset Under Construction £000**
100,928	76,653	6,909	**Gross cost at 1 April**	100,928	76,653	37,000
		30,091	Additions			16,757
			Revaluations			
100,928	76,653	37,000	**Gross Cost at 31 March**	100,928	76,653	53,757
-20,812	-8,717		**Accumulated Depreciation and Impairment at 1 April**	-24,178	-10,634	
-3,366	-1,917		Depreciation charge for the year	-3,489	-1,917	
			Impairment losses recognised in the Surplus/Deficit on the Provision of Services			
-24,178	-10,634		**Accumulated Depreciation and Impairment at 31 March**	-27,667	-12,551	
80,116	67,936	6,909	**Net book Value at 1 April**	76,750	66,019	37,000
76,750	66,019	37,000	**Net book Value at 31 March**	73,261	64,102	53,757

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 2017 (based on 2016/17 prices, excluding any estimation of inflation and availability/performance deductions) are as follows:

Payable in 2016/17 £000		Payable in 2017/18 £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						
41,044	- Waste	46,671	205,338	141,004			**393,013**
16,465	- Anchor Trust	16,465	16,465				**32,930**
7,330	- Care UK	7,330	29,321	36,652			**73,303**
2,799	- Street Lighting	2,797	11,213	14,277	14,939	10,039	**53,265**
67,638		73,263	262,337	191,933	14,939	10,039	**552,511**
	Reimbursement of Capital Expenditure						
3,874	- Waste	9,308	61,912	46,253			**117,473**
1,813	- Anchor Trust	1,923	2,040				**3,963**
90	- Care UK	95	442	722			**1,259**
1,787	- Street Lighting*	1,896	8,872	14,905	21,168	16,570	**63,411**
7,564		13,222	73,266	61,880	21,168	16,570	**186,106**
	Interest						
569	- Waste	3,104	26,071	4,970			**34,145**
351	- Anchor Trust	241	124				**365**
82	- Care UK	77	245	137			**459**
6,614	- Street Lighting	6,506	24,715	26,818	19,893	6,991	**84,923**
7,616		9,928	51,155	31,925	19,893	6,991	**119,892**
82,818	**Total**	**96,413**	**386,758**	**285,738**	**56,000**	**33,600**	**858,509**

* 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:

2015/16 Finance Lease Liability £000	2015/16 Deferred Income Liability £000		**2016/17 Finance Lease Liability £000**	**2016/17 Deferred Income Liability £000**
-102,752	-12,165	**Balance outstanding at 1 April**	-125,888	-11,980
6,955		Payments during the year	7,564	
-30,091		Capital expenditure incurred in the year	-16,757	
	185	Amortisation of deferred income		195
-125,888	-11,980	**Balance outstanding at 31 March**	**-135,080**	**-11,785**

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

31 March 2016 £000		**31 March 2017 £000**
66	not later than one year	66
256	later than one year but not later than 5 years	252
651	later than 5 years	588
972		**906**

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 2016/17, the council paid £46.7m to teachers' pensions in respect of retirement benefits, representing 16.5% of pensionable pay. The figures for 2015/16 were £49.1m 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 2016/17 the council paid £355,461 to NHS pensions representing 14.3% of pensionable pay (2015/16, £370,810).

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	
	2015/16 £000	**2016/17 £000**	2015/16 £000	**2016/17 £000**
Comprehensive Income & Expenditure Statement				
Cost of Services:				
- current service cost	87,093	**76,788**	10,800	**9,700**
- past service cost	-301	**-1,477**		
- (gain)/loss on settlements	-12,197	**-12,947**		
Financing & Investment Income & Expenditure				
- net interest on the net defined benefit liability	29,170	**25,251**	18,700	**18,100**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	103,765	**87,615**	29,500	**27,800**
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)	32,927	**196,576**		
- actuarial gains and losses arising on changes in demographic assumptions		**30,922**	-1,500	**-3,200**
- actuarial gains and losses arising on changes in financial assumptions	-223,972	**-426,393**	-55,400	**-101,100**
- other experience	-30,187	**27,427**	-22,200	
Total remeasurement of the net defined benefit liability	-221,232	**-171,468**	-79,100	**-104,300**
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	-117,467	**-83,853**	-49,600	**-76,500**
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	-103,765	**-87,615**	-29,500	**-27,800**
Actual amount charged against the General Fund Balance for pensions in the year:				
- employers' contributions to the scheme/ retirement benefits paid direct to pensioners	64,891	**68,390**	13,3859	**13,697**

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	
	2015/16 £000	**2016/17 £000**	2015/16 £000	**2016/17 £000**
Present value of the defined benefit obligation	-2,287,583	**-2,730,828**	-518,310	**-636,713**
Fair value of plan assets	1,554,797	**1,807,348**		
Net liability arising from defined benefit obligation	-732,786	**-923,480**	-518,310	**-636,713**

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	
	2015/16 £000	**2016/17 £000**	2015/16 £000	**2016/17 £000**
Opening Balance at 1 April	-2,436,780	**-2,287,583**	-581,295	**-518,310**
Current service cost	-87,093	**-76,788**	-10,800	**-9,700**
Interest cost	-78,135	**-79,697**	-18,700	**-18,100**
Contributions by scheme participants	-18,992	**-19,422**	-2,500	**-2,400**
Remeasurements:				
- Actuarial gains and losses arising on changes in demographic assumptions		**30,922**	1,500	**-3,200**
- Actuarial gains and losses arising on changes in financial assumptions	223,972	**-426,393**	55,400	**-101,100**
- Other experience	30,187	**27,427**	22,200	
Pensions and lump sum expenditure			19,700	**15,200**
Benefits paid	64,049	**72,571**		
Past service costs (including curtailments)	301	**1,477**		
Settlements	17,146	**27,781**		
Employer contributions adjustment*	-2,238	**-1,123**	-3,815	897
Closing balance at 31 March	-2,287,583	**-2,730,828**	-518,310	**-636,713**

Curtailments include pension fund strain contributions to compensate the pension fund for the loss of contributions from staff that retire early and added years costs for staff that have increased years of service.

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

	Local Government Pension Scheme		Firefighters' pension scheme	
	2015/16 £000	**2016/17 £000**	2015/16 £000	**2016/17 £000**
Opening fair value of scheme assets at 1 April	1,521,637	**1,554,797**		
Interest income	48,965	**54,446**		
Remeasurement:				
Return on assets excluding amounts included in net interest	-32,927	**196,576**		
Employer Contributions	64,890	**68,389**		
Employer contributions adjustment*	2,238	**1,123**		
Contributions by scheme participants	18,992	**19,422**		
Benefits paid	-64,049	**-72,571**		
Settlements	-4,949	**-14,834**		
Closing fair value of scheme assets at 31 March	1,554,797	**1,807,348**		

* 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 £1,560m 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 2016.

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	
	2015/16	**2016/17**	2015/16	**2016/17**
Mortality assumptions:				
- longevity at 65 for current pensioners (60 for firefighters):				
- Men	22.5 years	22.5 years	29.7 years	30.2 years
- Women	24.6 years	24.6 years	31.6 years	31.7 years
- longevity at 65 for future pensioners (60 for firefighters):				
- Men	24.5 years	24.1 years	31.2 years	31.6 years
- Women	26.9 years	26.4 years	33.2 years	33.2 years
Rate of inflation	3.2%	3.4%	3.2%	3.4%
Rate of increase in salaries	3.7%	2.7%	3.2%	3.4%
Rate of increase in pensions	2.2%	2.4%	2.2%	2.4%
Rate for discounting scheme liabilities	3.5%	2.6%	3.5%	2.6%

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%	268,933	9%	59,700
1 year increase in member life expectancy*	3-5%	Up to 134,495	3%	20,900
0.5% increase in the salary increase rate	1%	37,052	1%	9,000
0.5% increase in the pension increase rate	8%	228,454	8%	50,700

*the cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

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Investment assets

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

31-Mar-16 Quoted prices in active markets £000			**31-Mar-17 Quoted prices in active markets £000**	
		Quoted prices in active markets		
		Equity securities		
124,895	8%	Consumer	146,628	8%
95,048	6%	Manufacturing	132,917	7%
43,682	3%	Energy & utilities	72,865	4%
111,119	7%	Financial institutions	127,856	7%
54,799	4%	Health & care	48,295	3%
84,203	5%	Information technology	101,795	6%
2,288	0%	Other	3,681	0%
516,034			**634,037**	
		Debt securities		
66,512	4%	Corporate bonds (investment grade)	62,742	3%
4,127	0%	Corporate bonds (non-investment grade)	3,961	0%
	0%	UK government	3,682	0%
2,075	1%	Other	8,284	0%
72,714			**78,669**	
		Real estate		
93,827	6%	UK property	102,765	6%
12,191	1%	Overseas property	668	0%
106,018			**103,433**	
		Investment funds & unit trusts		
404,728	26%	Equities	501,182	28%
166,833	11%	Bonds	197,558	11%
192,578	12%	Other		0%
764,139			**698,740**	
		Derivatives		
6	0%	Interest rate	-54	0%
-9,372	-1%	Foreign exchange	2,562	0%
-9,366			**2,508**	
43,408	3%	Cash & cash equivalents	**214,104**	**12%**
1,492,947	96%	Sub-total	**1,731,491**	**96%**
		Quoted prices in non-active markets		
61,849	4%		**75,856**	**4%**
1,554,796	100%	**Total**	**1,807,347**	**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 2016 and the next review will take place during 2018/19 with a valuation date of 31 March 2019.

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 £66.90m to the LGPS in 2017/18.

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.

Local Government Pension Scheme

2015/16			**2016/17**	
Liability split (%)	Weighted average duration (years)		**Liability split (%)**	**Weighted average duration (years)**
50.6	24.0	Active members	41.5	23.3
18.6	23.1	Deferred members	24.5	22.6
30.8	11.3	Pensioner members	34.0	11.1
100.0	**18.5**	**Total**	**100.0**	**17.9**

Firefighters' Pension Scheme

2015/16 Liability split (%)	2015/16 Weighted average duration (years)		2016/17 Liability split (%)	2016/17 Weighted average duration (years)
38.0	24.5	Active members	42.5	24.8
2.6	26.5	Deferred members	2.9	26.6
59.4	12.0	Pensioner members	54.6	12.0
100.0	17.1	**Total**	**100.0**	**17.9**

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 2017 the council had the following contingent liabilities:

The council embarked upon a PFI for waste disposal in 1999. By the end of 2016/17 £148.1m 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 (£700,000) has been included as a provision. 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.

The council recognises a contingent liability for a legal claim following a procurement process undertaken in 2016/17. The legal claim has been received and is currently being assessed by legal counsel and it is anticipated the likelihood of outflow of economic benefit to satisfy the obligation at this stage is only possible. The value of a potential liability is not reliably quantifiable at this stage of the legal proceedings. In the event of a liability arising in the future, this will be shared amongst the organisations party to the procurement exercise, including six Clinical Commissioning Groups across Surrey, Surrey County Council and NHS England.

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

2015/16 £000		2016/17 £000
-133,265	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	**-115,415**
78,276	Employer's pensions contributions and direct payments to pensioners payable in the year	**82,087**
185	Deferred Income in respect of PFI schemes	**195**
-75,258	Charges for depreciation & impairment of non-current assets	**-77,833**
-700	Amortisation of intangible assets	**-870**
-47,957	Revaluation losses on property, plant & equipment	**-38,403**
-4,255	Change in fair value of investment properties	**-1,000**
-74,406	Disposals of academies	**-112,975**
-8,170	Contributions to provisions	**4,169**
1,722	Net gain/loss on sale disposal of property, plant & equipment	**14,727**
	Net gain/loss on sale disposal of investment property	**4,534**
3,155	Movement in creditors	**-5,520**
-859	Movement in third party balances	**-283**
259	Movement in inventories	**28**
32,870	Movement in debtors	**-19,484**
2,092	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	**-2,778**
224	Donated asset adjustment	**68**
59	Finance lease repayment	**59**
-33	Movement in Capital Receipts in Advance	
-226,061		**-268,694**

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

2015/16 £000		2016/17 £000
157,333	Purchase of Property, Plant & Equipment	**107,029**
36,255	Purchase of Investment Property	
1,642	Purchase of Intangible Assets	**2,410**
23,674	Revenue Expenditure Funded from Capital Under Statute	**21,962**
218,904		**131,401**

Note 43: Prior period adjustments

This note summarises an adjustment made to the Fire & Rescue Services 2015/16 comparators in these accounts from the figures published in the 2015/16 Statement of Accounts. The adjustment arises from the published accounts including some Firefighter Pension Scheme income and expenditure. These transactions should be excluded from the county council accounts and reported separately in the Firefighter Pension Fund Accounts (page 124). The net position was correct but gross income and expenditure were overstated by £19.8m.

The table below reconciles the Fire Services figure reported in the 2015/16 Statement of Accounts to the 2015/16 comparator for Fire & Rescue Services in the 2016/17 Statement of Accounts. There is an additional adjustment of £10m for the change in the presentation of the Comprehensive Income & Expenditure Statement from a SERCOP total cost basis to one based on internal reporting structures. This means that in the original 2015/16 figures the cost of back office functions such as IT, HR, Finance and Property had been apportioned to front line services such as Fire. Under the new presentation requirements the back office functions are reported in their own right and therefore an adjustment has been made to remove those costs.

Comprehensive Income and Expenditure Statement

Fire & Rescue Services

	Gross Expenditure £000	Income £000	Net Expenditure £000
Originally stated 2015/16	63,976	-22,037	41,939
Adjustment for Fire Pension transactions	-19,760	19,760	
Adjustment for Income & Expenditure Statement presentational changes	-10,001	-63	-10,064
Restated 2015/16	34,215	-2,340	31,875

Cost of Services – continuing operations

	Gross Expenditure £000	Income £000	Net Expenditure £000
Originally stated 2015/16	1,785,434	-833,424	952,010
Adjustment for Fire Pension transactions	-19,760	19,760	
Restated 2015/16	1,765,674	-813,664	952,010

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, Surrey Choices Ltd and Halsey Garton Ltd have been consolidated.

Halsey Garton Ltd has three subsidiaries, of which only one was active and trading as at 31 March 2017. The economic activities and financial position of the Halsey Garton Group is included within these group accounts.

The group accounts are presented in addition to the council's 'single entity' financial statements and comprise:

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

These statements (*the purposes of which are explained on page 5*), 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 Comprehensive Income & Expenditure Statement

Restated year ended 31 March 2016				Year ended 31 March 2017		
Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	**Net Expenditure £000**
1,288	-61	**1,227**	Economic Growth	1,067	-77	**990**
467		**467**	Strategic Leadership	980		**980**
438,344	-59,799	**378,545**	Adult Social Care	456,335	-70,435	**385,900**
106,653	-10,242	**96,411**	Children's Services	117,361	-11,227	**106,134**
84,367	-47,261	**37,106**	Commissioning & Prevention	90,271	-47,100	**43,171**
207,154	-68,655	**138,499**	Schools & SEND	193,885	-69,929	**123,956**
509,937	-508,762	**1,175**	Delegated Schools Budget	481,266	-471,591	**9,675**
4,801	-1,894	**2,907**	Community Partnership & Safety	2,824	-364	**2,460**
1,469		**1,469**	Coroner	1,609		**1,609**
24,024	-12,913	**11,111**	Cultural Services	24,809	-13,579	**11,230**
3,796	-179	**3,617**	Customer Services	3,689	-159	**3,530**
1,245	-171	**1,074**	Directorate Support (Com)	1,107	-179	**928**
596	-26	**570**	Emergency Management	588	-114	**474**
836	-220	**616**	Magna Carta			
34,404	-2,973	**31,431**	Surrey Fire & Rescue Service	32,562	-2,464	**30,098**
3,964	-1,626	**2,338**	Trading Standards	3,913	-1,807	**2,106**
95,588	-10,060	**85,528**	Environment & Planning	93,984	-8,774	**85,210**
75,637	-7,760	**67,857**	Highways & Transport Services	79,143	-7,663	**71,480**
33,806	-33,479	**327**	Public Health	41,164	-38,486	**2,678**
-3,599	-25,000	**-28,599**	Central Income & Expenditure	-10,592	-30,611	**-41,203**
2,016	-57	**1,959**	Communications	2,065	-31	**2,034**
8,725	-2,153	**6,572**	Finance	1,155	-218	**937**
8,535	-192	**8,343**	Human Resources & Org. Dev.	3,789	-360	**3,429**
28,205	-1,237	**26,968**	Information Management & Tech.	14,225	-1,530	**12,695**
4,912	-510	**4,402**	Legal Services	4,602	-547	**4,055**
4,758	-279	**4,479**	Democratic Services	4,726	-199	**4,527**
3,697	-621	**3,076**	Policy & Performance	1,729	-663	**1,066**
3,466	-102	**3,364**	Procurement	826	4	**830**
66,292	-9,768	**56,524**	Property	63,085	-6,568	**56,517**
			Orbis joint operating budget	38,850	-120	**38,730**
10,757	-5,215	**5,542**	Business Operations	-71		**-71**
1,766,140	**-811,235**	**954,905**	**Cost of Services - continuing operations**	**1,750,946**	**-784,791**	**966,155**

Group Comprehensive Income & Expenditure Statement

Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	**Net Expenditure £000**
1,766,140	**-811,235**	**954,905**	**Cost of Services - continuing operations**	**1,750,946**	**-784,791**	**966,155**
31,056	-31,994	**-938**	Other Operating Income & Expenditure	29,988	-45,486	**-15,498**
205,391	-56,626	**148,765**	Financing & Investment Income & Expenditure	243,651	-70,919	**172,732**
	-642,732	**-642,732**	Local Taxation		-670,312	**-670,312**
	-326,557	**-326,557**	General grants & contributions		-294,233	**-294,233**
2,002,587	**-1,869,144**	**133,443**	**Deficit on Provision of Services**	**2,024,585**	**-1,865,741**	**158,844**
		17	Tax expense of subsidiaries			**296**
		133,460	**Group deficit**			**159,140**
		-111,165	(Surplus) or deficit on revaluation of non-current assets			**-67,777**
		-301,181	Remeasurement of the net defined benefit liability			**276,204**
		-412,346	**Other Comprehensive Income & Expenditure**			**208,427**
		-278,886	**Total Comprehensive Income & Expenditure**			**367,567**

Group Movement in Reserves Statement

2016/17	General Fund and Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Profit and Loss Reserve £000	Pension Reserve of Subsidiary £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2016	**-192,298**	**-75,319**	**-49,491**	**1,808**	**1,069**	**-314,231**	**234,968**	**-79,263**
(Surplus) or deficit on provision of services (accounting basis)	152,020			**9,263**		**161,283**		**161,283**
Other comprehensive income & expenditure					**650**	**650**	207,991	**208,641**
Total comprehensive income & expenditure	**152,020**			**9,263**	**650**	**161,933**	**207,991**	**369,924**
Adjustments between accounting basis & funding basis under regulations	-120,390	-28,082	-27,545			**-176,017**	176,017	
Increase/decrease in year	**31,630**	**-28,082**	**-27,545**	**9,263**	**650**	**-14,084**	**384,008**	**369,924**
Balance at 31 March 2017	**-160,668**	**-103,401**	**-77,036**	**11,071**	**1,719**	**-328,315**	**618,976**	**290,661**

2015/16	General Fund and Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Profit and Loss Reserve £000	Pension Reserve of Subsidiary £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2015	**-195,188**	**-30,475**	**-42,320**	**7**	**1,573**	**-266,9403**	**467,297**	**200,894**
(Surplus) or deficit on provision of services (accounting basis)	130,043			**1,801**		**131,844**		**131,844**
Other comprehensive income & expenditure					**-504**	**-504**	-411,497	**-411,497**
Total comprehensive income & expenditure	**130,043**			**1,801**	**-504**	**131,340**	**-411,497**	**-280,157**
Adjustments between accounting basis & funding basis under regulations	-127,153	-44,844	-7,171			**-179,168**	179,168	
Increase/decrease in year	**2,890**	**-44,844**	**-7,171**	**1,801**	**-504**	**-47,828**	**-232,329**	**-280,157**
Balance at 31 March 2016	**-192,298**	**-75,319**	**-49,491**	**1,808**	**1,069**	**-314,231**	**234,968**	**-79,263**

Group Balance Sheet

As at 31.03.2016 £000		Note:	As at 31.03.2017 £000
1,793,713	Property, plant & equipment		1,752,712
1,024	Heritage assets		1,024
73,541	Investment property	5	209,425
5,477	Intangible assets		7,016
647	Long term investments	6	2,653
16,691	Long term debtors	6	3,722
1,891,093	**Long term assets**		**1,976,552**
	Short Term:		
65,650	Investments		
836	Intangible assets		785
24,160	Assets held for sale		10,850
1,369	Inventories		1,397
151,177	Short term debtors		144,472
	Cash & cash equivalents		58,691
596	Deferred tax liability		
243,788	**Current Assets**		**216,195**
	Short Term:		
-18,105	Cash & cash equivalents		
-30,876	Borrowing		-140,699
-183,534	Creditors		-195,041
-3,053	Provisions		-4,277
-142	Revenue grants receipts in advance		-91
-281	Capital grants receipts in advance		-9,152
-7,623	Other current liabilities		-13,281
-90	Current tax liability		
-243,704	**Current liabilities**		**-362,541**
-30,573	Provisions		-25,180
-397,798	Long term borrowing		-397,786
-1,383,543	Other long term liabilities		-1,697,901
-1,811,914	**Long term liabilities**		**-2,120,867**
79,263	**Net assets/liabilities(-)**		**-290,661**
-314,231	Usable reserves		-328,315
234,968	Unusable reserves		618,976
-79,263	**Total Reserves**		**290,661**

Group Cash Flow Statement

2015/16 £000		2016/17 £000
133,443	Net surplus (-) / deficit on the provision of services	158,844
-238,285	Adjustments to net surplus / deficit on the provision of services for non-cash movements	-278,760
-23,674	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities	-21,962
-128,516	**Net cash flows from operating activities**	**-141,878**
229,555	Purchase of property, plant & equipment, and investment property	283,949
-44,955	Proceeds from the sale of property, plant & equipment	-28,446
180,023	Payments for short-term and long-term investments	-
-222,088	Receipts of short-term and long-term investments	-65,000
13,465	Other receipts & expenditure from investing activities	-23,174
156,000	**Net cash flows from investing activities**	**167,329**
6,955	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	7,564
51,154	Payments for short-term and long-term borrowing	166,589
-49,450	Receipts of short-term and long-term borrowing	-276,400
8,659	**Net cash flows from financing activities**	**-102,247**
36,143	**Net increase (-) / decrease in cash & cash equivalents**	-76,796
-18,038	Cash & cash equivalents at the beginning of the reporting period	18,105
18,105	Cash & cash equivalents at the end of the reporting period	**58,691**

The cash flows from operating activities in 2016/17 include interest received of £5.1m (2015/16, £1.2m) and interest paid of £23.6m (2015/16, £27.2m).

Note 1: General

The Group Accounts should be read in conjunction with the Surrey County Council single entity accounts on pages 20 to 107. 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, Surrey Choices Ltd and Halsey Garton Ltd which are consolidated into these accounts. The table over the page provides information on the nature of, and risks associated with, each company.

- S.E. Business Services Ltd – Provides business services such as IT data storage and Fire support services.
- Surrey Choices Ltd - The company delivers day services and community support options for people with disabilities and older people.
- Halsey Garton Ltd – is a property investment company. It acts as a holding company for three subsidiaries; Halsey Garton Investments Ltd, Halsey Garton Developments Ltd and Halsey Garton Residential Ltd. At 31/03/2017 only the holding company and Halsey Garton Investments Ltd were active and trading and therefore only the economic activity of these companies has been incorporated into the group accounts.

None of the 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.

The overall impact of the companies on the financial performance, financial position and cash flows of the group is relatively low. Compared to the single entity Surrey County Council accounts the overall deficit on the Comprehensive Income and Expenditure Statement increased by £7.5m, the net liability increased by £12.8m and the net increase in cash increased by an additional £1.1m.

However, there are some significant differences between classifications of assets in the balance sheet and in the headings on the cash flow statement. These differences result from the significant capital investment the council has made in investment property during 2016/17 through its property investment company Halsey Garton Ltd. These investments have been funded by the council providing long-terms loans and equity investments to Halsey Garton, which is why these headings have increased significantly in the single entity accounts. When the group accounts are consolidated these balances are removed and the additional investment properties purchased by Halsey Garton are added into the group accounts as investment properties on the balance sheet.

The main risk for the county council associated with the investment in each subsidiary is as follows:

S.E Business Services Ltd – The council has provided parental guarantees to two IT clients that should the company not be able to fulfil the terms of the contract the council will be obliged to provide the required service.

Surrey Choices Ltd – The company provides some services that are part of the council's statutory duties for Adult Social Care, if the company was not be able to fulfil these duties the council would be required to.

Halsey Garton Ltd – As a property investment company, the company is exposed to risk in market movements in terms of the capital value of properties and in the level of income that can be generated through rent charges.

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.

Note 4: Material Items of income & expenditure

During 2016/17 the group purchased the following material assets:

- £28.1m retail park investment property
- £21.1m office building investment property
- £20.0m retail building investment property

Note 5: Investment properties

The group has a portfolio of properties purchased for future service needs, for the purposes of economic development or as part of a long-term capital strategy to generate investment returns. These properties are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2017, 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:

2015/16 £000		**2016/17 £000**
3,591	Rental income from investment property	**9,554**
-908	Direct operating expenses arising from investment property	**-917**
2,683	**Net gain**	**8,637**
	Gain on sale of investment property	**4,534**
-4,614	Net loss on fair value adjustments	**-8,864**
-1,931	**Income & expenditure in relation to investment properties**	**4,307**

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

2015/16		**2016/17**	Offices	Indust-rial	Retail	Leisure	Mixed	Fair Value Hierarchy
£000		**£000**	£000	£000	£000	£000	£000	
30,850	Balance at start of the year	**73,541**	56,350	10,691	5,400	1,100		Level 2
47,305	Purchases	**152,548**	21,104	29,073	80,093		22,278	
	Disposal	**-7,800**	-7,800					
-4,614	Net loss from fair value adjustments*	**-8,864**	-2,104	-864	-4,668	50	-1,278	
73,541	**Balance at end of the year**	**209,425**	67,550	38,900	80,825	1,150	21,000	Level 2

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation methodology used to determine fair value incorporates some estimation techniques which mean the valuations are categorised as being level two in the fair value hierarchy (see Note 3 on page 41 for more information).

Note 6: Financial instruments

Categories of financial instruments

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

31/03/2016			**31/03/2017**	
Long-Term	Short-Term		**Long-Term**	**Short-Term**
£000	£000		**£000**	**£000**
		Investments		
620		Available for sale financial assets	**2,613**	

Fair value of assets and liabilities

31/03/2016				**31/03/2017**	
Carrying Amount	Fair Value			**Carrying Amount**	**Fair Value**
£000	£000	**Financial assets**	**Fair Value Level**	**£000**	**£000**
620	**620**	Shares in unlisted companies	**3**	**2,613**	**2,613**
16,290	**16,290**	Long-term loans to companies	**2**	**2,125**	**2,125**
299	**299**	Other long term loans	**2**	**913**	**913**
17,209	**17,209**			**5,651**	**5,651**

Note 7: External audit costs

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

2015/16 £000		**2016/17 £000**
184	Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year	**184**
8	Fees payable to the external auditors for the certification of grant claims and returns for the year	**8**
192	**Total**	**192**

Overview

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. We also have responsibility for ensuring there is a sound system of governance and appropriate internal controls in place. We are committed to fulfilling our responsibilities in accordance with the highest standards of good governance to support our Corporate Strategy. The council's Governance Strategy sets out our approach to good governance and is supplemented by our Code of Corporate Governance.

The annual review of governance is overseen by the Governance Panel (the panel) which comprises the Director of Legal, Democratic and Cultural Services [chair], senior representatives from Finance, HR and Organisational Development and Strategy 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 2016/17 annual review of governance has provided a satisfactory level of assurance on the governance arrangements for the year.

We are pleased to present the Surrey County Council Annual Governance Statement for 2016/17, which outlines the council's governance arrangements and achievements during the year and highlights areas to continue to strengthen governance in 2017/18.

The governance environment during 2016/17

Purpose and Outcome

Surrey County Council's Corporate Strategy provides clear direction for staff as well as a signpost for residents, businesses and partner organisations and incorporates 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 Medium Term Financial Plan and the Investment Strategy. Performance is measured through a variety of key indicators relating to wellbeing, economic prosperity and resident experience and progress is published on the external website. The Chief Executive also reports progress to full County Council twice a year.

To provide the basis for longer term sustainability, the council established a transformation programme in February 2016. A Public Value Transformation (PVT) Board comprising the Leader of the Council (Chair), the Chief Executive and the Director of Finance provided strategic oversight and challenge to ensure the transformation programme is driven by public value and contributes significantly to the council's financial sustainability. In September 2016 the PVT Board reported to Cabinet that the transformation programme had increased the level of confidence in delivery of the current year budget savings but also confirmed that the programme would not produce the level of additional savings required to ensure a sustainable budget for 2017/18 onwards.

As a result of this and the increased budgetary pressures the council faces, the Cabinet agreed in January 2017 to set up a task and finish Sustainability Review Board to include three cross party Members, the Strategic Director for Adult Social Care and Public Health, the Deputy Chief Executive and the Director of Finance. The Board focused on identifying permanent service reductions to help inform the council's longer term financial strategy and reported back to Cabinet its recommendations on 28 March 2017.

In addition, the council has continued throughout 2016/17 to try to influence strategy and raise awareness nationally of the demands on services and the challenges posed by this and the current Government funding methodology.

Boards are in place to provide oversight on the council's continuing commercial activity. A Shareholder Board monitors the activity and 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.

The Statutory Responsibilities Network, chaired by the Chief Executive, continues to meet on a fortnightly basis and provides a forum for statutory officers to discuss key issues, share knowledge and offer challenge. The network provides governance oversight and ensures statutory responsibilities are managed effectively by reviewing the key risks and issues of the organisation and focussing on progress of key strategies and implementation plans.

The council's external auditors' 2015/16 report on value for money published in July 2016 concluded that 'in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources,' with the exception of the arrangements in place within the council's Children's Services directorate. A Children's Improvement Plan, including a member led Children's Services Improvement Board, is being delivered to address the January 2016 improvement notice issued by the Department for Education following the Ofsted inspection report published in June 2015.

As part of this work, Children's' Services have adopted a 'Safer Surrey' approach that focuses on building relationships with families and puts practitioners in the role of supporting and helping rather than as directors of change. Following a monitoring visit at the end of August 2016, Ofsted confirmed that the pace of improvement has picked up as a direct result of teams embedding the Safer Surrey approach, but there is still more to do to ensure consistency in all our practice.

In October 2016, an inspection was carried out by OFSTED and the Care Quality Commission to judge the effectiveness of the Surrey area in implementing the disability and special educational needs (SEND) reforms as set out in the Children and Families Act 2014. As a result, the local authority and the area's Clinical Commissioning Groups (CCGs) were required to submit a Written Statement of Action (the Statement) because of significant areas of weakness in the local area's practice. The Statement sets out a clear vision for how the local area will address the five key weaknesses raised in the inspection and sustain improvement for children and families at scale and pace. It was developed with the contribution of partners in schools and family representatives.

Progress will be monitored monthly by the council's and CCGs leadership teams and reported to the SEND Partnership Board, SEND Scrutiny Task Group and lead Cabinet Members. The Children's Services Improvement Board will provide formal oversight of delivery of the actions in this Statement and will review progress quarterly.

In March 2017, the council underwent a Corporate Peer Challenge, run by the Local Government Association. A team of peers were assigned to use their expertise and knowledge of local government to provide feedback as critical friends. The challenges and recommendations for consideration are tailored specifically for the council and are designed to complement and add value to the council's own performance and improvement focus. A follow up visit is scheduled for March 2018.

Leadership and Behaviour

The functions of the Monitoring Officer (Director of Legal, Democratic and Cultural 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 reports directly to the Chief Executive and is a member of Chief Executive's Direct Reports, the Statutory Responsibilities Network and sat on the Sustainability Review Board. She has regular meetings with and has direct access to the Leader and key Members, Chief Executive, Monitoring Officer, Chief Internal Auditor, External Auditor and other key Members and strategic directors. The Director of Finance and the Chief Executive have regular support meetings with the strategic directors.

In September 2016, the Leader's report to Cabinet highlighted a projected overspend for the current financial year and required a recovery action plan to be put in place to address this. Measures taken over the remaining months of the financial year by the council's leadership, monitored monthly by Cabinet, succeeded in bringing the budget back into balance. Actions included one-off measures, delays in spend, as well as genuine on-going efficiencies, such as achieving future years' savings early. In addition, Cabinet's strategic budget planning workshops, led by the Director of Finance are held with the Leadership Team on a regular basis. Finance briefings for all members have been held throughout the year to support the preparation of the budget for future years. Additional meetings have also been held, as deemed necessary, in light of the financial challenges emerging from the Local Government financial settlement and the increased pressure and demand for our services.

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 include the 7 Standards of Public Life. 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, in consultation with the Independent Person, deal with allegations of breaches of the Member Code of Conduct.

The Members Code of Conduct also includes provisions for the registration and disclosure of pecuniary and other interests. In July 2016 Council agreed to widen the registration requirement of its members to include a new category of significant personal interests and to include a new requirement to declare prejudicial interests in addition to disclosable pecuniary interests and significant personal interest at meetings of the council and its committees. The register of pecuniary interests for all members can be viewed online.

Transparency and Stewardship

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.

The gifts and hospitality register is held on the internal website and provides a means for staff to register anything offered or accepted. As a result of an internal audit report in this area, a review of the policy, arrangements for recording and monitoring of gifts and hospitality was undertaken during the year. Gifts and hospitality now has its own

policy, all declarations are electronic and these are reviewed regularly.

The Investment Panel, chaired by the Director of Finance, continues to ensure all proposed service capital investments have robust business cases before formal decision by Cabinet or Cabinet Member as appropriate.

The Strategic Risk Forum, chaired by the Director of Finance, brings together lead officers from across the council to review and challenge risk and ensure a consistent approach is adopted. The Leadership risk register is regularly reviewed by the Statutory Responsibilities Network, Audit and Governance Committee and Cabinet.

The Director of Finance also chairs the Information and Risk Governance Board and holds the role of Senior Information Risk Officer. The Board provides strategic oversight and ensures that the council has effective information and risk governance policies and management arrangements including breaches of confidentiality and information security.

The council has six member scrutiny boards which provide challenge to the Cabinet. 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 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.

The Surrey Pension Fund Committee takes decisions on behalf of the council as the administering body for the Local Government Pension Scheme and meets four times a year. The Surrey Local Pension Board assists the Surrey Pension Fund Committee in the exercise of its functions but has no decision making powers. A Local Fire Pension Board also assists the Surrey Fire and Rescue Authority in the administration of its Firefighters' Pension Scheme. In March 2017, the council agreed to participate in a national pool of 12 Local Government Pension Schemes to be known as the Border to Coast Pensions Partnership.

The annual review of the effectiveness of the system of internal audit concluded that appropriate controls were in place during 2016/17 to ensure an effective internal audit service was provided. As part of the effectiveness review, a self assessment against the UK Public Sector Internal Auditing Standards was completed by the Chief Internal Auditor. The conclusions of the assessment are that Internal Audit substantially complies with the requirements and there are no significant areas of non conformance.

The overall opinion of the Chief Internal Auditor on the internal control environment for 2016/17 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. Controls over the council's key financial systems continue to be sound.

At the end of February 2017, the Chief Internal Auditor left the Council. Interim arrangements are in place to cover the responsibilities of this role and a new Chief Internal Auditor for Surrey County Council will be appointed by June 2017 as part of the Orbis Finance leadership team integration.

People

As part of the recent review of pay and reward, a new behaviours framework was developed. This was designed with colleagues and Members to ensure it is representative of the kind of organisation we need to be to achieve the right outcomes for residents. These behaviours are aimed at strengthening our appraisals and performance management,

help shape how we learn and develop and how we attract and recruit the right people.

In February 2017 the Officer Code of Conduct was amended to make more explicit mention of the ethical behaviours expected of staff as well as strengthening references to the council's value statement.

Approximately 700 colleagues have attended the high performance development programme since it was launched in 2014. Managers are now better equipped to challenge unacceptable behaviour, address conflict and poor performance, seek feedback on performance, be open to constructive challenge and be aware of their impact on others.

During October and November 2016 staff participated in a staff survey, the second of three annual surveys commissioned from an external organisation, which has provided evidence of how colleagues feel about working for our organisation. Positive messages have come out of the survey but also some areas that we need to work on over the next few months.

During the year, an external organisation was commissioned to carry out a review of the security at County Hall. The result is a targeted management action plan to address the concerns raised specifically at County Hall, although some security actions result in improvements across all Council properties.

Engagement and collaboration

The council continues to build on the strong relationships with key partners such as Surrey's Districts and Boroughs and other public bodies. Our public service transformation projects are progressing, including health and social care integration and the Transforming Justice Programme.

We continue to work with East Sussex County Council, West Sussex County Council, 23 districts and boroughs and many other partners to secure greater devolution of powers and functions from central government and are working with a range of partners to develop a Strategic Transport Authority for the South East.

Surrey County Council and East Sussex County Council's business and support services partnership, known as Orbis, continues to develop. In October 2016, Brighton & Hove City Council approved a recommendation to join the Orbis partnership. In addition, Orbis Public Law, a legal services partnership between Surrey County Council, East Sussex County Council, West Sussex County Council and Brighton & Hove City Council, launched in April 2016 and will provide a sustainable and cost effective legal service. The implementation is underway, starting with the commercial areas of law – property, contract and procurement.

We have continued to work closely with the health sector throughout 2016 in the development of three Sustainability and Transformation Plans across Surrey. These plans will play a pivotal role in shaping the future health and care priorities and landscape across Surrey.

Working with our partners, including social care, Surrey police and public health, our Multi Agency Safeguarding Hub, known as the MASH, went live in October 2016. The vision is to provide a single point of contact for safeguarding concerns relating to children, young people and adults in Surrey. A Board, consisting of leaders from the partner organisations, oversees the operation of the MASH.

Focus for 2017/18

In May 2017, County Council elections will be held and the new County Council will set the future political direction. The following areas of focus remain priority areas for the Council, based on existing circumstances.

The Council's Corporate Strategy 2017-22 highlights the council's strategic challenges that stem from two significant and persisting trends of population changes and the continuing reduction in real terms of the total financial resource available to deliver our functions. The trends of increasing

demographic demand alongside declining funding require us to continue to focus on the sustainability of our resources. The level of savings required to produce a balanced budget in 2017/18 and beyond are significant and higher than ever before. There will be focused monitoring of the delivery of the necessary savings identified, to avoid the depletion of levels of reserves below minimum acceptable levels.

In addition, we will continue to work to ensure Government understands the impact of current funding mechanisms on Surrey. We will be working with our Boroughs and Districts to proactively respond to any potential opportunities to be part of a pilot on changes to the business rate retention scheme.

We will continue to focus on improving Services for Children, by building on the work that is already being done by embedding the Safer Surrey approach across the whole Children's', Schools and Families directorate, as well as with our partners. We will also continue our focus on improving our services for children and young people with special educational needs and disabilities.

Collaboration is integral to the work that is being done in Health and Social Care as we begin to implement our Sustainability and Transformation Plans. These have been worked on with our health partners and present us with a great opportunity to re-design services and provide better outcomes for residents.

As we work increasingly in partnership with others, we will increase our focus on partnership governance arrangements and ensuring appropriate measures are in place to manage complex joint procurement arrangements with suppliers.

To ensure that we effectively lead the scale of changes that we will need to make over the coming months and years with confidence and continue to provide high standards of customer care for all our residents/stakeholders, we will:

- continue to develop a strong organisational culture that supports effective leadership, with a focus on capacity and capability.

- broaden our governance arrangements relating to the engagement of residents, to ensure they have an effective mechanism for contributing to shaping services in Surrey.

Other areas of focus include:

Delivering a comprehensive training and guidance programme to our new and returning Councillors, to equip them to scrutinise and make decisions to best represent their residents.

Working with the Public Sector Auditor Appointments to ensure we meet our responsibilities within the new Local Audit and Accountability Act 2014 regarding appointing an external auditor.

Forming the new pensions pooling company, building its investment structure and obtaining Financial Conduct Authority approval for its operation.

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Signed:

Leader of the Council

Chief Executive

Narrative Report

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 and is subject to the council's statutory audit report prior to being submitted for approval to the Audit and Governance Committee. Since 1st April 2006, the council has administered (the 1992, 2006 and 2015 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.

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 39 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 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £59.7m.

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.

Firefighter Pension Fund Accounts

2015/16 £000	Ref: Note	Firefighters' pension fund account	2016/17 £000
		Contributions Receivable:	
-3,317	1	Contributions receivable from employer (normal)	**-3,099**
-2,519	1	Contributions receivable from employees	**-2,422**
-54	3	Individual transfers in from other schemes	
-5,891			**-5,521**
		Benefits payable	
12,086	2	Pensions	**12,398**
5,413	2	Commutations and lump sum retirement benefits	**3,485**
103	2	Lump sum death benefits	**105**
219	3	Individual transfers out to other schemes	
17,821		Total amounts payable	**15,988**
11,930		**Net amount receivable for the year before top-up grant**	**10,467**
-8,505	4	Top-up grant received from DCLG	**-7,613**
-3,425	4	Top-up grant still owing from DCLG	**-2,854**
-11,930		**Net amount payable / receivable for the year**	**-10,467**

Net Asset Statement

31 March 2016 £000		31 March 2017 £000
	Current assets:	
3,425	Pension top-up grant receivable from Central Government	**2,854**
3,425		**2,854**
	Current liabilities:	
-3,425	Cash overdrawn	**-2,854**
-3,425		**-2,854**

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 21.7% for the 1992 Firefighter' Pension Scheme, 11.9% for the 2006 Scheme and 14.3% for the 2015 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 £10.5m in 2016/17 (£11.9m in 2015/16) as contributions were insufficient to meet the cost of pension payments due for the year. £7.6m was received in year leaving an outstanding balance of £2.9m due from government (£3.4m 2015/16).

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 has been in discussion with DCLG on resolving this issue and 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. The council holds a provision for the total amount of top-grant received for injury awards between 2006 and 2013 of £8.9m, in case this amount becomes payable.

SURREY PENSION FUND ACCOUNTS 2016/2017

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2016/2017 and of the disposition of its assets at 31 March 2017.

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, widowers 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 2016 and 31 March 2017 are:

31 Mar 2016		**31 Mar 2017**
34,072	Employees in the fund	34,298
23,197	Pensioners	24,025
34,158	Deferred pensioners	41,573
91,427	**Total**	**99,896**

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Surrey pension fund account

2015/2016 £000		Note	2016/2017 £000
	Contributions and benefits		
186,901	Contributions receivable	7	**192,802**
5,518	Transfers in	8	**6,848**
192,419			**199,650**
-131,330	Benefits payable	9	**-136,484**
-6,762	Payments to and on account of leavers	10	**-6,694**
-14,830	Investment and governance expenses	14	**-13,217**
-1,121	Administration expenses		**-1,250**
-154,043			**157,645**
38,376	**Net additions from dealings with members**		**42,005**
	Return on investments		
61,346	Investment income	16	**62,306**
-924	Taxes on income	15	**-1,068**
-68,655	Change in market value of investments	17	**541,953**
-8,233	**Net return on investments**		**603,191**
30,143	**Net increase in the fund during the year**		**634,071**
3,193,520	**Net assets of the fund At 1 April**		**3,223,663**
3,223,663	**At 31 March**		**3,868,859**

Net asset statement

31 Mar 2016 £000		Note	31 Mar 2017 £000
	Investment assets	17	
511,051	Bonds		**583,302**
1,851,024	Equities		**2,288,136**
225,690	Property unit trusts		**275,367**
376,686	Diversified growth		**390,257**
129,353	Private equity		**145,113**
	Derivatives	17c	
26	- Futures		
44	- Foreign exchange contracts		**1,050**
64,294	Cash		**117,498**
37,000	Other short term investments		**42,000**
8,649	Other investment balances	17b	**8,220**
	Investment liabilities		
	Derivatives	17c	
0	- Futures		**0**
-6,331	- Foreign exchange contracts		**-1,095**
-1,148	Other investment balances	17b	**-4,876**
0	Borrowings		**0**
3,196,338	**Net investment assets**		**3,844,972**
10,890	**Long-term debtors**	12	**9,075**
23,090	**Current assets**	11	**22,371**
-6,655	**Current liabilities**	13	**-7,559**
3,223,663	**Net assets of the fund at 31 March**		**3,868,859**

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. 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 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 Surrey Pension Fund is the reporting entity.

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2016/17 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 2016/17 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 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 and new rates applied from April 2017. Currently employer contribution rates range from 12.0% to 33.0% 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).

	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 for 2016/17	
Pensionable payroll banding	Contribution rate
Up to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
More than £151,800	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 2016/17 financial year and its position at the year end at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 25 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.

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.

d) Private equity
Distributions and drawdowns from private equity partnerships are accounted for according to guidance from the private equity manager as to the nature of the distribution or drawdown. Income and purchases and sales are recognised at the date the capital call or distribution falls due.

Fund account – expense items

e) 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.

f) 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 2017 is reported as a current liability.

g) 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.

h) 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

i) 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 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.

j) 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.

k) 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.

l) 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.

m) 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.

n) 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.

o) 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 2017 was £145 million (£129 million at 31 March 2016).

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 25. 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 or subsequent notes as at 31 March 2017 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.	The total private equity investments in the financial statement are £145 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £95 million. There is a risk that asset or investment transaction misclassification may occur.

Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in July 2017. 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

2015/2016 £000		2016/2017 £000
94,565	Employers	105,316
55,283	Employers deficit	49,390
37,053	Members	38,096
186,901		**192,802**

2015/2016 £000		2016/2017 £000
84,530	Administering authority	87,529
82,358	Scheduled bodies	85,967
20,013	Admitted bodies	19,306
186,901		**192,802**

The latest actuarial valuation carried out as at 31 March 2016, set contribution rates for fund employers with effect from April 2017. The financial year 2017/2018 will be the first year of the revised employer contribution rates.

Note 8: Transfers in from other pension funds

2015/2016 £000		2016/2017 £000
0	Group transfers from other schemes	0
5,518	Individual transfers in from other schemes	6,848
5,518		**6,848**

Note 9: Benefits payable

By category

2015/16 £000		2016/17 £000
110,904	Pensions	114,054
17,276	Commutation and lump sum retirement benefits	19,023
3,094	Lump sum death benefits	3,355
56	Interest on late payment of benefits	52
131,330		**136,484**

By employer*

2015/2016 £000		2016/2017 £000
61,079	Administering Authority	64,320
59,766	Scheduled Bodies	61,003
10,429	Admitted Bodies	11,109
131,274		**136,432**

Note 10: Payments to and on account of leavers

2015/2016 £000		2016/2017 £000
480	Group transfers to other schemes	6,409
5,907	Individual transfers to other schemes	0
298	Refunds of contributions	316
77	Payments for members joining state schemes	-31
6,762		**6,694**

Note 11: Current assets

2015/2016 £000		2016/2017 £000
3,262	Contributions - employees	2,619
12,025	Contributions - employer	9,337
7,803	Sundry debtors	10,415
23,090		**22,371**

Analysis of current assets

2015/2016 £000		2016/2017 £000
5,366	Central government bodies	3,730
15,478	Other local authorities	15,746
2,246	Other entities and individuals	2,895
23,090		**22,371**

Note 12: Long term debtors

2015/2016 £000		2016/2017 £000
10,890	Central government bodies	9,075
10,890		**9,075**

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 that a 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 2017 is £10.890m but £1.815m was due in 2016/17, leaving a long term debtor of £9.075m.

Note 13: Current liabilities

2015/2016 £000		2016/2017 £000
6,595	Sundry creditors	7,436
60	Benefits payable	123
6,655		**7,559**

Analysis of current liabilities

2015/2016 £000		2016/2017 £000
1,483	Central government bodies	1,574
3,053	Other local authorities	1,848
2,119	Other entities and individuals	4,137
6,655		**7,559**

Note 14: Investment and governance expenses

2015/2016 £000		2016/2017 £000
13,945	Investment management fees	12,105
206	Investment custody fees	103
672	Oversight and governance costs	1,009
14,823		**13,217**

The investment management fees above includes £1.0million (2015/16:£ 1.9million) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £1.5million in respect of transaction costs (2015/16: £1.1million).

Note 15a: Taxes on Income

2015/2016 £000		2016/2017 £000
821	Withholding tax – equities	988
103	Withholding tax – property	80
924		**1,068**

Note 15b: External Audit Costs

2015/2016 £000		2016/2017 £000
27	Payable in respect of external audit	27
27		**27**

Note 16: Investment income

2015/2016 £000		2016/2017 £000
	Bonds	
5,394	UK	**4,079**
6,956	Overseas	**8,060**
	Equities	
21,266	UK	**22,358**
12,322	Overseas	**14,274**
7,943	**Property unit trusts**	**7,808**
3,245	**Diversified growth**	**1,226**
3,406	**Private equity**	**3,249**
180	**Interest on cash deposits**	**745**
534	**Other**	**507**
61,337		**62,306**

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2017
	£000	£000	£000	£000	£000
Bonds	**511,051**	41,289	-33,783	64,745	**583,302**
Equities	**1,851,024**	368,898	-429,215	497,429	**2,288,136**
Property unit trusts	**225,690**	75,125	-25,937	489	**275,367**
Diversified growth	**376,686**	243,208	-242,797	13,160	**390,257**
Private equity	**129,353**	19,465	-29,763	26,058	**145,113**
Derivatives					
- Futures	**26**	-307	38	243	**0**
- Forex contracts	**-6,287**	72,443	-5,711	-60,490	**-45**
	3,087,543	**820,121**	**-767,168**	**541,634**	**3,682,130**
Cash	**64,294**			319	**117,498**
Other short term investments	**47,000**			0	**42,000**
Other investment balances	**7,501**			0	**3,344**
Borrowing	**0**			0	**0**
	3,196,346			**541,953**	**3,844,972**

	Market value at 31 Mar 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2016
	£000	£000	£000	£000	£000
Bonds	**512,119**	157,937	-145,238	-13,767	**511,051**
Equities	**1,908,092**	257,490	-262,124	-52,434	**1,851,024**
Property unit trusts	**199,410**	35,963	-26,003	16,320	**225,690**
Diversified growth	**360,061**	30,344	0	-13,719	**376,686**
Private equity	**112,642**	24,797	-26,434	18,348	**129,353**
Derivatives					
- Futures	**-288**	470	-2	-154	**26**
- Forex contracts	**-8,419**	39,557	-12,829	-24,596	**-6,287**
	3,083,617	**546,558**	**-472,630**	**-70,002**	**3,087,543**
Cash	**77,218**			1,357	**64,302**
Other Short Term Investments	**0**				**37,000**
Other investment balances	**6,592**				**7,501**
Borrowing	**0**				**0**
	3,167,427			**-68,645**	**3,196,346**

Note 17b: Analysis of investments

	31 Mar 2016	31 Mar 2017
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	251,315	298,283
Overseas public sector & quoted	66,961	66,803
Overseas pooled fund	192,775	218,216
	511,051	**583,302**
Equities		
UK quoted	495,555	279,493
UK pooled funds	281,110	389,731
Overseas quoted	564,742	990,625
Overseas pooled funds	509,617	628,287
	1,851,024	**2,288,136**
Property unit trusts		
UK property funds	224,098	263,100
Overseas property funds	1,592	12,267
	225,690	**275,367**
Diversified growth		
UK diversified growth funds	0	0
Overseas diversified growth funds	376,686	390,257
	376,686	**390,257**
Private equity		
UK limited partnerships	27,970	25,859
Overseas limited partnerships	20,452	24,237
UK fund of funds	0	0
Overseas fund of funds	80,931	95,017
	129,353	**145,113**
Derivatives		
Futures	26	
FX forward contracts	-6,287	-45
	-6,235	**-45**
Cash deposits	**64,294**	**117,498**
Other short term investments	**37,000**	**42,000**
Other investment balances		
Outstanding sales	1,459	1,385
Outstanding purchases	-1,105	-4,876
Tax due on accrued income	-43	0
Accrued income - dividends and interest	7,190	6,835
	7,501	**3,344**
Total investments	**3,196,338**	**3,844,972**

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 2017 the fund had four futures contracts in place with an unrealised loss of £61k. As at 31 March 2016 the Fund had three contracts in place with a net unrealised gain of £26k.

31 March 2017

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	08/06/2017	3 Months	US Treasury Bonds	-966	0	-9
Futures	21/06/2017	3 Months	US Treasury Bonds	844	0	-44
Futures	21/06/2017	3 Months	US Treasury Bonds	-1,156	0	0
Futures	28/06/2017	3 Months	UK Government Bonds	-3,572	0	-8
				-4,850	**0**	**-61**

31 March 2016

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	21/06/2016	3 Months	US Treasury Bonds	801	11	0
Futures	21/06/2016	3 Months	US Treasury Bonds	-3,721	8	0
Futures	28/06/2016	3 Months	UK Government Bonds	-7,637	7	0
				-10,557	**26**	**0**

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Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2017 the Fund had forward currency contracts in place with a net unrealised loss of £45 (net unrealised loss of £6,287k at 31 March 2016).

2016/17

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
2	1 Month	CAD	GBP	381	-230	0	-1
2	1 Month	EUR	GBP	31	-26	0	0
1	2 Months	EUR	GBP	143	-123	0	-1
1	1 Month	GBP	AUD	8	-13	0	0
1	1 Month	GBP	BRL	13	-51	0	0
1	1 Month	GBP	EUR	3	-4	0	0
6	2 Months	GBP	EUR	7,635	-8,831	76	0
5	3 Months	GBP	EUR	109,884	-128,613	0	-268
1	1 Month	GBP	HKD	21	-207	0	0
1	2 Months	GBP	JPY	1,834	-254,405	7	0
4	3 Months	GBP	JPY	79,531	-11,190,096	0	-843
1	2 Months	GBP	SEK	3,205	-35,130	56	0
1	1 Month	GBP	USD	36	-45	0	0
4	2 Months	GBP	USD	12,531	-15,672	9	0
7	3 Months	GBP	USD	349,613	-436,628	902	0
1	1 Month	GBP	ZAR	49	-818	0	0
1	1 Month	IDR	GBP	1,011,204	-61	0	0
3	1 Month	JPY	GBP	222,490	-1,611	0	-14
3	1 Month	JPY	USD	46,526	-419	0	-1
1	2 Months	JPY	USD	254,440	-2,230	0	45
1	1 Month	USD	GBP	146	-117	0	-1
2	2 Months	USD	GBP	2,200	-1,769	0	-11
1	1 Month	USD	JPY	4	-450	0	0
1	1 Month	ZAR	GBP	11	-1	0	0
						1,050	**-1,095**

2015/16

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	BRL	USD	4,002	-1,122	17	-13
1	One Month	GBP	AUD	4	-8	0	0
1	One Month	GBP	EUR	20	-25	0	0
2	Two Months	GBP	EUR	6,118	-7,884	0	-140
4	Three Months	GBP	EUR	87,400	-112,765	0	-2,145
1	One Month	GBP	JPY	87	-14,147	0	0
3	Three Months	GBP	JPY	62,227	-10,246,348	0	-1,291
1	Two Months	GBP	SEK	2,482	-30,350	0	-126
4	Two Months	GBP	USD	16,283	-23,539	0	-93
6	Three Months	GBP	USD	278,256	-403,456	0	-2,403
1	One Month	GBP	ZAR	0	-9	0	0
1	One Month	USD	BRL	966	-4,002	7	-120
1	Four Months	USD	BRL	1,094	-4,002	4	-7
1	One Month	USD	GBP	457	-318	0	0
1	Two Months	USD	GBP	842	-580	6	0
1	Two Months	USD	JPY	2,290	-254,405	10	7
						44	**-6,331**

Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2016/17 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 17 the value of quoted securities on loan was £144.5million in exchange for collateral held by the fund custodian at fair value of £156.8million.

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Note 17d: Investments analysed by fund manager

Market value 31 March 2016		Manager	Market value 31 March 2017	
£000	%		£000	%
831,747	26.0	Legal & General Investment Management	1,066,206	27.8
289,511	9.2	Majedie Asset Management	382,372	10.0
227,289	7.1	UBS Asset Management	300,771	7.8
440,714	13.8	Marathon Asset Management	486,154	12.7
249,031	7.8	Newton Investment Management	307,211	8.0
283,675	8.9	Western Asset Management	312,688	8.2
65,268	2.0	Franklin Templeton Investments	74,119	1.9
246,846	7.7	Standard Life Investments	0	0.0
129,839	4.1	Baillie Gifford Life Limited	143,695	3.7
205,181	6.4	CBRE Global Multi-Manager	232,323	6.1
25,687	0.8	Darwin Property Investment Management	68,875	1.8
0	0	Ruffer	123,768	3.2
0	0	Aviva	122,793	3.2
2,994,788			**3,620,975**	

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 2016 £000	% of total fund	Security	Market value 31 March 2017 £000	% of total fund
380,744	11.9	Legal & General World Developed Equity Index	464,390	14.5
255,392	8.0	Legal & General UK Equity Index	355,919	11.1

Note 18: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierachy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled Investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Not required
Pooled Investments - Hedge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

	Assessed Valuation Range (+/-) £000	**Value at 31 March 2017 £000**	**Value on Increase £000**	**Value on Decrease £000**
Private Equity	15%	145,113	166,880	123,346
Pooled Investments - overseas unit trusts and property funds	10%	50,364	55,400	45,328
Total		**195,477**	**222,280**	**168,674**

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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 2016				As at 31 March 2017		
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			
511,051	0	0	Bonds	583,302	0	0
1,851,024	0	0	Equities	2,288,136	0	0
225,690	0	0	Property unit trusts	275,367	0	0
376,686	0	0	Diversified growth	390,257	0	0
129,353	0	0	Private equity	145,113	0	0
70	0	0	Derivatives	1,050	0	0
0	64,302	0	Cash	0	117,498	0
	37,000		Other short term investments		42,000	
8,649	0	0	Other investment balances	8,220	0	0
0	33,980	0	Debtors	0	31,446	0
3,102,523	**135,282**	**0**	**Total financial assets**	**3,691,455**	**190,944**	**0**
			Financial liabilities			
-6,331	0	0	Derivatives	-1,095	0	0
-1,148	0	0	Other investment balances	-4,876	0	0
0	0	-6,655	Creditors	0	0	-7,559
0	0	0	Borrowings	0	0	0
-7,479	**0**	**-6,655**	**Total financial liabilities**	**-5,971**	**0**	**-7,559**
3,095,044	**135,282**	**-6,655**		**3,685,474**	**190,944**	**-7,559**

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.

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 2017	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 through profit & loss	3,345,877	172,746	195,477	3,714,100
Total financial assets	3,345,877	172,746	195,477	3,714,100
Financial liabilities				
Financial liabilities through profit & loss	**-5,971**	0	0	-5,971
Total financial liabilities	**-5,971**	**0**	**0**	**-5,971**
Net financial assets	**3,339,906**	**172,746**	**195,477**	**3,708,129**

31 March 2016	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 through profit & loss	2,848,936	93,353	160,234	3,102,523
Total financial assets	**2,848,936**	**93,353**	**160,234**	**3,102,523**
Financial liabilities				
Financial liabilities through profit & loss	-7,479	0	0	-7,479
Total financial liabilities	**-7,479**	**0**	**0**	**-7,479**
Net financial assets	**2,841,457**	**93,353**	**160,234**	**3,095,044**

Note 18c: Reconciliation of Fair Value Measurements within Level 3

	Market Value as at 1st April 2016	Transfers Into Level 3	Transfers Out of Level 3	Purchases during the year and Derivative Payments	Sales during the year and Derivative Receipts	Realised Gains/Losses	Market Value as at 31 March 2017
Private Equity	129,353	0	0	19,465	-29,763	26,058	145,113
Pooled Investments - overseas unit trusts and property funds	30,881			1,601	0	17,882	50,364
	160,234	**0**	**0**	**21,066**	**-29,763**	**43,940**	**195,477**

Note 19: Outstanding commitments

At 31 March 2017 the Fund held part paid investments on which the liability for future calls amounted to £89million (£91million as at 31 March 2016).

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 2016/17 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 2017	Change	Value on increase	Value on decrease
	£000		£000	£000
UK Equity	669,224	8.9%	728,785	609,663
Global Equity	1,618,912	9.3%	1,769,471	1,468,699
Bonds	583,302	5.9%	617,717	548,601
Alternatives	145,113	7.0%	155,271	135,013
Prop	275,367	2.0%	280,874	269,860
DG	390,257	3.8%	405,087	375,285
Cash	159,498	0.0%	159,498	159,482
Other	3,299	0.0%	3,299	3,299
Total Investment Assets	**3,844,972**		**4,120,002**	**3,569,984**

Asset type	Value at 31 March 2016 £000	Change	Value on increase £000	Value on decrease £000
UK equities	776,665	10.01%	854,409	698,921
Overseas equities	1,074,359	9.32%	1,174,489	974,229
Fixed interest bonds	342,581	5.61%	361,800	323,362
Index linked	168,470	9.48%	184,441	152,499
Cash	64,302	0.01%	64,308	64,296
Other short term investments	37,000	0.01%	37,004	36,996
Property	225,690	1.74%	229,617	221,763
Alternatives	129,353	6.45%	137,696	121,010
Diversified growth fund	376,686	3.90%	391,377	361,995
Other assets	1,240	0.01%	1,241	1,239
Total Investment Assets	**3,196,346**		**3,407,305**	**2,956,310**

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 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2016 £000		As at 31 March 2017 £000
64,302	Cash & cash equivalents	49,844
37,000	Other short term investments	42,000
342,581	Fixed interest securities	383,930
443,883	**Total**	**475,774**

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 2017	Change in net assets +100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	49,844	50	-50
Other short term investments	42,000	42	-42
Fixed interest securities	383,930	384	-384
Total	**475,774**	**476**	**-476**

Asset type	Carrying amount as at 31 March 2016	Change in net assets +100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	64,302	64	-64
Other short term investments	37,000	37	-37
Fixed interest securities	342,581	343	-343
Total	**443,883**	**444**	**-444**

Currency risk

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

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

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Currency risk – sensitivity analysis

The WM Company has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2016/17 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2017 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,141,725	8.2%	1,235,371	1,048,079
Fixed interest	229,245	8.2%	248,048	210,442
Property and Private Equity	131,522	8.2%	142,310	120,734
Diversified Growth	390,257	8.2%	422,267	358,247
Cash and Other Assets	38,880	8.2%	42,069	35,691
Total	**1,931,629**	**8.2%**	**2,090,065**	**1,773,193**

For comparison last year figures are included below.

Asset type	Value at 31 March 2016 £000	% Change	Value on increase £000	Value on decrease £000
Equities	983,313	6.24%	1,044,672	921,954
Fixed interest	211,966	6.24%	225,193	198,739
Property and Private Equity	102,975	6.24%	109,401	96,549
Diversified Growth	376,686	6.24%	400,191	353,181
Cash and Other Assets	10,433	6.24%	11,084	9,782
Total	**1,685,373**	**6.24%**	**1,790,541**	**1,580,205**

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'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 agreed a total of £42m in short fixed term deposits as part of the treasury management strategy; these include £27 million of fixed term deposits with other Local Authorities.

Fixed Term Deposits	No. of days	Balance at 31 March 2017 £000
Police & Crime Commissioner for Northumbria c/o Gateshead	122	10,000
South Ayrshire	92	5,000
Birmingham City Council	87	10,000
Police and crime commissioner for Staffordshire	133	5,000
Plymouth City Council	92	10,000
Newport City Council civic centre	29	2,000
Other short term investments		**42,000**

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 has a call account with Natwest Bank and Lloyds Bank, an account with a money market fund, managed by Goldman Sachs Asset management and a term deposit placed with Nationwide Building society. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

Balance at 31 March 2016 £000		Balance at 31 March 2017 £000
	Term Deposits	
10,000	Nationwide	0
	Call account	
12	Natwest	0
5,031	Lloyds	0
	Money market fund	
6,700	Goldman Sachs	490
	Aberdeen MMF	25,000
	Current account	
3,835	HSBC	586
25,578	**Internally Managed Cash**	**26,076**
38,724	Externally Managed Cash	91,422
64,302	**Total Cash**	**117,498**

The fund's cash holding under its treasury management arrangements as at 31 March 2017 was £26.1million (£25.6million at 31 March 2016).

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 and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2015/16 or 2016/17

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 2016/17 amounted to £67,508k (£65,019k in 2015/16).

2015/2016 £000		2016/2017 £000
43,370	Employers' current service contributions	44,261
21,087	Lump sum payments to recover the deficit in respect of past service	22,351
562	Payments into the fund to recover the additional cost of early retirement liabilities	896
65,019		**67,508**

ii) Surrey Pension Fund paid Surrey County Council £1,508k for services provided in 2016/17 (£1,382k in 2015/16).

2015/2016 £000		2016/2017 £000
261	Treasury management, accounting and managerial services	258
1,121	Pension administration services	1,250
1,382		**1,508**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2017 were £5,621k (£8,583k at 31 March 2016).

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.

2015/16 £	Position	2016/17 £	
22,484	Director of Finance	22,859	1
73,164	Pension Fund & Treasury Manager	75,795	2
44,132	Senior Specialist Advisor	47,139	2
53,662	Senior Accountant	55,545	3
193,442		**201,338**	

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 Mellon
Livingbridge (Formerly ISIS)	Lloyds Banking Group
SL Capital	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America

Note 24 : Actuarial statement for 2016/17 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. 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 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 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 around a 66% 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 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £679 million.
Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a

time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April
2017 to 31 March 2020 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 the 2016 valuation report.

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 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.2%
Pay increases	2.4%
Price inflation/Pension increases	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 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 as follows:

	Males	**Females**
Current pensioners	22.5 years	24.6 years
Future pensioners	24.1 years	26.4 years

Copies of the 2016 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 31 March 2016

Since the last formal valuation, the Fund has achieved strong investment performance. This will have improved the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Barry McKay FFA

For and on behalf of Hymans Robertson LLP

19 May 2017

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2016/17 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. I have been instructed by the Administering Authority to provide the necessary information for Surrey Pension Fund ("the Fund").

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 the pension fund accounts:

- showing the figure in the Net Assets 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 actuarial 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 Fund's funding assumptions.

Balance sheet

Year ended	31 March 2016 £m	31 March 2017 £m
Present value of promised retirement benefits	4,684	5,710

The promised retirement benefits at 31 March 2017 (2016) have been projected using a roll forward
approximation from the latest formal funding valuation as at 31 March 2016 (2013). The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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 and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £847m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £66m.

Financial assumptions
My recommended financial assumptions are summarised below:

Year ended	31 March 2016	31 March 2017
Inflation/pension increase rate	2.2%	2.4%
Salary increase rate	3.7%	2.7%
Discount rate	3.5%	2.6%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 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*	24.1 years	26.4 years

Please note that the longevity 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 2017 for accounting purposes'. 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
19 May 2017
For and on behalf of Hymans Robertson LLP

Note 26: Additional Voluntary Contributions

Market Value 2015/16 £000	Position	Market Value 2016/17 £000
10,207	Prudential	12,401
10,207		**12,401**

Additional Voluntary Contributions, net of returned payments, of £2.7million were paid directly to Prudential during the year (£2.2million during 2015/16).

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 2016/2017 provides further details on the management, investment performance and governance of the Fund.

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. Examples 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) previously used in local authority accounting to determine the service headings used in the Comprehensive Income & Expenditure Statement. It aimed to achieve consistency and comparability in the presentation of local authority service expenditure. Now local authority accounts are presented based on reporting structures at each individual authority with the aim to make the accounts more familiar and easier to use for local users of the accounts. The SeRCOP structure is still used for accounting returns to central government.

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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