SURREY COUNTY COUNCIL

STATEMENT OF ACCOUNTS

2012-13

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

TO FOLLOW

Explanatory Foreword by the Chief Finance Officer

1. Introduction

Welcome to Surrey County Council's Statement of Accounts for 2012/13. The statement of accounts reports the income and expenditure on service provision for the year and the value of the council's assets and liabilities at the end of the financial year. This is done in accordance with proper accounting practices as defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Surrey County Council is a large and diverse organisation and the information contained in these accounts is technical and complex. The aim of this foreword, therefore, is to provide a general guide to the items of interest and highlights some of the more significant matters that have determined this position for the financial year ending 31 March 2013.

2. Key Financial Statements (known as Primary Statements)

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

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

Movement in Reserves Statement (page 12) shows the movement during the 2012/13 financial year on the different reserves held by an authority, analysed into useable reserves and other unusable reserves:

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

The total increase in this authority's reserves during 2012/13 is £109.4million (an increase of £19.3m in useable reserves, offset by a decrease of £128.7m in unusable reserves).

Comprehensive Income & Expenditure Statement (CIES) (page 14) shows the true economic accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The surplus on the provision of services for 2012/13 was £2.2m which is shown in the movement in reserves statement. The surplus in 2011/12 was £32.2m. This represents the accounting surplus on the provision of services in accordance with International Financial Reporting Standards (IFRS), not a surplus in funding raised over what has been spent.

Balance Sheet (page 15) shows the value of the assets and liabilities recognised by the authority as at 31 March. The balance sheet of the authority shows a net liability of -£39.2m, which is matched by reserves (as set out in the movement in reserves statement). This negative balance sheet position as at the 31 March is due to the pension liability which does not need to be met within the next year, but over the lifetime of the scheme members. This is explained further in Section 5.

Cash Flow Statement (page 16) shows the changes in cash and cash equivalents during the financial year. The total increase in cash and cash equivalents for this authority during 2012/13 was £4.3m which is shown in the cash flow statement and note 20. The statement shows how an authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities:

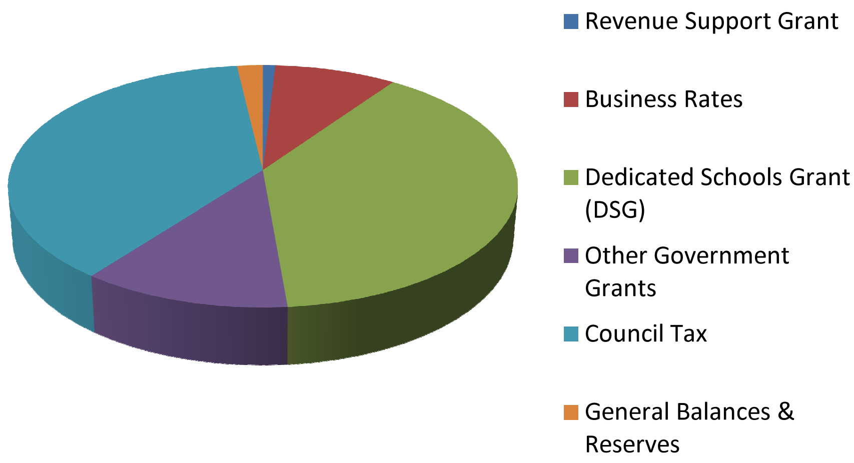
- Operating activities - the amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of an authority are funded by way of taxation, grant income or from recipients of services provided by an authority.
- Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the future service delivery (note 27).
- Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to an authority (note 28).

3. Budgeted Income & Expenditure

The authority set its budget for the 2012/13 financial year in the context of the government's austerity programme, reduction in public sector budgets and expenditure, and rising demand for its services: developing plans for efficiencies and reductions in expenditure totalling £71m.

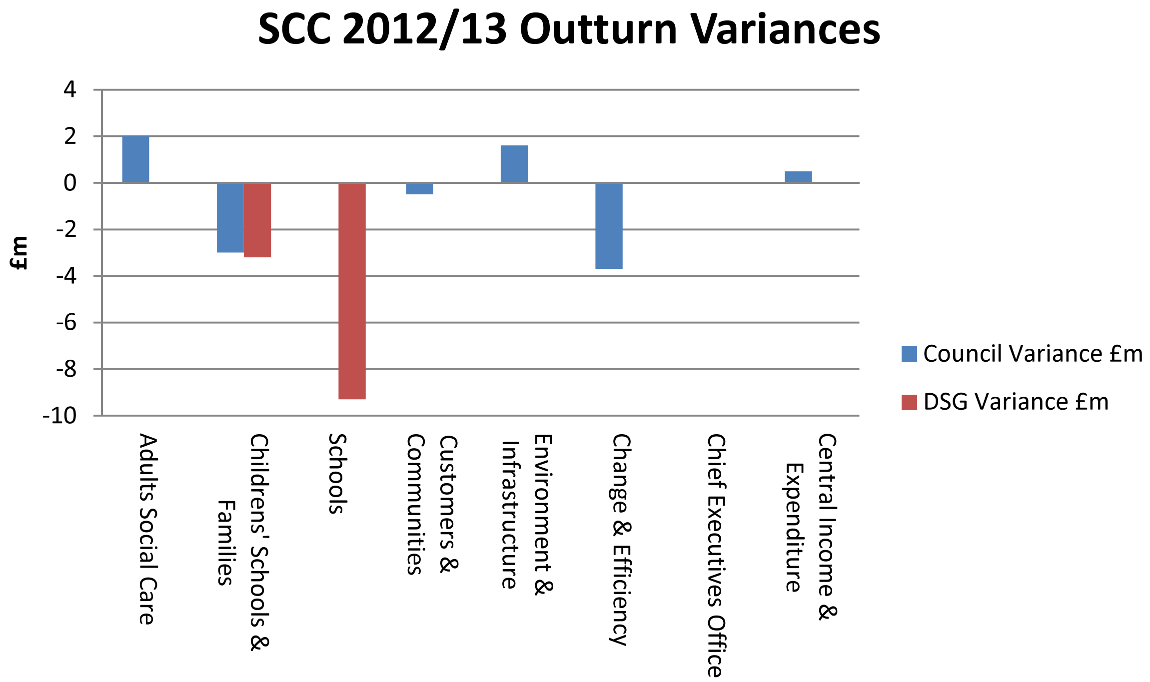
The outturn position for 2012/13 provides a clearer indication of the authority's strong financial stewardship during the year than is apparent from the accounting surplus provided in the Comprehensive Income & Expenditure Statement (CIES).

The updated revenue budget for the 2012/13 financial year, including schools, was £1,535.6 million, to be funded as follows:



In developing the financial plan for the five years to 2018 (known as the Medium Term Financial Plan), the authority took a multi-year approach to its budget setting: approving the use of £11m to support the 2013/14 financial year when it set the budget in February 2013, and a further £1m in March 2013. The cabinet has also approved £7.9m of service budgets to be rolled forward to ensure funding is available for schemes, projects and commitments that need to be funded in the new financial year.

The final outturn for the authority funded net revenue budget is an underspending of -£3.1m. In addition there was an underspending on the Dedicated Schools Grant (DSG) funded services of -£12.5m, of which -£9.3m related to schools' delegated budgets.



This underspend/surplus represents the movement on the general fund balance during 2012/13 (after contributions to reserves). This is known as the outturn position and is more important for Surrey County Council residents than the CIES which takes a wider view of financial performance. The accounting position presented in the comprehensive income and expenditure statement shows a surplus of £2.4m.

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

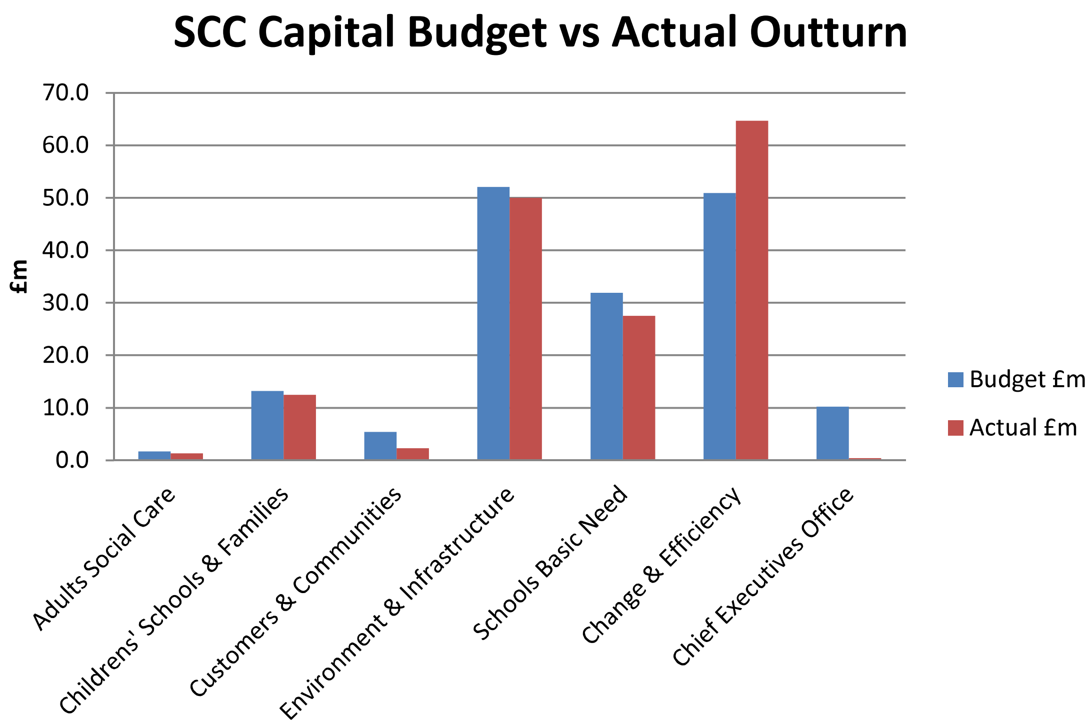
Since December 2011 the authority has performed a 'quarterly hard close', which is reported for in accordance with accounting standards, for which it won an award for transparency in 2012. These quarterly position statements are published to aid transparency and ease comparisons with private sector entities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

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

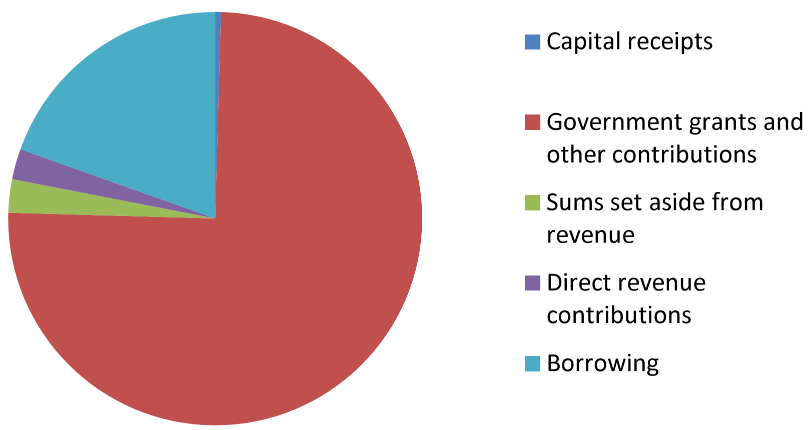
4. Capital Expenditure

In agreeing significant capital investment as part of the MTFP for 2012-17 in February 2012, the authority demonstrated its firm long term commitment to stimulating economic recovery in Surrey. The total capital programme was £685m over the 5 year MTFP (2012/17) period, with £152.8m planned in 2012/13. On a scheme by scheme basis the budgets include the funding carried forward for projects continuing from 2011/12.

The graph below shows the capital budget outturn, on a directorate basis. The in-year capital budget was overspent by £2.8m (this figure includes a capital carry-forward of £16.3m in relation to expenditure incurred in early April, these amounts will be capitalised in 2013/14 and do not form part of the balance sheet as at 31 March 2013) .



The 2012/13 capital expenditure was funded as follows:



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

These are defined as follows:

- Material Items of income and expenditure are those amounts either incurred or received to or from the same supplier or customer for the same good or service.
- Material items of expenditure relate mainly to highways maintenance and contracted bus services, these are disclosed on note 5. In addition, material expenditure is

incurred in relation to the Private Finance Initiative Schemes the authority is involved, further details can be found in note 43.
- Material items of income are government grants and council tax which are further disclosed in notes 11 and 39.

During 2012/13, 8 schools transferred to academy status. An academy is self-governing, directly funded by central government and independent of direct control by local government. Within the 2012/13 accounts, £30.4m of Property, Plant & Equipment and £1.8m of schools balances have been written out of the balance sheet to reflect these transfers.

Capital expenditure incurred during 2012/13 included expenditure on two ***material assets:***
- Consort House is an administrative building which was purchased in 2011/12 and became operational in 2012/13. Capital totalling £9.9m was spent over the two years on purchasing this and bringing it into an operational condition
- .
- Within the asset under construction figure on the balance sheet is £23.9m in relation to Walton Bridge which is expected to be operational in 2013/14.

The ***pension liability*** recognised on the authority's balance sheet at the 31 March 2013, has a significant impact on the net worth of the authority. The authority contributes to three pensions schemes on behalf of current employees:
- the teachers' pension scheme
- the Local Government pension scheme (LGPS)
- the Fire Fighter Pension Fund, although under current arrangements firefighters' pensions are funded by the government department for Communities and Local Government (DCLG).

It is important to understand that pension benefits do not become payable until employees retire, however the authority 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 authority's independent actuary Hymans Robertson estimated the Local Government Pension Scheme (LGPS) liability to be £628.1m at the balance sheet date, an increase of £90.7m on the previous year. The DCLG fire-fighter pension liability consolidated within the authority's accounts is estimated to be £442.6m an increase of £60.8m on the previous year. This increase in liabilities is caused mainly by a change to the net discount rate over the period from 31 March 2012 of around 0.3% p.a. This results in an increase in the balance sheet liabilities. The liability does not need to be met within the next year but over the working lifetime of the scheme members. The authority 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 £1.071m is based on a snapshot in time and it does not predict the fund's future financial condition or its ability to pay benefits in the future.

6. Changes in Accounting Policies

The 2012/13 Code adopted IFRS 7, which deals with hedge accounting and the transfer of financial assets. Due to the speculative nature of hedge accounting, the authority has not entered into such arrangement to date and so this accounting policy change has not had an impact on these accounts.

7. Borrowing

Long-term borrowing (repayable in more than 12 months) held on the balance sheet relates to the financing of capital expenditure incurred in previous years. The balance currently stands at £238.1m. This is a decrease of £68m since 2011/12, due to the planned repayment of £68m of borrowing in 2013/14. This has been transferred to short-term borrowing which also includes the balance which the authority holds on behalf of Surrey Police Authority.

When undertaking borrowing, the authority ensures that its plans are prudent and affordable in the long term and that its borrowing is in accordance with its approved Treasury Management Strategy. The authority's average interest rate on borrowing was 4.2%.

During 2012/13 no additional external borrowing was undertaken. The authority has adopted a strategy of temporarily using its internal cash resources to finance capital expenditure rather than borrowing externally to do so. These cash resources will need to be replenished in the future in order to meet the commitments for which they are held, but as these commitments are not due to arise in the short-term, this strategy is considered appropriate in the current economic climate where surplus cash balances are producing minimal returns on investment. This strategy has resulted in the authority being 'under-borrowed' against its borrowing limits and capital financing requirement. The MTFP (2013-18) makes provision for the financing of all proposed borrowing.

8. Provisions

Where the authority has a liability to make future payments but the precise timing of the payment and the amount is uncertain, then it creates provisions in the Balance Sheet. At 31 March 2013 the Council has the following material provision:

- Insurance of £6.7m. This provision was created to meet the cost of reported outstanding claims which are not covered by external insurance. It also includes an amount expected to be paid in relation to levy due in relation to the formal trigger on the MMI scheme of arrangement (£1.038m).

Further details on provisions can be found in Note 23.

9. Reserves & Balances

Usable reserves

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

- earmarked reserves - providing financing for future expenditure plans, commitments and possible liabilities;
- general balances – available balances to cushion the impact of uneven cash flow and a contingency for unexpected events;
- capital receipts - the balance of proceeds from the sale of assets not used in-year to fund new capital expenditure but set aside to fund future capital expenditure in accordance with the authority'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.

	Balance at 31 March 2012	Transfers In	Transfers Out	**Balance at 31 March 2013**
	£000	£000	£000	**£000**
Earmarked Reserves				
Schools Balances	49,784	3,007		**52,791**
Investment Renewals Reserve	11,077	5,075	-2,844	**13,308**
Equipment Replacement Reserve	1,111	4,861	-2,915	**3,057**
Vehicle Replacement Reserve	4,350	729	-24	**5,055**
Waste Site Contingency Reserve	299			**299**
Budget Equalisation Reserve	31,977	25,031	-31,977	**25,031**
Financial Investment Reserve	9,505	1,572		**11,077**
PFI Reserve	4,621	1,163		**5,784**
Insurance Reserve	7,225	547	-285	**7,487**
Severe Weather Reserve	5,000			**5,000**
Eco Park Sinking Fund	3,000	5,000		**8,000**
Investment Reserve	4,987			**4,987**
Child Protection Reserve	1,300	2,266		**3,566**
Revenue Grants Unapplied Reserve	19,200	21,273	-20,102	**20,371**
General Capital Reserve	8,432	55	-879	**7,608**
Interest Rate Reserve	0	3,210		**3,210**
Economic Downturn Reserve	0	4,400		**4,400**
	161,869	78,188	-59,026	**181,031**
General Balances	28,837	2,989		**31,826**
Capital Receipts	11,697	6,284	-634	**17,347**
Capital Government Grants Unapplied	66,726	98,523	-107,008	**58,241**
USEABLE RESERVES	269,129	185,984	-166,668	**288,445**

Unusable reserves

Certain reserves are kept to manage the accounting processes for items such as non-current assets, financial instruments, retirement and employee benefits. They do not represent usable resources for the authority and are not backed by cash balances. Note 25 provides further details on unusable reserves.

10. Looking forward to 2013/14 and beyond

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

The government has changed local authorities' financing, and added significant uncertainty to the level of funding that the Authority will receive through the introduction of partial local retention of business rates and localisation of council tax support from April 2013.
Surrey County Council has successfully delivered significant savings over recent years and did so again in 2012/13. Continued year on year savings are becoming increasingly challenging to deliver. The Authority has put the following in place to mitigate against these risks and uncertainties for 2013/14:

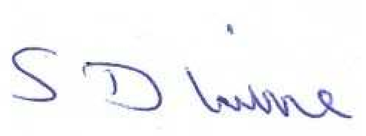
- increased level of risk contingency

- levels of balances and reserves
- planned review of the 2013-18 MTFP after quarter one of 2013/14
- robust and timely monitoring processes.

From April 2013, local authorities will be provided with a ring-fenced public health grant to discharge the new public health responsibilities being transferred from primary care trusts. With a longer-term view, the Authority has created a revolving investment and infrastructure fund to cover the borrowing costs of capital spend on long-term capital investments which will improve the financial resilience of the authority in the future.

11. Further Information

Additional information on the authority's overall revenue and capital budget outturn position and achieved efficiencies for 2012/13 can be found in the '2012/13 Outturn report' considered by the Cabinet on 28 May 2013. Surrey County Council's annual report can be viewed on the website www.surreycc.gov.uk. Further information on the financial statements presented in this document can be obtained from Nikki O'Connor, Finance Manager (Assets & Accounting) (020 8541 9263, nicola.oconnor@surreycc.gov.uk).



Sheila Little BA CPFA
Chief Finance Officer and
Deputy Director for Business Services
May 2013

The Authority's Responsibilities
The authority 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 authority that officer is the Chief Finance Officer and Deputy Director for Change and Efficiency (the chief financial officer);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities
The chief financial officer is responsible for the preparation of the authority'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 chief financial officer 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 chief financial officer 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 12 to 87 presents a true and fair view of the financial position of the authority and of its expenditure and income for the year ended 31 March 2013; that the firefighter pension fund accounting statements on page 89 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2013; that the summary statement of accounts on pages x to x presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2013 and its income and expenditure for the year then ended.

Sheila Little BA CPFA
Chief Finance Officer and
Deputy Director for Business Services
24 June 2013

Nicholas Harrison
Chairman of Audit & Governance Committee

24 June 2013

Movement in Reserves Statement

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

Movement in Reserves Statement

Comparison for Financial Year 2011/12	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Total Useable Reserves £000	Un-useable Reserves £000	Total Council Reserves £000
Balance at 31 March 2011 (as per balance sheet)	-36,321	-107,061	-17,047	-7,214	**-167,643**	30,770	**-136,873**
Surplus(-) or deficit on provision of services (accounting basis)	-32,173				**-32,173**		**-32,173**
Other comprehensive income & expenditure						98,819	**98,819**
Total comprehensive income & expenditure	**-32,173**				**-32,173**	**98,819**	**66,646**
Adjustments between accounting basis & funding basis under regulations (Note 7 & 25)	-15,151		5,350	-59,512	**-69,313**	69,313	
Net increase/decrease before transfers to earmarked reserves	**-47,324**		**5,350**	**-59,512**	**-101,486**	**168,132**	**66,646**
Transfers to/from earmarked reserves (Note 8)	54,808	-54,808					
Increase(-)/decrease in year	**7,484**	**-54,808**	**5,350**	**-59,512**	**-101,486**	**168,132**	**66,646**
Balance at 31 March 2012 (as per balance sheet)	**-28,837**	**-161,869**	**-11,697**	**-66,726**	**-269,129**	**198,902**	**-70,227**

Comprehensive Income & Expenditure Statement

Year ended 31 March 2012 Gross Expenditure £000	Income £000	Net Expenditure £000		**Year ended 31 March 2013** Gross Expenditure £000	Income £000	**Net Expenditure £000**
398,883	-59,821	339,062	Adult Social Care	420,698	-66,113	**354,585**
1,020,543	-741,597	278,946	Education & Children's Services	969,681	-688,360	**281,321**
112,119	-10,312	101,807	Highways & Transport Services	117,990	-14,840	**103,150**
35,896	-5,554	30,342	Cultural and Related Services	34,730	-4,899	**29,831**
64,284	-2,007	62,277	Environmental & Regulatory Services	59,078	-1,880	**57,198**
3,959	-212	3,747	Planning Services	4,731	-207	**4,524**
20,098	-137	19,961	Housing General Fund	16,786	-72	**16,714**
46,650	-2,209	44,441	Fire Services	52,190	-11,159	**41,031**
6,827	0	6,827	Corporate and Democratic Core	6,189	-2	**6,187**
5,244	-2,345	2,899	Central Services to the Public	4,891	-2,420	**2,471**
1,127	0	1,127	Court Services	1,174	0	**1,174**
6,506	0	6,506	Non Distributed Costs	2,034	-5,445	**-3,411**
1,722,136	-824,194	897,942	**Cost of Services - continuing operations**	**1,690,172**	**-795,397**	**894,775**
24,141	-28,573	-4,432	Other Operating Income & Expenditure (note 9)	27,495	-27,626	**-131**
114,114	-74,201	39,913	Financing & Investment Income & Expenditure (note 10)	110,483	-62,251	**48,232**
	-556,452	-556,452	Council Tax (note 11)	0	-579,906	**-579,906**
	-409,144	-409,144	General Grants & Contributions (note 11)	0	-365,210	**-365,210**
1,860,391	-1,892,564	-32,173	**Surplus(-) or Deficit on Provision of Services**	**1,828,150**	**-1,830,390**	**-2,240**
		-16,354	(Surplus) or Deficit on revaluation of non-current assets			**-22,510**
		115,173	Actuarial (gains) / losses on pension assets/liabilities			**134,142**
		98,819	**Other Comprehensive Income & Expenditure**			**111,632**
		66,646	**Total Comprehensive Income & Expenditure**			**109,392**

Balance Sheet

As at 31.03.2012 £000		**As at 31.03.2013 £000**
1,257,775	Property, Plant & Equipment	1,279,980
665	Heritage Assets	665
7,148	Intangible Assets	5,893
241	Long Term Investments	216
503	Long Term Debtors	8,833
1,266,332	**LONG TERM ASSETS**	**1,295,587**
	Short Term:	
99,969	Investments	104,112
80	Intangible Assets	108
4,555	Assets Held for Sale	15,279
1,356	Inventories	1,264
100,845	Short Term Debtors	141,521
109,791	Cash & Cash Equivalents	114,119
316,597	**CURRENT ASSETS**	**376,403**
	Short Term:	
-15,101	Borrowing	-82,089
-194,962	Creditors	-234,271
-2,564	Provisions	-3,300
-157	Revenue Grants Receipts in Advance	-205
-1,239	Capital Grants Receipts in Advance	-587
-214,023	**CURRENT LIABILITIES**	**-320,452**
-7,903	Provisions	-7,202
-306,233	Long Term Borrowing	-238,109
-984,543	Other Long Term Liabilities	-1,145,393
-1,298,679	**LONG TERM LIABILITIES**	**-1,390,704**
70,226	**NET ASSETS**	**-39,166**
-269,129	Usable Reserves	-288,445
198,903	Unusable Reserves	327,611
-70,226		**39,166**

Cash Flow Statement

2011/12 £000		**2012/13** **£000**
-32,173	Net Surplus (-) / Deficit on the Provision of Services	**-2,240**
-134,084	Adjustments to Net Surplus / Deficit on the Provision of Services for non-Cash Movements	**-131,439**
-23,944	Adjustments for Items Included in the Net Surplus / Deficit on the Provision of Services that are Investing and Financing Activities	**-15,872**
-190,201	**Net Cash Flows from Operating Activities**	**-149,551**
154,239	Investing Activities (note 27)	**140,455**
4,142	Financing Activities (note 28)	**4,768**
-31,820	**Net Increase (-) / Decrease in Cash & Cash Equivalents**	**-4,328**
-77,971	Cash and Cash Equivalents at the Beginning of the Reporting Period	**-109,791**
-109,791	Cash and Cash Equivalents at the End of the Reporting Period	**-114,119**

Note 1. Summary of Significant Accounting Policies

i. General Principles

The statement of accounts summarises the council's transactions for the 2012/13 financial year and its position at the year end 31 March 2012. The council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011. The Regulations require the statement of accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13 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. Accruals of Income and Expenditure

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

- Revenue (income) from the sale of goods and provision of services is recognised when the Council transfers the goods or completes the delivery of a service.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet and provision is made for bad and doubtful debts. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

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

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

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

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

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

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

vi. Employee Benefits

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

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service, or where applicable, to the Non-Distributable Costs line, in the Comprehensive Income and Expenditure Statement, when the council is demonstrably committed to the

termination of the employment of an officer or group of officers or is making an offer to encourage voluntary redundancy.

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 three separate pension schemes:

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

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

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

The Local Government Pension Scheme (LGPS) & The Firefighters' Pension Scheme

The Local Government Pension Scheme and the Firefighters' Scheme are administered by Surrey County Council and are accounted for as a defined benefits scheme:

- liabilities of the pension funds attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees);
- liabilities are discounted to their value at current prices, using a discount rate of 4.5%. This rate is based on the indicative rate of return on a high quality corporate bond which is defined as having been "rated at the level of AA or equivalent status". In this instance the 4.5% is made up of a 3.2% yield on 20 year UK Government Bonds and a suitable addition of 1.3% to reflect the extra risk involved in using AA corporate bond yields. The 1.3% was derived by comparing the iBoxx Sterling Corporates AA over 15 year index and the corresponding over 15 year Government Bond index.

The assets of the pension funds attributable to the council are included in the Balance Sheet at their fair value:

- *quoted securities* – current bid price;

- *unquoted securities* – professional estimate;
- *unitised securities* – current bid price;
- *property* – market value.

The change in the net pensions' liability is analysed into seven components:

- *current service cost* – the increase in liabilities as a result of years of service earned this year are allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- *past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- *interest cost* – the expected increase in the present value of liabilities during the year as they move one year closer to being paid are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- *expected return on assets* – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- *gains or losses on settlements and curtailments* – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees are debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- *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;
- *contributions paid to the pension funds* – cash paid as employer's contributions to the pension fund in settlement of liabilities are not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards for retirement benefits. In the Movement in Reserves Statement, appropriations are made to and from the pension reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pension reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits
The council does not make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to teachers are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

vii. Events after the Balance Sheet Date
Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be

identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

viii. Exceptional Items
When items of income and expense are material their nature and amount is disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts depending on how significant the items are to an understanding of the council's financial performance.

ix. Financial Instruments

Financial Liabilities
Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument. Initially liabilities are measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

The Council entered into a Lender Option Borrower Option (LOBO) in 2003/04. This is carried on the balance sheet at a higher amortised cost than the outstanding principal and interest is charged at a marginally higher effective rate of interest than the current rate of interest payable to the lender. This is to smooth the effect of the scheduled stepped interest rate rises over the life of the loan.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market;
- available-for-sale assets are assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made loans to the Painshill Park Trust and to foster carers at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate actually receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices take the market price;
- other instruments with fixed and determinable payments use discounted cash flow analysis;
- equity shares with no quoted market prices require an independent appraisal of company valuations.

The Council holds two investments which are classified as available for sale, these are detailed in Note 16. These investments are included in the accounts at the nominal cost of the share holding as there is no active market. If the value of these investments were to decrease then the carrying amount on the balance sheet would fall accordingly and a provision for the unrealised loss made to the Comprehensive Income & Expenditure Account. Investments in relation to social services residents' accounts are shown at their current cash value.

x. Foreign Currency Translation

Where an council enters into a transaction denominated in a foreign currency the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year- end they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

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

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

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

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

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

Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xii. Heritage Assets

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

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

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

xiii. Intangible Assets

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

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

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

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

Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

xiv. Interests in Companies/Other Entities and Jointly Controlled Operations/Assets
The Council has considered all its relationships and interests in other entities and, save for one case, does not have the power to exercise significant control or influence over those entities' economic activities. The Council does exercise significant control over one trust fund; however, the economic activity of the trust fund is not material. Therefore the Council has not prepared group accounts to show a consolidated position for itself and other entities.

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

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

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

The Council as Lessee

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment to be applied to write down the lease liability;

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).
Local authorities are not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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

The Council as Lessor

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

Lease rentals receivable are apportioned between:

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

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

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

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

xvii. Overheads and Support Services
The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SeRCOP). The total absorption costing principle is used so that the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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

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

- **fair value of the services received during the year** is debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- **finance cost** is an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **contingent rent** is an increase in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- **payment towards liability** is applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **lifecycle replacement costs** reflect a proportion of the amounts payable to be posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

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

- Anchor Homes
- Waste
- Street Lighting
- Care UK

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

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

The Council has adopted a de-minimis limit of £10,000 for vehicles, equipment & plant, and £50,000 for buildings and other assets, below which assets and expenditure on the enhancement of assets will not be capitalised. No formal de minimis limit applies to infrastructure assets.

Measurement
Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deprecation is calculated on the following bases:

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

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

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

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, are credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves' Statement. The written-off value of disposals is not a charge against council tax as the cost of noncurrent assets is fully provided for under separate

arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.
For schools that have attained Academy status and disengaged from the council, the net book value of the land and building is de-recognised from the Balance Sheet through the Capital Adjustment Account.

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

Rentals received are 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. For 2012/13 all rental properties were used to facilitate the council's policy for delivery of services and therefore do not constitute an Investment Property.

xx. Provisions, Contingent Liabilities and Contingent Assets

Provisions
Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account relevant risks and uncertainties.

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.

Provision for Back Pay Arising from Unequal Pay Claims
The Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy. Although statutory arrangements exist which allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established, the county council has not taken up this option to defer payment and the costs

that have arisen as a result of the single status agreement have been charged to the comprehensive income and expenditure account and are funded from this provision.

Landfill Allowance Schemes
Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA), are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant. After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Carbon Reduction Commitment Scheme
The authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its introductory phase, which will last until April 2014. The council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the council is recognised and reported in the costs of the council's services and is apportioned to services on the basis of energy consumption.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets
A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

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

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

xxii. Revenue Expenditure Funded from Capital under Statute
Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxiii. Value Added Tax (VAT)
VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income, unless it is a rebate from previous years.

Note 2: Accounting standards Issued not adopted
The International Accounting Standards Board (IASB) published a revised IAS 19 on 16 June 2011. These new changes will be adopted by the Code for 2013/14 and will be applicable from 1 April 2013. These amendments reclassify components of defined benefit costs to be recognised in the financial statements and provide new definitions for recognition criteria for service costs and termination benefits. These changes to IAS 19 will be retrospectively applied for the 2012/13 financial year, at the time the 2013/14 accounts are prepared. Therefore the figures in this set of accounts will be restated to take account of the changes for the 2012/13 financial year, as well as basing the new 2012/13 figures on the revised standards.

Note 3: Critical judgements in applying accounting policies
In applying the accounting policies set out in Note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are outlined below:

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

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

- The council had £20m deposited with two Icelandic institutions which collapsed in early October 2008. Local authorities have the status of a preferred creditor and the council is anticipating recovery of its original deposit plus accrued interest at 22 April

2009 or the maturity date if earlier. Further details of the assumptions made in relation to the impairment of these investments are provided in Note 48.

- The council has considered all its relationships and interests in other entities and with the exception of the Henrietta Parker Centre has made a judgement that it does not have the ability to exercise control or significant influence over another entity's economic activities and therefore no entities are considered to be subsidiaries of the council. Where the council does exercise significant control over the Henrietta Parker Centre the economic activity of that trust fund, the income of which supports adult learning, is deemed not material and hence the council has not prepared group accounts.

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

The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the assets are recognised as property, plant and equipment on the council's Balance Sheet (see note 43 for additional details).

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

The Statement of Accounts contains estimated figures based on assumptions about the future or that are otherwise uncertain. Estimates take into account historical experience, current trends and other relevant factors. In addition, contingent assets and liabilities, which are not reflected in the statements, are assessed and are disclosed in notes 46 & 47.

The items in the council's Balance Sheet at 31 March 2013 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 was estimated that the annual depreciation charge for buildings would increase by around £1.7m for every year that useful lives had to be reduced.

Provisions	The council has made a provision of £0.974m for the settlement of redundancy costs agreed but not paid. These costs are not certain as some employees may be redeployed.	Should employees be redeployed rather than made redundant, then any unused provision will be reversed in 2013/14.
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.	A decrease of 0.5% in the real discount rate would result in an increase in the pension liability of £178m for the LGPS. A 0.5% increase on the "pension increase rate" would result in an increase in the pension liability of £131m for the LGPS.
Debtors	At 31 March 2013, the council had a balance of £154m on short term debtors (government grants and payments in advance to social care clients in the main). A credit risk review suggested that an impairment level of £12.2m for doubtful debts was sufficient (note 16 to the accounts shows that aged debtors decreased by £8.7m).	Debtors are monitored regularly and should general debtors rise in 2013/14 the council may consider raising its provision for bad and doubtful debt.
Investments	The council had £20m invested in Icelandic institutions which collapsed in early October 2008. The Icelandic Supreme Court ruled that UK local council claims qualified as priority status and this council has received £13.3m to date. The carrying amounts reflected in the accounts are impaired in line with the most recent guidance (See note 48)	The council created an earmarked reserve to mitigate the potential impact of the impairment of this investment.

Note 5: Material items of income and expenditure
The following material items of income and expenditure are included in the comprehensive income and expenditure account (revenue) or the capital expenditure figures for 2012/13:

- Expenditure on highways maintenance (revenue and capital) includes £35.4m to May Gurney and £7.2m to Tarmac.
- £11.5m Costain for Walton bridge capital scheme
- Expenditure on street lighting energy consumption, include £3.7m to Laser Energy
- Contracted bus services including concessionary fares of £7m (£3.6m to Arriva Southern Counties Ltd and £3.4m to Abellio West London Ltd).

Note 6: Events after the balance sheet date
The statement of accounts will be authorised for issue by the chief finance officer in September 2013. 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. No such adjustments have been deemed necessary.

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

Note 7: Adjustments between accounting basis and funding basis under regulations
Local authorities as tax raising bodies are subject to specific rules when determining local tax rates for budget setting purposes. The budget requirement is met from general government grant, non domestic rates and council tax and is calculated net of fees and charges and other specific government grant. Local authorities are required to use capital receipts from the sale of council assets or what the government terms capital grant on the purchase of new or enhancement of existing physical assets or where specified under statute revenue expenditure can be funded from capital sources.

The statutory general fund is the revenue account into which all the receipts of the council are paid and out of which all payments are made. All unused receipts, including capital receipts and capital grant unapplied, available for use in future years is accounted for as useable reserves in a council's Movement in Reserves Statement as shown in note 25 the unusable reserves shown in this statement reflect certain liabilities that are accounted for in the comprehensive income and expenditure statement in accordance with proper accounting practice but are not recognised in accordance with statutory in the general fund for tax setting purposes (e.g. depreciation and unrealised gains and losses on the revaluation of assets).

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

	Usable Reserves			
	General Fund Balance	Capital grant & contributions unapplied reserve	Capital Receipts Reserve	Unusable Reserves
	£000	£000	£000	£000
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement				
Charges for depreciation & impairment of non-current assets	-73,842	0	0	73,842
Revaluation losses on property, plant & equipment	-16,053	0	0	16,053
Amortisation of intangible assets	-2,230	0	0	2,230
De-recognition of Academies	-27,584	0	0	27,584
Revenue expenditure funded from capital under statute	-15,872	0	0	15,872
Net gain/loss on sale disposal of property, plant & equipment	656	0	-6,284	5,628
Deferred Income in respect of PFI schemes	158	0	0	-158
Reversal of donated asset adjustment	21	0	0	-21
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	98,523	-98,523	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	107,008	0	-107,008
Use of Capital Receipts Reserve to finance new capital expenditure	0	0	634	-634
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	67,585	0	0	-67,585
Employer's pensions contributions and direct payments to pensioners payable in the year	-84,973	0	0	84,973
Amount by which the council tax income credited to the Comprehensive Income & Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	-120	0	0	120
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,618	0	0	-1,618
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment (MRP)	25,061	0	0	-25,061
Capital expenditure charged against the general fund balance	7,141	0	0	-7,141
TOTAL ADJUSTMENTS	**-19,911**	**8,485**	**-5,650**	**17,076**

Comparator information relating to the previous year adjustments between accounting basis and funding basis under regulations is provided in the table below:

2011/12 adjustments between accounting basis and funding basis under regulations:	General Fund Balance	Capital grant & contributions unapplied reserve	Capital Receipts Reserve	Unusable Reserves
	£000	£000	£000	£000
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement				
Charges for depreciation & impairment of non-current assets	-72,873			72,873
Revaluation losses on property, plant & equipment	-44,299			44,299
Amortisation of intangible assets	-2,293			2,293
Revenue expenditure funded from capital under statute (REFCUS)	-23,944			23,944
Net gain/loss on sale disposal of property, plant & equipment	3,522		-9,197	5,675
De-recognition of academy schools	-67,804			67,804
Deferred Income in respect of PFI schemes	150			-150
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	59,512	-59,512		
Application of grants to capital financing transferred to the Capital Adjustment Account (Non current Assets £63.731m and REFCUS £23.944m)	87,675			-87,675
Use of Capital Receipts Reserve to finance new capital expenditure			14,547	-14,547
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	66,774			-66,774
Employer's pensions contributions and direct payments to pensioners payable in the year	-56,023			56,023
Amount by which the council tax income credited to the Comprehensive Income & Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	1,661			-1,661
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-1,457			1,457
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment (MRP)	26,715			-26,715
Capital expenditure charged against the general fund balance	7,533			-7,533
TOTAL ADJUSTMENTS	**-15,151**	**-59,512**	**5,350**	**69,313**

Note 8: Transfers to / from earmarked reserves
This note sets out the amounts set aside from the General Fund balance in earmarked reserves, to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General fund expenditure in 2013/14.

	Balance at 01/04/11	Transfers In	Transfers Out	**Balance at 31/03/12**	Transfers In	Transfers Out	**Balance at 31/0313**
	£000	£000	£000	**£000**	£000	£000	**£000**
Schools Balances	**36,606**	11,354		**47,960**	4,831		**52,791**
Transfer of Schools Balances to Academies	**6,047**		-4,223	**1,824**		-1,824	**0**
Investment Renewals	**2,602**	8,488	-13	**11,077**	5,075	-2,844	**13,308**
Equipment Replacement	**3,400**	2,167	-4,455	**1,112**	4,860	-2,915	**3,057**
Vehicle Replacement	**3,342**	1,057	-49	**4,350**	729	-24	**5,055**
Waste Site Contingency	**299**			**299**			**299**
Budget Equalisation	**22,215**	31,977	-22,215	**31,977**	25,031	-31,977	**25,031**
Financial Investment	**5,507**	3,998		**9,505**	1,572		**11,077**
Private Finance Initiative	**2,689**	1,932		**4,621**	1,163		**5,784**
Insurance	**6,231**	994		**7,225**	547	-285	**7,487**
Severe Weather	**5,000**			**5,000**			**5,000**
Eco Park Sinking Fund	**3,000**			**3,000**	5,000		**8,000**
Investment	**0**	4,987		**4,987**			**4,987**
Child Protection	**0**	1,300		**1,300**	2,266		**3,566**
Revenue Grants Unapplied	**1,729**	19,200	-1,729	**19,200**	21,273	-20,102	**20,371**
General Capital	**8,394**	38		**8,432**	55	-879	**7,608**
Interest Rate	**0**			**0**	3,210		**3,210**
Economic Downturn	**0**			**0**	4,400		**4,400**
	107,061	87,492	-32,684	**161,869**	80,012	-60,850	**181,031**

Note 9: Other operating income and expenditure

2011/12		**2012/13**
£000		**£000**
949	Land drainage precept	**949**
-365	Miscellaneous income	**-382**
213	Contributions from trading services	**-406**
-1,584	Change in provisions	**385**
0	Donated Assets	**-21**
-3,645	(Gain)/ Loss on the disposal of non current assets	**-656**
-4,432		**-131**

Note 10: Financing and investment income and expenditure

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

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

2011/12 £000		**2012/13 £000**
15,889	Interest payable and similar charges	**16,698**
98,225	Local government pensions' interest cost (Note 47)	**92,934**
-69,134	Local government & fire pensions' return on assets (Note 47)	**-58,988**
-5,067	Interest receivable and similar income	**-2,412**
39,913		**48,232**

Note 11: Council tax and general grants & contributions

2011/12 £000		**2012/13 £000**	**2012/13 £000**
556,453	Council tax income		**579,906**
	Grants and Contributions:		
116,455	Non domestic rates	134,854	
169,501	Non-ringfenced government grants	141,539	
123,187	Capital Grants and contributions	88,817	**365,210**
965,596			**945,116**

Note 12: Property, plant & equipment - movements during 2012/13

	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 at01/04/12	**1,265,864**	**70,976**	**593,288**	**4,480**	**36,206**	**31,165**	**2,001,979**
Additions	41,370	6,155	52,598	282		33,107	**133,512**
Donations		21					**21**
Revaluations recognised in the Revaluation Reserve	17,235	12					**17,247**
De-recognition - disposals	-3070	-5,607			-117		**-8,794**
De-recognition - other	-38,961						**-38,961**
Reclassifications	288				-288		**0**
Assets reclassified (to)/from Assets Held for Sale	-5,266			-187	552		**-4,901**
Other Movements in assets and valuation						-10,611	**-10,611**
At 31/03/13	**1,277,460**	**71,557**	**645,886**	**4,575**	**36,353**	**53,661**	**2,089,492**
Accumulated Depreciation and Impairment							
At 01/04/12	-332,671	-44,201	-363,276	0	-4,056	0	**-744,204**
Depreciation charge	-37,743	-6,360	-29,739	0	0	0	**-73,842**
Impairment losses recognised in the Revaluation Reserve	-4,052						**-4,052**
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-4,336		-1,112				**-5,448**
De-recognition - disposals	701	5,311			11		**6,023**
De-recognition - other	11,377						**11,377**
Reclassifications	-9				9		**0**
Assets reclassified (to)/from Assets Held for Sale	689				-55		**634**
At 31/03/13	**-366,044**	**-45,250**	**-394,127**	**0**	**-4,091**	**0**	**-809,512**
Net Book Value							
at 31/03/12	**933,193**	**26,775**	**230,012**	**4,480**	**32,150**	**31,165**	**1,257,775**
at 31/03/13	**911,416**	**26,307**	**251,759**	**4,575**	**32,262**	**53,661**	**1,279,980**

* These amounts include assets acquired under PFI schemes (see note 43 for additional details).

Property, Plant & Equipment Comparator 2011/12	**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 (re-valued)							
Balance at 01/04/11	**1,296,582**	**61,251**	**547,042**	**4,641**	**26,793**	**53,940**	**1,990,249**
Additions*:	51,897	9,467	46,246		153	7,569	115,332
Revaluations recognised in the revaluation reserve	5,588	408			9,760		15,756
De-recognition	-86,703						-86,703
Reclassifications				-67			-67
Assets reclassified (to)/from assets held for Sale	-1,426			-94	-500		-2,020
Other movements in cost or valuation **		-150				-30,344	-30,494
Balance at 31/03/12	**1,265,938**	**70,976**	**593,288**	**4,480**	**36,206**	**31,165**	**2,002,053**
Accumulated Depreciation and Impairment							
Balance at 01/04/11	-304,680	-38,409	-333,141				-676,230
Depreciation charge	-38,057	-5,792	-29,023				-72,872
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-8,788		-1,112		-4,056		-13,956
De-recognition	18,780						18,780
Balance at 31/03/12	**-332,745**	**-44,201**	**-363,276**		**-4,056**		**-744,278**
Net Book Value							
at 31/03/11	**991,902**	**22,842**	**213,901**	**4,641**	**26,793**	**53,940**	**1,314,019**
at 31/03/12	**933,193**	**26,775**	**230,012**	**4,480**	**32,150**	**31,165**	**1,257,775**

* These amounts include assets acquired under PFI schemes, please see note 29 for additional details.

** A review of the balance brought forward on assets under construction resulted in de minimis capital expenditure being written out to the Comprehensive Income and Expenditure account in accordance with the council's de minimis policy. In future years de minimis will not be shown in Note 12 as this is not a requirement of the Code. De minimis expenditure does not impact on the general fund balance to the extent that it is financed from capital funding under statutory provisions as accounted for in the capital adjustment account and reflected in unusable reserves

Capital Commitments

At 31 March 2013, the Council has entered into a contract for the acquisition of property, plant and equipment in 2013/14 and future years, budgeted to cost £17.4m. The major commitments are:

- Ranger House, Guildford Project £14.4m
- Egham Town Centre Project £1.8m
- Schools Basic Need (The Pines) £1.2m

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

		Land and Buildings £'000
Carried at historical cost		14,941
Change in fair value as at:		
31 March 2009		292,311
31 March 2010		368,070
31 March 2011		122,828
31 March 2012		54,981
31 March 2013		58,285
	Total	**911,416**

Impairment Losses
During 2012/13 the council has recognised an impairment loss of £20.1m in total. £8.4m is in relation to property assets. This is land and building assets which are re-valued based on existing use value, as part of the five year rolling programme by external valuers. An impairment loss of £4.3m is charged to the Comprehensive Income and Expenditure Statement and £4.1m was offset from the balance in the revaluation reserve in relation to these assets. £10.6m relates to capital expenditure which is below the council's de minimis levels and consequently is written off to the Comprehensive Income & expenditure Statement in the year it is incurred. A further £1.1m impairment relates to Infrastructure assets, where the council has replaced the street lighting assets under the PFI contract. The replacement assets have been added to the balance sheet in line with the appropriate accounting treatment for PFIs and similar contracts and the replaced assets impaired and charged to the Comprehensive Income and Expenditure Statement.

Note 13: Foundation, voluntary aided and voluntary controlled schools and academies

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

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

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

Academies
During 2012/13, 8 schools had transferred to academy status (5 Community Schools, 2 Voluntary Aided Schools and 1 Foundation School). The school is owned and managed completely independently of the local authority and therefore the non-current assets have been excluded from this balance sheet.

Note 14: Heritage assets
Heritage assets are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the council's history and local area. Surrey History Centre is the home of the Archives Service for Surrey County Council. The Centre holds the corporate archives of the County Council and its predecessors, particularly the Court of Quarter Sessions, along with those of second and third tier authorities and a wide range of other public bodies and private institutions and individuals. The collection size varies from a single item (e.g. a letter or title deed) to hundreds of boxes. In total is estimated to be 1000 cubic metres. Ownership of the collections is split between owned (its own archive but also all 'gifted' and purchased collections) and a wide range of corporate bodies and individuals. Over the last 20 years, around 48% of the collections received have been accepted on terms of indefinite loan, ownership remaining with the depositor, 48% as gifts and 4% have been purchased. In terms of physical quantity (cubic metres) the first category (deposited) would constitute a far greater proportion of the whole, as purchased and gifted collections tend to be very small.

The archive collections housed within the repository date back to the 12th century, number over 9000 and are made up of millions of individual items of paper, parchment, photographic (and other) images, maps, plans, volumes, digital and magnetic storage devices. The vast majority of material held unique, i.e. no other copy exists, and is therefore irreplaceable. The three repositories in which the collections are stored meet the British Standard BS5454 (Storage and Exhibition of Archival Material). Temperature and humidity are regulated to tight parameters and a gas-based fire suppressant is installed. The repositories are secure (i.e. only specified staff can access the records).

In addition, the centre houses the local studies' collections of the county which comprise around 35,000 books and pamphlets relating in some way to the history of the county and its inhabitants, around 41,000 illustrations (engravings, prints, postcards etc), around 10,000 photographs, 900 printed maps and 600 periodical titles. Most of this material is to be held in perpetuity as a definitive reference source for the history of the county. Some items have a high monetary value but the vast majority are of a low value. There is no insurance held for these collections as the building is secure and the collections are irreplaceable.

Due to the diverse nature of the items held in the archives, the lack of comparable values and the disproportionate cost of having such items valued in comparison to the benefits to be derived to the users of accounts of having them valued, archived items are not carried in the council balance sheet. Other heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment. The assets are deemed to have indeterminate lives and a high residual value and hence are not subjected to a charge for depreciation and have not been subject to movement in the current or previous year. The art collections, antique furniture, equipment and artefact displayed at the county hall and other buildings are reported in the Balance Sheet at market value as valued by an external valuer. Part of the art collection and certain artefact, furniture and fittings were valued November 2004 by Sotheby's with the remaining assets valued by Christies May 2011. Artefact, the Badge of Office and other miscellaneous items are carried at Historical cost.

The valuations of items carried on the Balance Sheet are set out in the table below:

	31/03/13 £'000
Furniture at County Hall	63
Picture and Paintings at County Hall	530
Artefacts and miscellaneous historical items.	67
Member's Badge of Office at County Hall	5
Total	**665**

Note 15: Intangible assets

The council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT network and accounted for as part of the hardware item of property, plant and equipment. The intangible assets include both purchased licenses and internally generated software. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council. The SAP accounting general ledger is the only item of capitalised software that is individually material to the financial statements and a useful life of 10 years has been assigned to it.

SAP general ledger	31/03/12	**31/03/13**
Carrying Amount (£000)	5,339	**3,509**
Remaining Amortisation Period (Years)	3	**2**

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £2.230m charged to revenue in 2012/13 was charged to the Information Management and Technology administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

The movement on Intangible Asset balances during the year is as follows:

2011/12 Intangible Assets £000		**2012/13 Intangible Assets £000**
22,506	Gross carrying amounts at 1 April	**23,197**
569	Additions	**975**
23,197	Gross carrying amounts at 31 March	**24,172**
-13,756	Accumulated amortisation at 1 April	**-16,049**
-2,293	Amortisation charge in year	**-2,230**
7,148	Net carrying amount at 31 March	**5,893**

Note 16: Financial instruments
Categories of financial instruments
The following categories of financial instrument are carried on the Balance Sheet:

	Long-Term		Short-Term	
	31/03/2012 '£000	**31/03/2013 '£000**	31/03/2012 '£000	**31/03/2013 '£000**
Investments				
Loans & receivables	111	**79**	99,969	**104,112**
Available for sale financial assets	130	**137**		
Total Investments	241	**216**	99,969	**104,112**
Debtors				
Financial assets carried at contract amounts*	503	**8,833**	71,121	**106,051**
Total Debtors	503	**8,833**	71,121	**106,051**
Borrowings				
Financial liabilities at amortised cost	306,232	**238,109**	15,101	**82,089**
Total Borrowings	306,232	**238,109**	15,101	**82,089**
Other Long-term Liabilities				
PFI and finance lease liabilities	44,266	**56,585**		
Total Other Long-term Liabilities	44,266	**56,585**		
Creditors				
Financial liabilities carried at contract amounts			169,124	**178,206**
Total Creditors	0	**0**	169,124	**178,206**

* adjusted for provision for bad debt

Income, expense, gains & losses

	2011/12			**2012/13**		
	Financial Liabilities Measured at amortised cost £000	Financial Assets Loans & receivables £000	TOTAL £000	**Financial Liabilities Measured at amortised cost £000**	**Financial Assets Loans & receivables £000**	**TOTAL £000**
Interest expense	15,889		15,889	**16,698**		**16,698**
Total expense in Surplus or Deficit on the Provision of Services	15,889		15,889	16,698		**16,698**
Interest Income		-1,969	-1,969		-2,040	**-2,040**
Interest Income accrued on impaired financial assets		-3,098	-3,098		-372	**-372**
Total income in Surplus or Deficit on the Provision of Services		-5,067	-5,067		-2,412	**-2,412**

Fair Value of Assets and Liabilities

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

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

	31/03/12		**31/03/13**	
	Carrying Amount £000	Fair Value £000	**Carrying Amount £000**	**Fair Value £000**
Financial Liabilities	317,444	390,873	**320,198**	**393,817**

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

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

	31/03/12		**31/03/13**	
	Carrying Amount £000	Fair Value £000	**Carrying Amount £000**	**Fair Value £000**
Loans & receivables	99,969	99,969	**104,112**	**104,112**
Long-Term debtors	111	111	**79**	**79**

All the investments held by the council at the 31 March 2011 are due to mature within one year therefore the fair value is equal to the carrying amount, which includes accrued interest. Available for sale assets are carried on the Balance Sheet at their fair value. Available for sale assets consist of shares in 3 organisations. These shares are not traded in an active market and so the fair value is taken to be the cost less impairment i.e. the current nominal value of the shares.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their 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:

- the credit risk is the possibility that other parties might fail to pay amounts due to the council;

- the liquidity risk is the possibility that the council might not have funds available to meet its commitments to make payments;
- the re-financing risk is the possibility that the council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- the market risk is 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 for exposures the maturity structure of its debt;
  - the maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with government guidance.

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

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

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

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

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**
31/03/12		31/03/13	31/03/13	31/03/13	**31/03/13**
	Deposits with banks and financial institutions	(a)	(b)	(c)	**(a x c)**
	AAA rated counterparties*	113,750	0.00%	0.00%	
36	AA rated counterparties	20,000	0.03%	0.03%	**36**
	A rated counterparties	100,000			
	Other counterparties**				
6,263	Trade debtors***	118,282			**6,966**
6,299	Total	358,655			**7,052**

* includes £65.2m with other Local Authorities that do not have credit ratings but are backed by central government.
** includes £6.6m of deposits placed in Icelandic institutions whose credit ratings have reduced since the date of placing the deposit.

In October 2008 the Icelandic banking sector defaulted on its obligations and at that time the council had £20m invested in this sector. In accordance with accounting practice the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to accounting requirements. Now all deposits are placed through the London money markets, and invested with institutions in the UK only. The council's treasury management strategy forbids any investment outside of the UK, unless the sovereign rating is AAA with all 3 agencies.

The council does not generally allow credit for its trade debtors, such that £1.2m of the £14.7m balance is past its due date for payment. The past due amount can be analysed by age as follows:

31/03/12 £000		**31/03/13 £000**
3,801	Less than six months	**13,500**
2,471	Six months to one year	**307**
9,549	More than one year	**847**
15,821	Total	**14,654**

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 central 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:

31/03/12 £000		**31/03/13 £000**
5,677	Less than one year	**69,243**
71,790	Between one and two years	**-10,401**
14,096	Between two and five years	**12,493**
26,768	Between five and 15 years	**43,116**
237,049	More than 15 years	**262,333**
355,380		**376,784**

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

31/03/12 £000		**31/03/13 £000**
220,033	Less than one year	**240,373**
220,033		**240,373**

All trade and other payables are due to be paid in less than one year and are not shown in the table above.

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. Changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The council has a number of strategies for managing interest rate risk. The treasury management strategy draws together council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. The treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure; market and forecast interest rates are monitored within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

Currently all borrowing is at a fixed interest rate, with the exception of the monies held for Surrey Police Authority 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. The estimated recoverable amount on the fixed rate investments is not deemed to be impaired by the change in the fair value and therefore there is no impact on the Comprehensive Income & Expenditure Statement of an interest rate rise.

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 £130k in two companies. These companies are not quoted and the shares are held at book value. The council is therefore not exposed to losses arising from movements in the prices of the shares although if either of the companies were to go into liquidation there is a risk that the shares would become worthless. As the shareholdings have arisen in the acquisition of specific interests, the council is not in a position to limit its exposure to these risks.

Foreign exchange risk

The Council currently has money held in escrow in Icelandic krona, as part of the recovery from Landsbanki and Glitnir. While the recovery process is still ongoing, repayments have been made in a basket of currencies, some of which has been in Icelandic krona. Due to currency restrictions still in place, the money held in escrow cannot be transferred into sterling. This may expose Surrey to a risk in exchange rates should the value of krona fall significantly against sterling.

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

Note 17: Inventories

	Consumables & Materials	
	2011/12 £000	**2012/13 £000**
Balance Outstanding at the start of year	1,221	**1,356**
Purchases	3,423	**1,133**
Recognised as an expense in the year	-3,288	**-1,225**
Balance outstanding at year-end	1,356	**1,264**

Note 18: Landfill allowance trading scheme and carbon reduction commitment allowances

Landfill Allowance Trading Schemes (LATS)

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of biodegradable municipal waste disposed of to landfill. It also provides the legal framework for the landfill allowance trading scheme (LATS), which commenced operation on 1 April 2005. The scheme allocates tradable landfill allowances to each WDA in England. Should a WDA exceed its landfill allowances then it is liable to a fine of £150 per tonne.

The county council is the WDA for the area of Surrey. The Department for Environment, Food and Rural Affairs (DEFRA) allocated the council tradable landfill allowances of 152,623 tonnes of bio-municipal waste for the 2012/13 financial year. The council did not purchase any additional allowances during the year.

When the council buries waste in landfill sites it creates a liability which is measured at the prevailing market rate for tradable landfill allowances. At 31 March 2013, the rate was £1 per tonne which is included as expenditure in the accounts of the council as £40,294. This liability is matched by the tradable landfill allowances the county has been allocated, or purchased. The allocated allowances are measured at a rate of £1 per tonne and the allowances are included in income of £152,623.

Unused allowances cannot be carried forward as they cease to be useable for any landfill after the 31 March 2013 and therefore the unused allowances of 145,695 have been written off at the prevailing market rate of £1 per tonne. The estimated usage for 2011/12 was 87,355 tonnes, actual allowances used were 53,989. The excess liability 33,366 has been written back to reduce expenditure as has the excess asset to reduce income at the 2012/13 prevailing market rate of £1 per tonne.

The LATS amounts included in the Comprehensive Income and Expenditure Account and Balance Sheet.

LATS Included in the Comprehensive Income & Expenditure Account

2011/12	Environmental and Regulatory Services	2012/13
£000		£000
80	Expenditure on landfill	7
98	Loss on expired allowances	146
178		153
-178	Income from allowances	-153

Balance Sheet

31/03/12		31/03/13
£000		£000
	Current Intangible Assets:	
80	Landfill usage allowances	7
	Short term provisions:	
-80	Liability to DEFRA for landfill usage	-7

Carbon Reduction Commitment Allowances

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

The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. For 2012/13, the cost to the council of £1.080m (£0.946m for 2011/12) is recognised in short term provisions on the balance sheet (see note 23 for breakdown of provisions). The cost is reported across the council's services and has been apportioned to services on the basis of energy consumption. The council has allowances of £0.101m which have been purchased in advance of need and these are held as a current intangible asset on the Balance Sheet.

Note 19: Debtors

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

31/03/2012		31/03/2013
£000		£000
18,547	Central government bodies	36,494
41,678	Other local authorities	46,090
4,490	NHS bodies	2,445
174	Public corporations and trading funds	316
47,282	Bodies external to general government (i.e. All other bodies)	68,637
112,171	**Total**	153,982
	Less:	
	Provision for Bad Debts	
-5,893	- Social Services	-6,803
-370	- Other Services	-163
-5,063	- Council Tax Arrears	-5,495
100,845		141,521

Note 20: Cash and cash equivalents

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

31/03/12 £000		**31/03/13 £000**
-18,747	General account	**-22,800**
0	Overnight Investments	**8,200**
80,502	Call accounts	**80,094**
48,036	Money market	**48,625**
109,791	**Total Cash and Cash Equivalents**	**114,119**

Note 21: Assets held for sale

Assets held for sale (Current) 31/03/2012 £000		**Assets held for sale (Current) 31/03/2013 £000**
8,090	**Balance Outstanding at 1 April**	**4,555**
	Assets newly classified as held for sale:	
2,020	- Property, Plant and Equipment	**4,267**
	Revaluation gains	**9,315**
-5,555	Assets sold*	**-2,858**
4,555	**Balance Outstanding at 31 March**	**15,279**

* Of the total assets sold (i.e. £2.858m) in 2012/13 £0.4m relates to land and property included in the opening balance and £2.458m relates to land and property newly classified as held for sale during 2012/13.

Note 22: Creditors

31/03/12 £000		**31/03/13 £000**
-19,740	Central government bodies	**-27,031**
-33,077	Other local authorities	**-64,141**
-13,085	NHS bodies	**-4,177**
-1,716	Public corporations and trading funds	**-323**
-127,342	Bodies external to general government (i.e. All other bodies)	**-138,599**
-194,962	**Total**	**-234,271**

Note 23: Provisions

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

Comparator information relating to 2011/12 provisions are provided in the following table:

	Insurance Liabilities	Landfill Usage Liability	Unequal Pay Claim	Travel lump sum	Redundancy	Carbon Reduction Commitment Scheme	**Total Provisions**
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2011	6,373	135	1,530	1,287	1,701		**11,026**
Additional provisions made in 2011/12		80	51		1,487	946	**2,564**
Amounts used in 2011/12		-135		-1,287	-1,046		**-2,468**
Unused amounts reversed in 2011/12					-655		**-655**
Balance at 31 March 2012	6,373	80	1,581		1,487	946	**10,467**
Current Provisions		80	51		1,487	946	**2,564**
Non-Current Provisions	6,373		1,530				**7,903**
	6,373	80	1,581		1,487	946	**10,467**

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 provision also includes an amount to cover the payment of a levy in relation to the MMI insurance scheme (£1.038m). The fund and its liabilities are subject to review by the council's actuaries. The last review occurred during 2012. The council has an earmarked reserve to cover any unknown future liabilities.

Landfill Usage
Landfill allowances, whether allocated by DEFRA (accounted for as a government grant) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. After initial recognition, allowances are measured at the lower of cost and net realisable value. As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. Where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty. The liability for landfill usage is described in Note 18.

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

Travel Lump Sum Payments
The council had a policy of making travel lump sum payments to qualifying staff, who claimed the allowance a year in arrears. A provision of £1.287m was carried forward from 2010/11 accounts to cover the estimated cost of this claim which was drawn during 2011/12 resulting in a nil balance at 31 March 2012. In future adjustments between allowances and actual costs will be accrued for at year end.

Redundancy Costs
A provision was made for £0.974m to cover the cost of redundancies which had been agreed during 2011/12 but for which the expenditure would not be incurred until 2012/13.

Carbon Reduction Scheme
The council is required to purchase and surrender carbon reduction commitment allowances, currently retrospectively, on the basis of emissions (i.e. carbon dioxide produced as energy is used). As carbon dioxide is emitted (i.e. as energy is used) a liability and an expense are recognised. The liability will be discharged by surrendering allowances. Further information on the carbon reduction scheme is disclosed in note 18.

Note 24: Usable Reserves
Movements in the council's usable reserves are summarised in the table below (see Movement in Reserves Statement and notes 7 and 8 for detail).

	Balance 01/03/12	Transfers In	Transfers Out	**Balance at 31/03/13**
Revenue				
General Fund Balance	28,837	22,153	-19,164	**31,826**
Earmarked Reserves	161,869	80,012	-60,850	**181,031**
Total revenue reserves	190,706	102,165	-80,014	**212,857**

Capital				
Capital Grant Unapplied	66,726	-107,008	98,523	**58,241**
Capital Receipts Reserve	11,697	6,284	-634	**17,347**
Total capital reserves	78,423	-100,724	97,889	**75,588**
Total usable reserves	269,129	1,441	17,875	**288,445**

Note 25: Unusable Reserves

31/03/12 £000		**31/03/13 £000**
-235,057	Revaluation Reserve	-251,579
-494,130	Capital Adjustment Account	-498,931
37	Financial Instruments Adjustment Account	37
919,182	Pensions Reserve	1,070,711
-6,360	Collection Fund Adjustment Account	-6,240
15,231	Accumulated Absences Account	13,613
198,903		**327,611**

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.

31/03/12 £000		**31/03/13 £000**	**31/03/13 £000**
(225,683)	**Balance at 1 April**		(235,057)
(16,354)	Upward revaluation of assets	(26,562)	
	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	4,052	
(16,354)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(22,510)
6,980	Difference between fair value depreciation and historical cost depreciation	5,988	
6,980	Amount written off to the Capital Adjustment Account		5,988
(235,057)	**Balance at 31 March**		**(251,579)**

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.

The capital adjustment account is detailed in the table that follows:

31/03/12 £000		**31/03/13 £000**	**31/03/13 £000**
(567,419)	**Balance at 1 April**		**(494,130)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
72,873	Charges for depreciation and impairment of non-current assets	73,842	
44,299	Revaluation losses on Property, Plant and Equipment	16,054	
2,293	Amortisation of intangible assets	2,230	
23,944	Revenue expenditure funded from capital under statute	15,872	
(150)	Deferred Income	(158)	
0	Donated Assets credited to the Comprehensive Income and Expenditure Statement	(21)	
73,479	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	33,212	
216,738			141,031
(6,979)	Adjusting amounts written out of the Revaluation Reserve		(5,988)
209,759	Net written out amount of the cost of non-current assets consumed in the year		135,043
	Capital financing applied in the year:		
(14,547)	Use of the Capital Receipts Reserve to finance new capital expenditure		(634)
	Application of grants to capital financing from the Capital Grants Unapplied Account		(107,008)
(26,715)	Statutory provision for the financing of capital investment charged against the General Fund		(25,061)
(7,533)	Capital expenditure charged against the General Fund		(7,141)
(494,130)	Balance at 31 March		**(498,931)**

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 2013 is in relation to the loss of interest on soft loans issued by the council in 2007/08 to Painshill Park Trust and foster carers, there have been no movements on this reserve during 2012/13.

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.

31/03/12 £000		**31/03/13 £000**
814,760	Balance at 1 April	**919,182**
115,173	Actuarial gains or losses on pensions assets and liabilities	**134,142**
56,023	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	**84,973**
-66,774	Employer's pensions contributions and direct payments to pensioners payable in the year	**-67,585**
919,182	**Balance at 31 March**	**1,070,712**

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.

31/03/12 £000		**31/03/13 £000**
-4,669	Balance at 1 April	**-6,360**
-1,661	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	**120**
-6,360	**Balance at 31 March**	**-6,240**

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.

31/03/12 £000		31/03/13 £000	**31/03/13 £000**
13,774	Balance at 1 April		**15,231**
-13,774	Settlement or cancellation of accrual made at the end of the preceding year	-15,231	
15,231	Amounts accrued at the end of the current year	13,613	
-1,457	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		**-1,618**
15,231	**Balance at 31 March**		**13,613**

Note 26: Operating Activities

The cash flows for operating activities include the following items:

2011/12 £000		**2012/13 £000**
-5,067	Interest Received	**-2,412**
15,889	Interest Paid	**16,698**
10,822		**14,286**

Note 27: Cash Flow - Investing Activities

2011/12 £000		**2012/13 £000**
-123,899	Purchase of property, plant & equipment and intangible assets	**-134,291**
9,197	Proceeds from the sale of property, plant & equipment and intangible assets	**6,284**
-39,594	Movement in short-term and long-term investments	**-4,118**
57	Other receipts/expenditure from investing activities	**-8,330**
-154,239		**-140,455**

Note 28: Cash Flow - Financing Activities

2011/12 £000		**2012/13 £000**
-4,055	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**-3,632**
-87	Repayment of short & long term borrowing	**-1,136**
-4,142		**-4,768**

Note 29: Amounts reported for resource allocation decisions
The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. Decisions about resource allocation are taken by the council's Cabinet on the basis of budget reports analysed across directorates.

Financial reporting standards recognise charges for depreciation and unrealised revaluation gains and losses for determining the cost of services; such transactions are not taken into account for budget setting purposes. Since December 2011 however, this council has been reporting quarterly hard close, which reconciles the budget requirements with accounting requirements.

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

Comparator for 2011/12:

	Adults Social Care £m	Children, Schools & Families £m	Custom er & Comm-unities £m	Environ-ment & Infrastruc -ture £m	Central Services & Financing £m	TOTAL £m
Sources of funding for budget:						
- Council tax					-556.2	-556.2
- Formula Grant					-152.5	-152.5
- Government grants & contributions		-678.6	-4	-0.8	-145.4	-828.8
- Contributions from Reserves		-4.2	-0.3		-23.9	-28.4
						-1,565.9
Amounts reported to Management						
Directorate Budgets:	**325.8**	**845.5**	**70.6**	**118.6**	**205.4**	**1,565.9**
Income						
- Fees, charges & other service income	-55.3	-72.0	-12.3	-12.6	-12.6	**-164.8**
- Interest & investment income					-1.9	
Expenditure						
- Employee expenses	63.6	576.4	57.0	20.7	39.1	**756.8**
- other service expenditure	311.7	322.4	23.5	106.9	161.6	**926.1**
- Interest payments					13.0	**13**
- Precepts & levies					0.1	**0.1**
- DSG variance		12.6				**12.6**
Actual Income & Expenditure	**320.0**	**839.4**	**68.2**	**115.0**	**199.3**	**1,541.9**
Contribution to Reserves (carry-forward)	5.8	6.1	2.0	3.1	14.5	**31.5**
Net Revenue Expenditure (cont to General Fund)	0.0	0.0	-0.4	-0.5	8.4	**7.5**
Accounting Adjustments to CIES (not reported for budget purposes)						
- Depreciation, amortisations & impairment						**211.2**
- Adjustments in relation to pension contributions						**-10.8**
- Recognition of capital grants & contributions						**-147.2**
- Other accounting adjustments						**-0.4**
- Gain or loss on disposal of non-current assets						**-3.5**
Items reported for budget purposes but not charged to the CIES						
- Statutory provision for financing of capital						**-26.7**
- Capital expenditure financed from revenue						**-7.5**
Contributions to/from reserves						**-54.8**
Surplus on Provision of Services						**-32.2**
Surplus on Revaluation of Non-Current Assets						**-16.4**
Actuarial Losses on Pension Assets / Liabilities						**115.2**
Total Comprehensive Income & Expenditure						**66.6**

Note 30: 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 2012/13:

2011/12 £000		**2012/13 £000**
-22,979	Turnover	**-23,815**
22,153	Expenditure	**21,915**
- 826	Surplus(-)	**-1,900**
1,038	Support services recharged to Expenditure of Continuing Operations	**1,494**
212	Net surplus credited to other Operating Expenditure	**406**

Note 31: Agency services

The Council provided the following agency services in 2012/13:

2011/12 £000		**2012/13 £000**
154	Expenditure incurred in providing library services within prisons for the Home Office	**165**
-154	Amount recharged to the Home Office	**-165**
0	**Net surplus arising on the agency agreement**	**0**
202	Expenditure incurred in providing Treasury Management services to the Surrey Local Government Pension Scheme	**198**
-202	Management fee payable by the Surrey Local Government Pension Fund	**-198**
0	**Net surplus arising on the agency agreement**	**0**
15	Expenditure incurred in providing Treasury Management services to the Surrey Police Authority *	**14**
-18	Management fee payable by the Surrey Police Authority	**-17**
-3	**Net surplus arising on the agency agreement**	**-3**
1,342	Expenditure incurred in providing Pension Administration services to the Surrey Local Government Pension Scheme	**1,340**
-1,342	Management fee payable by the Surrey Local Government Pension Fund	**-1,340**
0	**Net surplus arising on the agency agreement**	**0**

* Includes 20% management fee

Note 32: Pooled budgets
Section 75 of the National Health Service Act 2006 (formerly Section 31 of the Health Act 1999) enables health and local authorities to work together for a common objective. This may involve a pooled budget, where all partners make a contribution. The Council has entered into five such schemes with the local Primary Care Trust (PCT):
• Surrey integrated community equipment service for the supply of equipment to enable people with physical disabilities to live at home;

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

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

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

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

Surrey integrated community equipment service

2011/12 £000		**2012/13 £000**
	Funding provided to the pooled budget	
-2,100	- Surrey County Council	-2,100
-2,100	- Surrey PCT	-2,100
-4,200		-4,200
4,223	Expenditure met from the pooled budget	4,262
23	Surplus(-) or deficit	62
12	Surrey County Council share	31

Child and adolescent mental health service

2011/12 £000		**2012/13 £000**
	Funding provided to the pooled budget	
-1,194	- Surrey County Council	-1,194
-1,040	- Surrey PCT	-1,036
-2,234		-2,230
2,124	Expenditure met from the pooled budget	2,206
-110	Surplus(-) or deficit	-24
-59	Surrey County Council share	-13

HOPE services

2011/12 £000		2012/13 £000
	Funding provided to the pooled budget	
-605	- Surrey County Council	-620
-818	- Surrey PCT	-838
-1,423		-1,458
1,423	Expenditure met from the pooled budget	1,490
0	Surplus or (deficit)	32
0	Surrey County Council share	14

Surrey safeguarding children board

2011/12 £000		2012/13 £000
	Funding provided to the pooled budget	
-177	- Surrey County Council	-215
-43	- Police	-52
-11	- Probation	-14
-15	- Surrey boroughs & districts	-18
-203	- Surrey PCT	-245
-25	- Other partners	-28
-474		-572
210	Expenditure met from the pooled budget	308
-264	Surplus or (deficit)	-264
-98	Surrey County Council share	-99

Note 33: Member Allowances

2011/12 £000		2012/13 £000
1,568	Member Allowances*	1,565
91	Member Expenses	86
1,659		1,651

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

Note 34: Officer Remuneration – Senior Officers
Senior officers are specified as: all employees whose annualised salary is £150,000 or more; the head of paid services and any (non secretarial/clerical) person for whom the head of paid services is directly responsible, the directors of children and adult social services, the chief education officer, chief officer of a fire brigade, the chief finance officer and any other individuals who are directly accountable to the council (committee or sub committee) and earn £50,000 or more (whether contracted on a temporary or permanent basis).

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

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

Post	Year	Salary	Expense Allowances	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
		£	£	£	£	£
Chief Executive - D McNulty	2012/13	210,350	4,053	214,403	31,132	245,535
	2011/12	210,000	4,053	214,053	31,080	245,133
Strategic Director of Children, Schools & Families -	2012/13	135,350		135,350	20,032	155,382
N Wilson	2011/12	134,417		134,417	19,894	154,311
Strategic Director of Adult Social Care -	2012/13	144,580		144,580	21,342	165,922
S Mitchell	2011/12	143,850		143,850	21,290	165,140
Strategic Director of Change & Efficiency	2012/13	125,882		125,882	19,372	145,254
	2011/12	127,413		127,413	19,320	146,733
Strategic Director of Environment & Infrastructure -	2012/13	139,715		139,715	20,772	160,487
T Pugh	2011/12	139,963		139,963	20,720	160,683
Strategic Director of Customers & Communities *	2012/13	129,158		129,158	19,061	148,219
	2011/12	128,838		128,838	19,009	147,847
Assistant Chief Executive	2012/13	105,840		105,840	15,740	121,580
	2011/12	106,000		106,000	15,688	121,688
Chief Finance Officer and Deputy Director for Change & Efficiency	2012/13	105,350		105,350	15,592	120,942
	2011/12	101,933		101,933	15,086	117,019
Head of Legal Services	2012/13	100,350		100,350	14,852	115,202
	2011/12	100,000		100,000	14,800	114,800
Head of Fire & Rescue	2012/13	111,838		111,838	13,228	125,066
	2011/12	102,311		102,311	13,141	115,452
Total	2012/13	1,308,413	4,053	1,312,466	191,121	1,503,587
	2011/12	1,294,725	4,053	1,298,778	190,028	1,488,806

* The Strategic Director of Customers & Communities spends 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 35: Officers' Remuneration - Bands falling within the scale of £50,000 or more classified in of multiples of £5,000):

Remuneration (£)	2011/12 Total Numbers	**2012/13 Total Numbers**	2011/12 Schools Numbers	**2012/13 Schools Numbers**	2011/12 Non School Numbers	**2012/13 Non School Numbers**
50,000-54,999	314	**268**	156	**130**	158	**138**
55,000-59,999	197	**207**	107	**100**	90	**107**
60,000-64,999	134	**126**	77	**72**	57	**54**
65,000-69,999	86	**97**	40	**52**	46	**45**
70,000-74,999	40	**35**	24	**22**	16	**13**
75,000-79,999	46	**44**	15	**12**	31	**32**
80,000-84,999	25	**17**	16	**13**	9	**4**
85,000-89,999	9	**14**	3	**5**	6	**9**
90,000-94,999	12	**13**	5	**6**	7	**7**
95,000-99,999	9	**8**	4	**4**	5	**4**
100,000-104,999	10	**7**	5	**4**	5	**3**
105,000-109,999	3	**4**	2	**1**	1	**3**
110,000-114,999	4	**2**			4	**2**
115,000-119,999	1	**3**		**2**	1	**1**
120,000-124-999	1	**2**	1	**1**		**1**
125,000-129,999	2	**2**			2	**2**
130,000-134,999	1				1	
135,000-139,999	1	**2**			1	**2**
140,000-144,999	1	**1**			1	**1**
150,000-154,999	1*				1	
185,000-189,999	1*				1	
210,000-214,999	1	**1**			1	**1**
	899	**853**	455	**424**	444	**429**

* denotes the total number of officers not included in the senior officer note 34 but included in the exit package note 36.

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

Note 36: Exit Packages

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

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies 2011/12	**2012/13**	(c) Number of other departures agreed 2011/12	**2012/13**	(d) Total number of exit packages by cost band (b) + (c) 2011/12	**2012/13**	(e) Total cost of exit packages in each band* 2011/12	**2012/13**
Cost (£)							£000	**£000**
0-20,000	115	**25**	98	**47**	213	**72**	828	**377**
20,001-40,000	41	**13**	5	**15**	46	**28**	1,301	**804**
40,001-60,000	6	**1**		**6**	6	**7**	464	**336**
60,001-80,000	3	**3**		**1**	3	**4**	66	**266**
80,001-100,000	1			**2**	1	**2**	279	**176**
100,001-150,000		**1**				**1**	0	**103**
Total cost included in bandings	166	**43**	103	**71**	269	**114**	2,939	**2,062**
ADD: Amounts provided for in CIES not included in bandings**	68	**6**		**1**		**7**	1,351	**338**
Total cost included in CIES	234	**49**	103	**72**	269	**121**	4,290	**2,400**

*Includes cost of pension fund strain where applicable

** Included in the total cost charged to the CIES is an increase in the redundancy provision made in relation to redundancies that had been approved in 2011/12 but for which no payment had yet been made.

Note 37: External Audit Costs
The council has incurred the following costs in relation to the statutory auditors;

2011/12 £'000		**2012/13 £'000**
290	Fees payable to the Audit Commission with regards to external audit services carried out by the appointed auditor for the year	**174**
8	Fees payable to the Audit Commission for the certification of grant claims and returns for the year	**8**
3	Fees payable in respect of other services provided by the Audit Commission during the year	**4**
301		**186**

Note 38: Dedicated Schools Grant
The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools' budget, as defined in the School Finance (England) Regulations 2011.
The school budget includes elements for a range of educational services provided on an council-wide basis and for the individual school's budget, which is divided into a budget share for each maintained school.
Central expenditure includes items such as:

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

Details of the deployment of DSG receivable for 2011/12 are shown on the table below:

2011/12 £000s				**2012/13 £000s**
687,968	Final DSG 2012/13 before academy recoupment			**695,265**
61,521	Academy figure recouped			**107,121**
626,446	Total DSG after academy recoupment			**588,143**
7,430	Brought forward from 2011/12			**12,771**
4,813	Carry forward agreed in advance			**0**
629,063		central	ISB	**600,914**
673,556	Agreed initial budgeted distribution	77,256	526,462	**603,718**
-44,493	In year adjustments	7,941	-10,746	**-2,805**
629,063	Final distribution	85,197	515,716	**600,913**
64,955	Actual central expenditure	74,098		**74,098**
559,497	Actual ISB		515,716	**515,716**
3,347	Local authority contribution	2,677		**2,677**
12,771	Amount carried forward to 2013/14	13,776	0	**13,776**

Reference:
A-DSG figure as announced by the Department in June 2012
B- Figure recouped by DfE for conversion of maintained schools into academies
C- Total figure after DFE academy recoupment
D-Figure brought forward from 2011/12 as agreed with the Department
E- Any amounts which the council decided after consultation with the Schools Forum, to carry forward to 2013/14 rather than distribute in 2012/13, this will be the difference between initial and final DSG for 2012/13 or a figure which the council carried forward from 2011/12 which it is carrying forward again There was none, because Schools Forum agreed that all c/f should be added to School Specific contingency and carried forward again if necessary.
F-Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.
G-Changes to the initial distribution e.g. exclusions or contingency allocations
H-Budgeted distribution of DSG as at the end of the financial year.
I-Actual amount of central expenditure items in 2012/13 , excluding transfers to earmarked reserves (no such transfers were made in 2012/13)
J-Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the council once it is deployed to schools' budget shares).
K-Contribution from LA which has the effect of substituting for DSG
L-Amount carried forward

Note 39: Grants and contributions

The council credited the followings grants, contributions and donations to the Surplus(-) /Deficit 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:

2011/12 £000		**2012/13** **£000**
	General Grants & Contributions	
116,455	Non domestic rates	**134,854**
35,997	Revenue Support Grant	**14,743**
16,949	Private Finance Initiative Grant	**16,949**
13,837	Council Tax Freeze Grant	**0**
30,433	Early Intervention Grant	**33,407**
64,888	Learning Disability & Mental Health Reform	**66,498**
4,441	Dedicated Schools Grant (Non-ringfenced)	**4,658**
2,957	Other Revenue Grants	**5,284**
57,181	Partnership for Schools (Standards Fund)	**40,346**
15,071	Capital S106 developer contributions	**6,557**
8,502	Capital contributions from schools	**7,046**
25,829	DfT Highways Maintenance & Integrated Grant	**22,054**
2,417	PIC contributions	**0**
1,900	DCLG Resilience & Efficiency Grant	**0**
7,521	DfT Walton Bridge Grant	**12,814**
4,766	Other Capital grants & Contributions	**0**
409,144		**365,210**

Grants credited to services are analysed in the following table:

	Credited to Services	
629,436	Dedicated Schools Grant	**582,773**
1,777	Standards Fund incl. School Development Grant	**0**
1	School Standards Grant/SSGP	**0**
33,852	Young People Learning Agency (replaced LSC)	**27,099**
5,693	Pupil Premium	**10,640**
2,075	Social Care Reform Grant	**0**
1,287	CWDC NQSW Programme Grant	**0**
23,231	Other revenue grants	**18,837**
	Government "Capital" Grant applied to Revenue Expenditure Statute:	
18,408	- Partnership for Schools (Standards Fund)	**7,094**
3,005	- DCLG Single Capital Pot	**0**
1,556	- DfT Highways Maintenance Grant	**0**
0	- DOH Community Capacity grant	**1,129**
0	- Developer Contribution Woking Library	**826**
0	- Capital Contributions from Schools	**616**
974	- Other grants	**41**
721,295	**Total**	**649,055**

Grants and Contributions Received in Advance
The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at the year-end are as follows:

2011/12 £000		**2012/13 £000**
	Grants Receipts in Advance (Capital)	
1,239	Capital contributions from developers S106 for Highways and Transport Service	**587**
1,239		**587**
	Grants Receipts in Advance (Revenue)	
0	Learning Skills Council Post 16 Educ	**88**
0	TDA HLTA/SWIS 08/09	**6**
0	Pupil Premiums 12/13	**76**
0	EFA Grant for GTP Prog Ay 12/13	**33**
9	Standards' Fund and Teacher Training Development	**0**
0	DfE Y7 Catch Up Prem	**2**
148	New homes bonus (201/13 grant)	**0**
157		**205**

Note 40: 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 2012/13 is shown in Note 33.

In addition, a survey of the related party interests of members in office during the 2012/13 financial year and their immediate family members was carried out in preparing this statement of accounts. There were responses from 78 of 79 members. The one outstanding response relates to a member who attended 2 out of 12 meetings due to ill health. These were both local committee meetings and he was not present at any full council meetings which occurred during the year. The council had transactions with 72 bodies that members declared an interest in, with a total value of £11.1m. Of this, payments of £4.9m were to the Kings College for Arts & Technology in which 1 member declared an interest, £1.2m to the Surrey Wildlife Trust in which 7 members declared an interest, £0.9m was to Disability Challengers in which 1 member declared an interest.

Senior Officers are deemed to include all officers earning £60,542 or more of the management structure. The council had transactions with 10 other bodies in which an interest was declared totalling £23.9m. This includes payments of £18.2m to VT Four S in which 1 officer declared an interest; and £4.9m to Cable & Wireless in which 1 officer declared an interest.

Entities Controlled or Significantly Influenced by the Council – relate to one trust fund and the details are provided in the Note 49

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 32.

Surrey Pension Fund
The fee payable by the Surrey Pension Fund to the county council for services provided in 2012/13 was £1,537,236 (£1,544,000 in 2011/12). This is split into the fee for providing pension administration services £1,339,583 (£1,342,000 in 2011/12) and £197,653 (£202,000 in 2011/12) for treasury management, accounting and managerial services.

During 2012/13 the council paid employer pension contributions of £55,659,746 (£55,716,313 in 2011/12).

Net amounts owed by the council to the fund as at 31 March 2013 were £5,866,326 (£740,047 at 31 March 2012).

Note 41: 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:

2011/12 £000		**2012/13 £000**
537,949	**Opening Capital Financing Requirement**	**540,950**
-346	Prior year REFCUS adjustment	
	Capital investment:	
115,332	Property, Plant and Equipment	133,512
691	Intangible Assets	975
23,944	Revenue Expenditure Funded from Capital Under Statute	15,872
	Long Term Debtor	8,388
	Sources of Finance	
-14,547	Capital receipts	-634
-87,675	Government grants and other contributions	-107,008
-4,159	Sums set aside from revenue	-3,736
-3,374	Direct revenue contributions	-3,405
-26,715	Minimum Revenue Provision	-25,061
-150	PFI Deferred Income	-158
540,950	**Closing Capital Financing Requirement**	**559,695**
	Explanation of movements in year	
14,144	Increase in underlying need to borrowing (unsupported by government financial assistance)	27,896
-26,715	Minimum Revenue Provision	-25,061
16,068	Assets acquired under finance leases/PFI	16,068
-150	PFI Deferred Income	-158
-346	Prior year REFCUS adjustment	
3,001	**Increase / (decrease) in Capital Financing Requirement**	**18,745**

Note 42: Leases

Council as Lessee

Finance Leases:

In addition to the finance lease liabilities recognised as a result of PFI and similar arrangements (detailed in note 43) a school entered into a leasing agreement totalling

£980,000 during 2003/04 repayable over 22 years. This represents a long-term liability for the council and is treated as a finance lease matched by an asset, which is the security for the liability.

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

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

31/03/12 £000		**31/03/13 £000**
	Finance lease liabilities:	
59	Not later than one year	59
236	Later than one year but not later than five years	236
441	Later than five year	383
312	Finance costs payable in future years	288
1,048	Minimum lease repayments	**966**

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

31/03/12 £000		**31/03/13 £000**
	Operating lease liabilities - land and buildings:	
4,363	Not later than one year	2,736
11,924	Later than one year but not later than five years	14,300
13,178	Later than five year	15,136
29,465		**32,172**

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

2011/2012 £000	Amounts charged to the Comprehensive Income and Expenditure Statement during the year Operating leases - land and buildings	**2012/2013 £000**
5,521	Minimum lease payments for the year	3,151
175	Contingent rents in year	90
5,696		**3,241**

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

In addition, the council leases a number of items of equipment such as photocopiers.
The future lease repayments on these operating lease items are as follows:

31/03/12 £000		**31/03/13 £000**
	Operating lease liabilities – equipment:	
248	Not later than one year	196
222	Later than one year but not later than five years	115
3	Later than five year	0
473		**311**

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:

31/03/12 £000		**31/03/13 £000**
	Lease liabilities - land and buildings:	
698	Not later than one year	1,041
1,771	Later than one year but not later than five years	2,806
8,904	Later than five year	8,817
11,373		**12,664**

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 43: 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. The original planned investment in new disposal facilities did not proceed due to planning constraints and a large proportion of the investment remains to be delivered. As a result the council faces a contingent liability as described in note 46.

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

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

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

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

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

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

The table below summarises the movement:

	2011/12		**2012/13**	
	Land & Buildings £000	Infrastructure £000	**Land & Buildings £000**	**Infrastructure £000**
Gross cost at 1 April	79,120	15,071	**79,120**	**31,139**
Additions		16,068		**16,068**
Gross Cost at 31 March	79,120	31,139	**79,120**	**47,207**
Accumulated Depreciation and Impairment at 1 April	-12,524	-600	**-13,868**	**-2,122**
Depreciation charge for the year	-1,344	-410	**-1,344**	**-812**
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	-1,112	**0**	**-1,112**
Accumulated Depreciation and Impairment at 31 March	-13,868	-2,122	**-15,212**	**-4,046**
Net book Value at 1 April	66,596	14,471	**65,252**	**29,017**
Net book value at 31 March	65,252	29,017	**63,908**	**43,161**

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 2013 (based on 2012/13 prices, excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payable in 2013/14 £000	Payable within two to five years £000	Payable within six to ten years £000	Payable within 11 to 15 years £000	Payable within 16 to 20 years £000	Payable within 21 to 25 years £000	**TOTAL £000**
Payment for Services							
- Waste*	33,541	134,162	167,703	33,541			**368,947**
- Anchor Trust	16,086	64,345	16,086				**96,517**
- Care UK	8,473	33,893	42,366	33,893			**118,625**
- Street Lighting	3,149	8,789	9,591	9,930	10,681	4,275	**46,415**
	61,249	241,189	235,746	77,364	10,681	4,275	**630,504**
Reimbursement of Capital Expenditure							
- Waste*	271	1,257	2,054	489			**4,071**
- Anchor Trust	1,519	7,056	2,040				**10,615**
- Care UK	75	349	570	594			**1,588**
- Street Lighting**	1,297	6,266	11,467	15,956	22,772	11,320	**69,078**
	3,162	14,928	16,131	17,039	22,772	11,320	**85,352**
Interest							
- Waste*	248	816	539	30			**1,633**
- Anchor Trust	645	1,599	124				**2,368**
- Care UK	97	338	289	93			**817**
- Street Lighting	4,671	25,877	30,497	25,668	18,102	4,149	**108,964**
	5,661	28,630	31,449	25,791	18,102	4,149	**113,782**
TOTAL	**70,072**	**284,747**	**283,326**	**120,194**	**51,555**	**19,744**	**829,638**

* The projected costs for the waste contract are based on capital investment up to 2011/12. When further facilities are delivered under the contract, the council's commitments will increase.

** 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:

2011/12 Finance Lease Liability £000	2011/12 Deferred Income Liability £000		**2012/13 Finance Lease Liability £000**	**2012/13 Deferred Income Liability £000**
-31,458	-12,814	Balance outstanding at the start of the year	**-43,471**	**-12,664**
4,055		Payments during the year	**3,632**	
-16,068		Capital expenditure incurred in the year	**-16,068**	
	150	Amortisation of deferred income		**158**
-43,471	-12,664	Balance outstanding at year end	**-55,907**	**-12,506**

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

31/03/12 £000		**31/03/13 £000**
55	not later than one year	**68**
345	later than one year but not later than 5 years	**342**
907	later than 5 years	**842**
1,307		**1,252**

Note 44: 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 technically a 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. 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 2012/13, the council paid £53.6m to teachers' pensions in respect of retirement benefits, representing 14.0% of pensionable pay. The figures for 2011/12 were £55.8m and 14.3%. 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.

Note 45: 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. The arrangements for the teachers' pension scheme mean that liabilities for these benefits cannot ordinarily be identified to the council specifically and therefore the scheme is accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the balance sheet.

Surrey County Council contributes to two defined benefit schemes:

- The Local Government Pension Scheme (LGPS) is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets in the long term.
- The Firefighter Pension Scheme is an unfunded defined benefit final salary scheme meaning that because no investment assets have been built up to meet these pension liabilities cash, net of contributions from active members and government grants, has to be generated to meet pension payments as they fall due.

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	
	2011/12	**2012/13**	2011/12	**2012/13**
	£000	**£000**	£000	**£000**
Comprehensive Income & Expenditure Statement				
Cost of Services:				
- current service cost	45,074	**45,631**	9,100	**9,700**
- past service cost	-1,807	**-1,437**	4,100	
- settlements and curtailments	-30,644	**-4,008**		
Financing & Investment Income & Expenditure				
-other operating expenditure (trading services)	1,109	**1,141**		
- interest cost	78,825	**74,834**	19,400	**18,100**
- expected return on scheme assets	-69,134	**-58,988**		
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	23,423	**57,173**	32,600	**27,800**
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement				
- actuarial (gains) and losses	108,272	**89,042**	6,900	**45,100**
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	131,695	**146,215**	39,500	**72,900**
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	-23,423	**-57,173**	-32,600	**-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	58,000	**55,524**	10,811	**12,061**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £614.5m (£485.1m in relation to the LGPS and & £129.4m in relation to the Fire Fighters Pension Scheme).

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	
	2011/12	**2012/13**	2011/12	**2012/13**
	£000	**£000**	£000	**£000**
Opening Balance at 1 April	-1,459,701	**-1,564,013**	-353,515	**-381,742**
Current service cost	-46,183	**-46,772**	-9,100	**-9,700**
Interest cost	-78,825	**-74,834**	-19,400	**-18,100**
Contributions by scheme participants	-16,633	**-16,581**	-2,200	**-2,300**
Actuarial gains and losses	-57,030	**-192,611**	-6,900	**-45,100**
Pensions and lump sum expenditure			13,700	**13,800**
Benefits paid	53,574	**54,195**		
Past service costs	1,807	**1,437**	-4,100	
Curtailments	-2,886	**6,695**		
Settlements	43,215			
Employer contributions adjustment*	-1,351	**-1,269**	-227	**561**
Closing balance at 31 March	-1,564,013	**-1,833,753**	-381,742	**-442,581**

Reconciliation of present value of the scheme (plan) assets:

	Local Government Pension Scheme		Firefighters' pension scheme	
	2011/12	**2012/13**	2011/12	**2012/13**
	£000	**£000**	£000	**£000**
Opening Balance at 1 April	998,457	**1,026,574**		
Expected rate of return	69,134	**58,988**		
Actuarial gains and losses	-51,242	**103,569**		
Employer Contributions	55,500	**55,524**		
Employer contributions adjustment*	1,351	**1,269**		
Contributions by scheme participants	16,633	**16,581**		
Benefits paid	-53,574	**-54,195**		
Settlements	-9,685	**-2,687**		
Closing balance at 31 March	1,026,574	**1,205,623**	0	**0**
Net Asset Liability	-537,439	**-628,130**	-381,742	**-442,581**

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

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £162.6m (2012/13: £18.2m).

Scheme History

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	**2012/13 £000**
Present value of liabilities:					
Local Government Pensions Scheme	-1,067,912	-1,756,940	-1,459,701	-1,564,013	**-1,833,753**
Firefighter Pension Fund	-274,889	-396,226	-353,515	-381,742	**-442,581**
Fair value of assets in the Local Government Pension Scheme	613,352	914,014	998,457	1,026,574	**1,205,623**
Surplus/(Deficit) in the scheme:					
	-729,449	-1,239,152	-814,759	-919,181	**-1,070,711**
Local Government Pensions Scheme	-454,560	-842,926	-461,244	-537,439	**-628,130**
Firefighter Pension Fund	-274,889	-396,226	-353,515	-381,742	**-442,581**
Total	-729,449	-1,239,152	-814,759	-919,181	**-1,070,711**

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £919m 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 healthy:

- 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 2027.

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 Fire Fighters Pension Scheme have been assessed by the council's actuaries, Hymans Robertson using the latest full valuation of the scheme as at 31 March 2007 and 31 December 2010 respectively.

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	
	2011/12	**2012/13**	2011/12	**2012/13**
	£000	**£000**	£000	**£000**
Long-term expected rate of return on assets in the scheme:				
- equity investments	6.3%	4.5%	-	-
- bonds	3.9%	4.5%	-	-
- property	4.4%	4.5%	-	-
- other (cash)	3.5%	4.5%	-	-
Mortality assumptions:				
- longevity at 65 for current pensioners (60 for firefighters):				
- Men	21.9 years	21.9 years	27.9 years	28.1 years
- Women	24.0 years	24.0 years	30.8 years	31.0 years
- longevity at 65 for future pensioners (60 for firefighters):				
- Men	23.9 years	23.9 years	29.5 years	29.7 years
- Women	25.9 years	25.9 years	32.3 years	32.5 years
Rate of inflation	2.5%	3.2%	3.3%	3.6%
Rate of increase in salaries*	4.8%	5.1%	3.5%	3.8%
Rate of increase in pensions	2.5%	2.8%	2.5%	2.8%
Rate for discounting scheme liabilities	4.8%	4.5%	4.8%	4.5%
Take-up of option to convert annual pension into retirement lump sum	25.0%	25.0%	-	-

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

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

The Local Government Pension Scheme assets consist of the following categories, by proportion of the total assets held:

2011/12		**2012/13**
%		**%**
73	Equity Investments	**76**
18	Debt Instruments (Bonds)	**18**
6	Property	**5**
3	Other Assets (Cash)	**1**
100		**100**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	Local Government Pension Scheme				
	2008/09	2009/10	2010/11	2011/12	**2012/13**
	%	%	%	%	**%**
Difference between the expected & actual rate of return on assets	39.3%	24.7%	1.6%	4.2%	**3.7%**
Experienced gains & losses on liabilities	0.0%	0.1%	6.5%	11.7%	**0.1%**

	Firefighters' Pension Fund				
	2008/09	2009/10	2010/11	2011/12	**2012/13**
	%	%	%	%	**%**
Difference between the expected & actual rate of return on assets	-	-	-	-	**-**
Experienced gains & losses on liabilities	-1.6%	1.6%	3.2%	2.5%	**0.0%**

Note 46: 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 2013 the council had the following contingent liabilities:

- The council embarked upon a PFI for waste disposal in 1999. By the end of 2012/13 £117.7 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.
- The County Council arranged in 2001 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. This review reported the potential liability from £400k, for minimum work, through to intervention (£4.3m to £5.9m) and best practice (£24.6m to £33.4m). 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. However, to date, very few investigations have been taken place. At a number of sites that the Council still own, data is currently being collected to gain a better understanding of the likelihood that remedial works will be required. The Council would seek to share any eventual liabilities with those in ownership of the sites when they were landfilled.
- There are a number of historic high profile investigations around social care which could impact on the council. The potential liability is difficult to quantify but there is potential for up to £1m of expenditure in respect of successful future high value claims.
- A school has received a contribution from Sport England amounting to £120,000 towards the total project costs of a sports facility project. The council has entered

into a Deed of Dedication in relation to the terms and conditions attached to the award of this contribution and if the school do not comply with these terms then the council may be liable to repay all or some of this grant.

Note 47: Contingent assets

Assets are not incorporated within the accounts where:

- there is no certainty that an actual benefit will arise
- the extent of an obligation cannot be measured with sufficient reliability
- it is not wholly within the council's control.

At 31 March 2013, the council had no material contingent assets.

Note 48: Nature and extent of risks arising from financial instruments

Early in October 2008 the Icelandic banks Landsbanki and Glitnir with which the council had invested £20m collapsed and went into administration. On 28 October 2011 the Icelandic Supreme Court ruled that UK local authorities' claims qualified as priority claims under Icelandic bankruptcy legislation meaning that the values of the council's claims will be equal to the value of the original deposit plus interest accrued to 22 April 2009 or the maturity date if earlier.

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

Landsbanki's distribution policy was implemented on 17 February 2011, and has since paid out £4,991,876 to the council on that day. It is estimated that the remainder of the award will be paid out over a number of years.

The winding up board anticipates recoveries in the Landsbanki administration to exceed the book value of recognised priority claims and therefore it is likely that the council will recover 100% of its deposits in Landsbanki (as well as Glitnir) subject to fluctuations in exchange rates. Due to the long recovery timescale for Landsbanki the council has not adjusted its carrying to reflect the revised 100% recovery rate for Landsbanki which was set at 94.85% for previous calculations.

The council has estimated the impairment on the original investments by discounting the cash flows of the estimated recovery amounts to its present value using the original annual interest rate.

The following table summarises the transactions in the council's accounts:

Institution	**deposit at maturity date**	**Interest Rate**	**Maturity Date**	**Total paid to date**	**Carrying Amount**
	£000s			£m	£m
Glitnir	5.3	6.25%	31 Oct. '08	4.2	1.1
Glitnir	5.3	6.20%	31 Oct. '08	4.2	1.1
Landsbanki	10.6	5.90%	31 Mar '09	4.9	4.5

Note 49: Trust funds

The Council acts as a custodian trustee for 42 trusts and as one of several trustees for a further 4 funds. As a custodian trustee the council holds the property but takes no decisions on its use. In neither case do the funds represent the assets of the council and therefore they have not been included in the Balance Sheet

Overall general balances	Total 2011/12 £000	**Total 2012/13 £000**
Balance at 1 April	4,179	**4,035**
Opening Balance for additional trust		**849**
Add income for year	80	**403**
	4,259	**5,287**
Less expenditure for year	224	**274**
Balance at 31 March	4,035	**5,013**
Number of funds	45	46
Balance Sheet at 31 March 2013		
Assets:		
Investments	2,989	**3,189**
Cash	1,046	**1,824**
	4,035	**5,013**
Represented by Fund balances		
The council acts as trustee for the following categories of funds:		
Educational purposes including prizes (32 funds)	626	634
Personal client funds in Children's Service	58	59
Recreational facilities in Runnymede (Abbey Barn)	70	32
Domestic Sciences (Henrietta Parker Centre)	883	903
Provision of facilities for Young People in Chobham (Lawson Bequest)	111	0
Lingfield Guest House Trust (building upkeep and maintenance)	453	488
Road maintenance in Long Ditton	22	22
	2,223	**2,138**
The council acts as one of several trustees for the following categories of funds:		
Educational purposes including prizes (2 funds)	95	**110**
Music and the arts (Robert Phillips Trust)	1,717	**1,916**
Surrey Education Trust	0	**849**
	1,812	**2,875**
	4,035	**5,013**
Total market value of investments (council as sole trustee)	1,762	**1,760**
Total market value of investments (council as one of several trustees)	1,815	**1,976**

TO BE ADDED ONCE APPROVED BY COMMITTEE – SEPARATE ITEM ON AGENDA.

Explanatory Foreword

Legal status

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

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

Fund operations

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

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

As there are not any investment assets built up to meet these pension liabilities, cash, net of contributions from active members and government grants, has to be generated to meet pension payments as they fall due. When accounting for the cost of retirement benefits the liability is recognised and reported in the council's cost of services when pensions are earned by employees, rather than when the benefits are eventually paid as pensions. The actuarial loss recognised in the council's Comprehensive Income and Expenditure Statement to the 31 March 2013 for the fire fighters' scheme is £129.4m. The council's actuary based their calculations on future pension increases being linked to the consumer prices index (see note 45 of the council's statement of accounts for details of these amounts).

Estimating the net liability to pay pensions depends upon a number of complex judgements relating to salary increase projections, changes in retirement ages and mortality, expected returns on pension fund assets and the discount rate used for financial modelling. A sensitivity analysis carried out by the actuary revealed that a 1% decrease in the discount rate assumption would result in an increase in the pension liability of £8.3m.

Significant Accounting Policies

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

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.

2011/12 £000	Ref: Note	**Fire-fighter Pension Fund Account**	**2012/13 £000**
		Contributions Receivable:	
-4,016	1	Contributions receivable from employer (normal)	-3,960
-2,187	1	Contributions receivable from employees	-2,270
-75	3	Individual transfers in from other schemes	-42
-6,278			**-6,272**
		Benefits payable	
11,349	2	Pensions	12,103
2,214	2	Commutations and lump sum retirement benefits	1,768
57	3	Individual transfers out to other schemes	0
13,620		Total amounts payable	**13,871**
7,342		**Net amount receivable for the year before top-up grant**	**7,599**
-4,744	4	Top-up grant received from DCLG	-4,926
-2,598	4	Top-up grant still owing from DCLG	-2,673
-7,342		Net amount payable / receivable for the year	**-7,599**

Net Asset Statement

31 March 2012 £000		**31 March 2013 £000**
	Current Assets:	
2,598	Pension Top-up Grant Receivable from Central Government	**2,673**
2,598		**2,673**
	Current Liabilities:	
-2,598	Cash Overdrawn	**-2,673**
-2,598		**-2,673**

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

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

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

Note 4 – Top up Grant
The fund was topped up by Government grant of £7.599m in 2012/13 (£7.342m in 2011/12) as contributions are insufficient to meet the cost of pension payments due for the year of which £4,926 grant was received during the year leaving an outstanding balance of £2,673 due from the government.

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2012/2013 and of the disposition of its assets at 31 March 2013.

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 around a hundred other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply.

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

The number of employees in the fund and the number of pensioners as at 31 March 2012 and 31 March 2013 are:

2011/2012		**2012/2013**
29,120	Employees in the fund	30,608
19,664	Pensioners	20,553
26,583	Deferred pensioners	27,648
75,367	**Total**	**78,809**

Surrey pension fund account

2011/2012 £000		Note	2012/2013 £000
	Contributions and benefits		
138,582	Contributions receivable	6	**141,394**
13,968	Transfers in	7	**31,983**
152,550			**173,377**
-109,800	Benefits payable	8	**-113,893**
-35,835	Leavers	9	**-7,945**
-1,717	Administrative expenses	13	**-1,867**
-147,352			**-123,705**
5,198	**Net additions from dealings with members**		**49,672**
	Returns on investments		
42,887	Investment income	15	**40,645**
1,441	Change in market value of investments	16	**278,985**
-6,150	Investment management expenses	14	**-6,856**
38,178	**Net returns on investments**		**312,774**
43,376	**Net increase (decrease) in the fund during the year**		**362,446**
	Net assets of the fund		
2,152,894	**At 1 April**		**2,196,270**
2,196,270	**At 31 March**		**2,558,716**

Net asset statement

31 Mar 2012 £000		Note	31 Mar 2013 £000
	Investment assets	16	
309,600	Fixed interest securities		**347,863**
79,752	Index linked securities		**99,100**
1,510,160	Equities		**1,574,687**
120,306	Property unit trusts		**120,748**
-	Diversified growth		**238,986**
84,776	Private equity		**90,336**
	Derivatives	16c	
126	- Futures		**-**
7,939	- Foreign exchange contracts		**2,153**
70,564	Cash		**59,723**
18,281	Other investment balances		**11,128**
	Investment liabilities		
	Derivatives	16c	
-	- Futures		**-310**
-1,414	- Foreign exchange contracts		**-7,500**
-8,297	Other investment balances		**-3,810**
2,191,793	**Net investment assets**		**2,533,104**
-	**Long-term debtors**		**16,335**
9,071	**Current assets**	10	**13,582**
-4,594	**Current liabilities**	12	**-4,305**
2,196,270	**Net assets of the fund at 31 March**		**2,558,716**

Note 1: Description of the fund

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

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2012/13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

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

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

It is a contributory defined 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 2012/13 the investments of the fund were overseen by the Investment Advisors Group (IAG) and scrutinised by the Audit & Governance Committee at Surrey County Council. Pension administration issues were overseen by the People, Performance and Development Committee. From May 2013 the governance arrangements of the fund will move in line with best practice and the various committees will be replaced by a single Surrey Pension Fund Board which will have full responsibility for all pension fund related matters.

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 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 range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits
Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service.

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

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

	Service pre April 2008	**Service post 31 March 2008**
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

f) New LGPS Scheme 2014
The current government requested Lord Hutton to chair a commission on the reform of public sector pensions. Following the publication of this report in 2011, a new scheme design for the LGPS was agreed. The new scheme will commence on April 1 2014.

The changes will not affected those who currently receive pension payments. All pension benefits built up at March 2013 will be treated according to the current scheme rules.

	Current LGPS scheme	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

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

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

For additional information into the LGPS 2014 please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org) or to 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 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 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 on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 25 of these accounts.

Note 3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

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

   Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

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

   Transfers in/leavers are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

   Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

c) Investment income

   i) Interest income

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

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

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

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

Fund account – expense items

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

e) Taxation
The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

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

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

g) Investment management expenses
All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market

value of the investments under management and therefore increase or reduce as the value of these investments change.

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

Net assets statement

h) Financial assets

Financial assets are included in the net asset statement on a fair value basis as at the reporting date. 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 council expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer - the value of the consideration offered under offer, less estimated realisation costs.
- Directly held investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund

managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

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

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

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

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

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

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

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

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

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

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

n) Additional voluntary contributions

Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The fund has appointed Prudential as it AVC provider, however a small number of members remain with 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 2013 was £90 million (£85 million 31 March 2012).

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 a summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The items in the net assets statement as at 31 March 2013 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 of the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy.
Private equity	Private equity investments are valued at fair values provided by the administrators of the funds. These investments are not publically listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £90 million. There is a risk that this investment may be over or under stated in the accounts.

Note 6: Contributions receivable

By category

2011/2012 £000		2012/2013 £000
106,671	Employers	109,514
31,911	Members	31,880
138,582		**141,394**

By employer

2011/2012 £000		2012/2013 £000
75,435	Administering authority	78,045
52,266	Scheduled bodies	50,889
10,881	Admitted bodies	12,460
138,582		**141,394**

Note 7: Transfers in from other pension funds

2011/2012 £000		2012/2013 £000
-	Group transfers in from other schemes	18,150
13,968	Individual transfers in from other schemes	13,833
13,968		**31,983**

Note 8: Benefits payable

By category

2011/12 £000		2012/13 £000
86,143	Pensions	94,191
20,667	Commutation and lump sum retirement benefits	16,818
2,946	Lump sum death benefits	2,840
109,756		**113,849**

The total does not include interest on late payment of benefits £43,874 (£43,793 2011/12)

By employer

2011/2012 £000		2012/2013 £000
51,916	Administering Authority	54,388
49,746	Scheduled Bodies	50,875
8,094	Admitted Bodies	8,586
109,756		**113,849**

Note 9: Payments to and on account of leavers

2011/2012 £000		2012/2013 £000
26,376	Group transfers to other schemes	96
9,448	Individual transfers to other schemes	7,814
15	Refunds of contributions	30
-4	Payments for members joining state schemes	5
35,835		**7,945**

Note 10: Current assets

2011/2012 £000		2012/2013 £000
1,055	Contributions – employees	2,445
5,650	Contributions - employer	9,239
2,366	Sundry debtors	1,898
9,071		**13,582**

Analysis of current assets

2011/2012 £000		2012/2013 £000
187	Central government bodies	713
6,727	Other local authorities	10,907
-	NHS bodies	-
8	Public corporations and trading funds	-
2,149	Other entities and individuals	1,962
9,071		**13,582**

Note 11: Long term debtors

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the civil service. Terms have been agreed for the transfer of liabilities from all Local Government Pension Scheme (LGPS) to the Principle Civil Service Pension Scheme (PCSPS). Hymans Robertson the fund's actuary has determined the value of the pensioner and deferred liabilities remaining with the fund and has calculated the retained assets to match these liabilities. The actuary has determined that the assets are insufficient to match the liabilities and a balancing payment is now required.

On 11 March 2013 it was agreed that the total value of the payment is £18.15m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount has been recognised as a 'transfer in' during 2012/13 as per the accounting policy to accrue for group transfers. A corresponding debtor has been created. The first instalment of £1.815m was actually received on 26 March 2013, meaning that as the remaining nine instalments are due in excess of one year from the 31 March 2013, the whole of the remaining balance has been included as a long term debtor in the accounts.

2011/2012 £000		2012/2013 £000
-	Central government bodies	16,335
-		**16,335**

Note 12: Current liabilities

2011/2012 £000		2012/2013 £000
4,527	Sundry creditors	4,257
67	Benefits payable	48
4,594		**4,305**

Analysis of current liabilities

2011/2012 £000		2012/2013 £000
1,065	Central government bodies	1,157
1,548	Other local authorities	1,592
-	NHS bodies	-
13	Public corporations and trading funds	-
1,968	Other entities and individuals	1,556
4,594		**4,305**

Note 13: Administrative expenses

2011/2012 £000		2012/2013 £000
961	Employee related	901
644	Support services	826
40	External audit fee	20
10	Legal and other professional fees	6
61	Actuarial fees	114
1,717		**1,867**

Note 14: Investment expenses

2011/2012 £000		2012/2013 £000
5,776	Management fees	6,446
254	Custody fees	252
4	Performance measurement services	7
112	Investment consultancy fees	151
4	Interest paid	-
6,150		**6,856**

Note 15: Investment income

2011/2012		2012/2013
£000		£000
	Fixed interest	
7,757	UK	8,143
2,759	Overseas	3,051
	Index linked	
600	UK	55
	Equities	
18,083	UK	15,636
7,764	Overseas	7,633
5,645	**Property unit trusts**	4,771
0	**Diversified growth**	1,118
279	**Cash**	238
42,887		**40,645**

Note 16: Reconciliation of movements in investments and derivatives

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

	Market value at 1 April 2011	**Purchases during the year and derivate payments**	**Sales during the year and derivative payments**	**Market movements**	**Market value at 31 Mar 2012**
	£000	**£000**	**£000**	**£000**	**£000**
Fixed interest securities	**311,766**	222,692	-250,837	25,979	**309,600**
Index linked securities	**59,512**	40,563	-33,022	12,699	**79,752**
Equities	**1,520,898**	395,688	-369,926	-36,500	**1,510,160**
Property unit trusts	**121,614**	31,970	-31,794	-1,484	**120,306**
Private equity	**74,215**	23,229	-20,658	7,990	**84,776**
Derivatives					
- Futures	**-205**	12,840	-500	-12,009	**126**
- Forex conts	**-5,344**	8,426	-1,326	4,769	**6,525**
	2,082,456	**735,408**	**-708,063**	1,444	**2,111,245**
Cash	**55,949**			-3	**70,564**
Other investment alances	**2,411**				**9,984**
	2,140,816			**1,441**	**2,191,793**

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1.37m (£1.34m 2011/12).

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

Note 16b: Analysis of investments

	31 Mar 2012	31 Mar 2013
Fixed interest securities		
UK public sector & quoted	173,516	137,890
UK pooled funds	79,064	87,769
Overseas public sector & quoted	48,830	52,316
Overseas pooled fund	8,190	69,888
	309,600	**347,863**
Index linked securities		
UK public sector & quoted	58,332	2,945
UK pooled funds	21,420	96,155
	79,752	**99,100**
Equities		
UK quoted	461,924	452,587
UK pooled funds	264,458	209,571
Overseas quoted	395,616	423,779
Overseas pooled funds	388,162	488,750
	1,510,160	**1,574,687**
Property unit trusts	**120,306**	**120,748**
Diversified growth	**-**	**238,986**
Private equity		
Limited partnerships	33,336	38,683
Fund of funds	51,440	51,653
	84,776	**90,336**
Derivatives		
Futures	126	-310
FX forward contracts	6,525	-5,347
	6,651	**-5,657**
Cash deposits	**70,564**	**59,723**
Other investment balances		
Outstanding sales	11,115	5,008
Outstanding purchases	-8,297	-3,810
Accrued income - dividends and interest	7,166	6,120
	9,984	**7,318**
Total investments	**2,191,793**	**2,533,104**

Note 16c: 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 2013 the fund had one futures contract in place with a net unrealised loss of £310,000 (net unrealised gain of £125,630 at 31 March 2012).

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

Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2013 the Fund had forward currency contracts in place with a net unrealised loss of £5,347,000 (net unrealised gain of £6,525,121 at 31 March 2012).

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

Note 16d: Investments analysed by fund manager

Market value 31 March 2012 £000	%	Manager	Market value 31 March 2013 £000	%
620,606	30.0	Legal & General Investment Management	798,183	32.9
132,786	6.4	Majedie Asset Management	158,471	6.5
84,999	4.1	Mirabaud Asset Management	98,382	4.1
247,300	12.0	UBS Asset Management	198,809	8.2
274,372	13.3	Marathon Asset Management	341,002	14.1
153,498	7.4	Newton Investment Management	190,680	7.9
61,083	3.0	JP Morgan Asset Management	-	-
58,789	2.8	TCW Group	-	-
304,641	14.8	Western Asset Management	202,813	8.4
-	-	Franklin Templeton Investments	67,681	2.8
-	-	Standard Life Investments	143,613	5.9
-	-	Baillie Gifford Life Limited	95,372	3.9
127,229	6.2	CBRE Global Multi-Manager	128,307	5.3
2,065,303			**2,423,313**	

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

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

Market value 31 March 2012 £000	% of total fund	Security	Market value 31 March 2013 £000	% of total fund
-	-	Legal & General World Developed Equity Index	366,009	14.3
252,959	11.5	Legal & General UK Equity Index	197,336	7.7
-	-	Standard Life Global Absolute Return Strategies	143,613	5.6

Note 18: 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 2012 **As at 31 March 2013**

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			
309,600			Fixed interest securities	347,863		
79,752			Index linked securities	99,100		
1,510,160			Equities	1,574,687		
120,306			Property unit trusts	120,748		
			Diversified growth	238,986		
84,776			Private equity	90,336		
8,065			Derivatives	2,154		
	70,564		Cash		59,723	
18,281			Other investment balances	11,128		
	9,071		Debtors		29,916	
2,130,940	**79,635**			**2,485,002**	**89,639**	
			Financial liabilities			
-1,414			Derivatives	-7,810		
-8,297			Other investment balances	-3,810		
		-4,594	Creditors			-4,305
-9,711		**-4,594**		**-11,620**		**-4,305**
2,121,229	**79,635**	**-4,594**		**2,473,382**	**89,639**	**-4,305**

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. Some funds provide valuations quarterly whist others only half yearly. The accounts include £58 million worth of private equity investments which were valued as at 31 December 2012. Cash flow adjustments have been made to roll forward these valuations to the 31 March 2013.

31 March 2013	**Quoted market price**	**Using observable inputs**	**With significant unobservable inputs**	**Total**
	Level 1	**Level 2**	**Level 3**	
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,376,688	17,978	90,336	2,485,002
Loans & receivables	89,639			89,639
Total financial assets	**2,466,327**	**17,978**	**90,336**	**2,574,641**
Financial liabilities				
Financial liabilities though profit & loss	-11,620			-11,620
Financial liabilities at amortised costs	-4,305			-4,305
Total financial liabilities	**-15,925**			**-15,925**
Net financial assets	**2,450,402**	**17,978**	**90,336**	**2,558,716**

31 March 2012	**Quoted market price**	**Using observable inputs**	**With significant unobservable inputs**	**Total**
	Level 1	**Level 2**	**Level 3**	
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,017,344	28,820	84,776	2,130,940
Loans & receivables	79,635			79,635
Total financial assets	**2,096,979**	**28,820**	**84,776**	**2,210,575**
Financial liabilities				
Financial assets though profit & loss	-9,711			-9,711
Financial liabilities at amortised costs	-4,594			-4,594
Total financial liabilities	**-14,305**			**-14,305**
Net financial assets	**2,082,674**	**28,820**	**84,776**	**2,196,270**

Note 18c: Book cost

The book cost of all investments at 31 March 2013 is £2,107,273,868 (£1,887,182,964 at 31 March 2012).

Note 19: Outstanding commitments

At 31 March 2013 the Fund held part paid investments on which the liability for future calls amounted to £87,524,008 (£74,906,438 as at 31 March 2012).

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 now rests with the newly formed Pension Fund Board having previously been the responsibility of the Investment Advisors Group (IAG). 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 and yield movements and the asset mix.

To mitigate market risk, the pension fund is invested in a diversified 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 diversified 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.

In 2012/13 a decision was made to alter the fund's asset allocation to seek to mitigate the volatility associated with equity holdings. This led to the removal of the dedicated regional equity portfolios, with the assets assigned to two diversified growth funds (DGF), managed by Standard Life and Baillie Gifford. DGFs can invest in a broad range of asset classes, including traditional assets such as bonds and equities, alternative asset classes as well as futures, options and other derivatives in order to restrict volatility.

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 2012/13 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 2013 £000	% Change	Value on increase £000	Value on decrease £000
UK equities	662,158	13.1%	748,702	575,614
Overseas equities	912,529	12.7%	1,028,785	796,273
Total bonds	347,863	5.3%	366,404	329,322
ILG	99,100	8.0%	107,068	91,132
Cash	59,723	0.0%	59,723	59,723
Property	120,748	2.4%	123,586	117,910
Total Assets	**2,202,121**		**2,434,268**	**1,969,974**

Asset type	**Value at 31 March 2012 £000**	**% Change**	**Value on increase £000**	**Value on decrease £000**
UK equities	726,382	15.6%	839,552	613,212
Overseas equities	783,777	15.4%	904,244	663,310
Total bonds	309,600	5.7%	327,154	292,046
ILG	79,752	7.4%	85,654	73,850
Cash	70,564	0.0%	70,564	70,564
Property	120,306	5.8%	127,320	113,292
Total Assets	**2,090,381**		**2,354,488**	**1,826,274**

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

The fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2012 £000		**As at 31 March 2013 £000**
70,404	Cash & cash equivalents	59,380
160	Cash balances	343
309,600	Fixed interest securities	347,863
380,164	**Total**	**407,586**

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 variable 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 2013	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	59,380	594	-594
Cash balances	343	3	-3
Fixed interest securities	347,863	3,479	-3,479
Total	**407,586**	**4,076**	**-4,076**

Asset type	Carrying amount as at 31 March 2012	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	70,404	704	-704
Cash balances	160	2	-2
Fixed interest securities	309,600	3,096	-3,096
Total	**380,164**	**3,802**	**-3,802**

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 manage this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

Currency risk – sensitivity analysis

The WM Company has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2012/13 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2013 (£)	% Change	Value on increase	Value on decrease
Overseas equities	488,369	6.1%	518,170	458,568
Fixed interest	2,207	6.1%	2,342	2,072
Property unit trust	11,432	6.1%	12,130	10,735
Cash	2,701	6.1%	2,866	2,536
Total	**504,709**	**6.1%**	**535,508**	**473,911**

For comparison last year figures are included below.

Asset type	Value at 31 March 2012 (£)	% Change	Value on increase	Value on decrease
Overseas Equities	445,173	9.8%	488,964	401,383
Fixed Interest	8,320	9.8%	9,138	7,501
Property Unit Trust	16,441	9.8%	18,059	14,824
Cash	3,963	9.8%	4,353	3,573
Total	**473,897**	**9.8%**	**520,514**	**427,281**

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 institution 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.

Prior to the 1 April 2011 the fund’s internally held cash was comingled with that of Surrey County Council. A separate bank account has been in operation since 1 April 2011. Both the council’s and the fund’s bank accounts are with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody’s, Standard and Poor’s).

The fund’s cash balance is lent to borrowers in accordance with the county council’s treasury management strategy, as agreed by the fund’s Investment Advisors Group. 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 (LCD) approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund has a call account with NatWest Bank and a money market fund with the Royal Bank of Scotland. In line with the treasury strategy, the maximum deposit level allowed in each account is £20 million. The RBS money market fund has a long term credit rating of AAA (or equivalent) with all three ratings agencies and the NatWest call account has a rating of A (or equivalent) with all three.

Balance at 31 March 2012 £000		**Balance at 31 March 2013 £000**
	Call account	
15,000	NatWest	15,000
	Money market fund	
13,800	Royal Bank of Scotland	3,910
	Current account	
160	HSBC	343
28,960	**Total**	**19,253**

The fund’s cash holding under its treasury management arrangements as at 31 March 2013 was £19.2 million (£29.0 million 31 March 2012).

c) Liquidity risk

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

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

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

The fund is able to borrow cash to meet short-term cash requirements. No such borrowing was undertaken during the 2012/13 financial year.

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. Usage 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 2012/13 amounted to £55,659,746 (£55,716,313 in 2011/12).

2011/2012 £000		2012/2013 £000
38,055	Employers' current service contributions	37,035
16,058	Lump sum payments to recover the deficit in respect of past service	17,354
1,603	Payments into the fund to recover the additional cost of early retirement liabilities	1,271
55,716		**55,660**

ii) Surrey Pension Fund paid Surrey County Council £1,537,236 for services provided in 2012/13 (£1,544,808 in 2011/12).

2011/2012 £000		2012/2013 £000
203	Treasury management, accounting and managerial services	198
1,342	Pension administration services	1,339
1,545		**1,537**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2013 were £5,866,326 (£740,047 at 31 March 2012).

iv) During the year none of the Investment Advisors Group (IAG) undertook any material transactions with the Surrey Pension Fund.

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.

2011/12 £	Position	2012/13 £	Note
17,553	Chief Finance Officer	19,991	1
68,110	Pension Fund & Treasury Manager	58,456	2
51,769	Senior Accountant	51,994	
137,432		**130,441**	

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

Note 23: Custody

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

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

Note 24 : Actuarial statement for 2012/13 - funding arrangements

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of funding policy

The funding policy is set out in the Surrey Pension Fund's (the Fund) Funding Strategy Statement (FSS), dated 25 March 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 24 years

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,944 million, were sufficient to meet 72.0% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £755 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31 March 2011

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 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

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

	Males	**Females**
Current pensioners	21.9 years	24.0 years
Future pensioners*	23.9 years	25.9 years

Copies of the 2010 valuation report and FSS are available on request from Surrey County Council, administering authority to the Fund.

Experience over the year since April 2012

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2013. It showed that the funding level (excluding the effect of any membership movements) increased over 2012/13. The reason for this was the strong investment performance of the Fund's assets over the year, slightly offset by the fall in Government bond yields.

The next actuarial valuation will be carried out as at 31 March 2013. The FSS will also be reviewed at that time.

Barry McKay

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

23 May 2013

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2012/13 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

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

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

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

Balance sheet

Year ended	31 March 2013 £m	31 March 2012 £m
Present value of promised retirement benefits	3,982	3,346

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £2,034m in respect of employee members, £770m in respect of deferred pensioners and £1,178m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of members may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £452m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2013	31 March 2012
Inflation/pension increase rate	2.8%	2.5%
Salary increase rate*	5.1%	4.8%
Discount rate	4.5%	4.8%

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

Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the funds VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2007. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.9 years	24.0 years
Future pensioners*	23.9 years	25.9 years

*Future pensioners are assumed to be aged 45 at the last valuation date

This assumption is the same as at 31 March 2012.

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 2013 for IAS19 purposes’ dated April 2013. The covering report identifies the appropriate reliances and limitations for the use of figures in this paper, together with further details regarding the professional requirements and assumptions.

Julie Morrison FFA

17 May 2013

For and on behalf of Hymans Robertson LLP

Note 26: 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 27: Annual report

The Surrey Pension Fund Annual Report 2012/2013 provides further details on the management, investment performance and governance of the Fund.