Surrey County Council

Statement of Accounts

2017/18

SURREY

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Surrey County Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income & Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, Group Comprehensive Income & Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and all notes to the financial statements including the summary of significant accounting policies, and include the Firefighters' pension fund financial statements comprising the Firefighters' pension fund account, the Net Asset Statement and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis of opinion

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

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Deputy Chief Finance Officer (Interim S151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Deputy Chief Finance Officer (Interim S151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Deputy Chief Finance Officer (Interim S151 Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the group and Authority financial statements, including the Firefighters pension fund financial statements, and our auditor's report thereon and the Pension Fund financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Deputy Chief Finance Officer (Interim S151 Officer) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of 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 Deputy Chief Finance Officer (Interim S151 Officer). The Deputy Chief Finance Officer (Interim S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Deputy Chief Finance Officer (Interim S151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Deputy Chief Finance Officer (Interim S151 Officer) is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit & Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We are unable to issue our conclusion until we have completed our consideration of matters that have been brought to our attention. We are satisfied that these matters do not have a material effect on the financial statements.

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

In addition, we cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018.

We are satisfied that these outstanding matters do not have a material effect on the financial statements.

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

30 Finsbury Square
London
EC2A 1AG

31 July 2018

NARRATIVE REPORT

This narrative report provides an overview of the socio-demographic context, sets out the emerging new strategic direction for the Council and summarises how the Council has used its resources to achieve its main objectives over the past year. It also outlines the principal risks the Council faces.

The second section focuses on the financial performance of the Council for the 2017/18 financial year and provides a general guide to the features in the Statement of Accounts, highlighting some of the significant factors that have determined this position.

Surrey Context

Many residents and businesses thrive in Surrey. Unemployment is low (2.8%), households have more disposable income than the average, and 94% of Surrey schools are judged to be good or outstanding (the highest in the South East). But not everyone has the same opportunities to thrive and it is important that no one is left behind. Surrey is an affluent county and this can have the effect of masking the issues that some residents face, such as domestic abuse, homelessness and mental health issues.

It is estimated that over 23,000 children in Surrey are living in poverty, disadvantaged pupils do half as well as their peers in GCSE English and Maths, and by 2021 it is predicted that 24,000 children aged 0-15 years will need a mental health support service.

Surrey's population is growing rapidly, with more people living longer, consistently high birth rates and high migration levels. By 2030, over 22% of Surrey residents will be aged 65 and over (compared to 19% in 2018). Over the same time period, the number of residents aged over 65 who will be living in a care home is predicted to increase by 47%. Surrey already cares for the largest number of people with learning disabilities in the UK (over 3,800) and this number is set to rise. The growth in demand for services, particularly social care, will continue to put pressure on the services which organisations across Surrey are able to provide.

The county's proximity to London, airports, and access to arterial roads, as well as frequent rail services into London and beyond, has made Surrey an attractive county both for businesses to locate to and for people to live in. Alongside major towns Surrey has a wealth of beautiful countryside. It is England's most wooded county, with woodland covering over a fifth of the county. It is also home to the Surrey Hills Area of Outstanding Natural Beauty (AONB). Surrey's desirability as a place to live, work and visit is closely linked to its pleasant rural environment.

Surrey is therefore characterised by a mixture of both urban and rural features. Like other peri-urban areas, it experiences a complex set of characteristics, including road, rail and air congestion, land pressure, large volumes of commuting to London and a hugely varied environment. These pressures are set to rise as the county's population grows, and the impact of being so close London continues to be felt. The Council and partners need to work together to maximise the advantages resulting from this location while minimising any adverse impacts, balancing open space, agriculture and urban development.

The county's location, geography, environment and cultural assets play an important role in shaping the economy, which is worth over £40 billion. And a thriving economy needs good infrastructure. However, the county's roads now carry double the national average amount of traffic. The median house price in Surrey is twelve times a resident's annual average salary, and by 2030 it is predicted that the county will need over 47,000 new homes.

THE COUNCIL'S ROLE AND PERFORMANCE

The county council is responsible for meeting local people's needs through the delivery or commissioning of services and ensuring that council tax and business rate payers get value for money. The council's has a wide range of responsibilities for the 1.2 million residents of Surrey including: social care for children older and disabled people; education and support to schools, in particular for children and young people with special educational needs and disabilities; public health; waste disposal, roads and local transport; libraries, arts and heritage; trading standards; planning; and fire and rescue services.

Corporate Strategy

The Council's current Corporate Strategy sets out the Council's purpose, vision and values and includes three strategic goals aimed at improving the lives of Surrey residents:

- **Wellbeing** – everyone in Surrey has a great start to life and can live and age well.
- **Economic Prosperity** – Surrey's economy remains strong and sustainable
- **Resident experience –** residents in Surrey experience public services that are easy to use, responsive and value for money.

However, we recognise that the county is facing significant and complex challenges – and opportunities - that require Surrey's public services, businesses and other partners to shift towards a more place based, outcome driven model working together with residents to find sustainable solutions and to fully exploit the benefits. To successfully deliver the vision for the county, Surrey County Council will need to transform. The size and scale of the challenges and opportunities facing the Council mean an accelerated, systematic and coordinated approach is needed.

A new draft vision for the county has been developed and is being used as the basis for engagement with residents, staff, Members, partners and business over the summer of 2018. Following this, the vision will be agreed by Council in October with a new organisation strategy and budget being agreed in November. As part of this, the Council is developing an ambitious programme of transformation to support delivery of the vision and provide sustainable services for residents.

Details on the engagement process (open to 3 September 2018) can be found at: https://www.surreysays.co.uk/deputy-ceo/2030vision/

Achievements and Challenges

Some key achievements over the last year:

Wellbeing

- We have supported people to live healthier lifestyles so that the number of people that smoke or who are overweight in Surrey is lower than both the national and regional average.
- Working with our partners across health and social care, we have been able to manage the numbers of people delayed in hospital to below the England average, freeing up essential capacity in local hospitals. Between 1 April and 31 October 2017, 992 people were successfully enabled to return and stay at home with a package of support in place.
- The council and NHS partners have put in place a new model for health and social care through Surrey Heartlands that has begun the work to revolutionise support offered to residents.
- We provided around 1,570 additional school places for the September 2017 school year. Most families received an offer from a school that they had listed as a preference.
- 2,724 families have either received or are currently engaged with support from the Surrey Family Support programme. Surrey is meeting the goal of intensively supporting at least 750 families per annum. We have turned around the lives of 608 families. However, our overall Early Help services are still in the developmental stage and despite having services in place, we are yet to see the outcomes we want to see.

Economic Prosperity

- We continued to support young people into education, employment or training by offering them advice, creating opportunities and apprenticeships. The number of NEET young people is 228 (as of the 5th January 2018) compared to 322 at the same point in 2017.
- We supported major infrastructure investment schemes valued at £23.50m and sustainable transport packages valued at £25m (five-year programmes).
- We exceeded our target for 2017/18 to repair 98% of road defects within our time standards. We also completed the year's plans to improve or renew 45km of road. And we allocated an extra £20m over two years for the highways network damaged by last winter's severe weather
- We secured a business rates pilot with district and borough councils to open up new ways to support and grow Surrey's businesses and economy.
- We increased food waste recycling by half a tonne a day.

Resident experience

- 93% of residents are fairly or very satisfied with their neighbourhood as a place to live
- We extended the use of digital technology to provide access to council services and address some of the demand pressures we are facing
- Use of Surrey County Council's online services has shown an encouraging trend and resident satisfaction has increased by 7% during the year. In November 2017 the council launched both a new citizen portal for adult social care and an online service for social care providers.
- Working with our partners in health and Healthwatch Surrey, we have developed a national exemplar model for citizen engagement – it includes citizen ambassadors who make sure the voice of residents and officers at the council are heard, workshops, surveys and consultations with residents and staff to better understand their views and experiences.

Service improvements

Although we made some positive progress on our strategic goals over the last year, we know there is much more to do to meet the levels of performance that our residents expect from us. In particular, Ofsted completed a full inspection of Surrey's children's services in March 2018, with their overall judgement of our services being inadequate. Inspectors praised our adoption work, foster placements, social work academy and apprenticeships for care leavers. But there are many areas that we need to significantly improve - including early support and intervention, building stronger relationships with families and children, and strengthened partnership working – to improve the lives of children and young people in Surrey. The council is committed to taking action and working with all partners to improve to good and then outstanding children's services.

Looking ahead

The continuing success of the county as a place cannot be taken for granted. Surrey County Council, like most other councils, has been facing increasing financial pressures due to unprecedented increases in demand for its services and continued financial pressures. The council has delivered significant savings over the last eight years, but has only managed to balance its budget in recent years by using one-off measures. This is not repeatable in future years. Consequently, significant and transformational change is required in order to provide sustainable services for our residents. Without significant change, children in Surrey may not have the best life chances, the system of care and support for older people' will be put under unsustainable strain, while housing and infrastructure pressures risk eroding the vibrancy of communities.

Strategic Risks

A risk management strategy is in place to identify and manage risk. The Council's principal strategic risks identified in 2017/18 are contained in the leadership risk register and summarised below. Further details can be found in the regular reports on the Leadership Risk Register to both the Audit & Governance Committee and the Cabinet. A review, aimed to strengthen and ensure robust processes for managing the Council's strategic risks is planned for 2018/19.

Governance

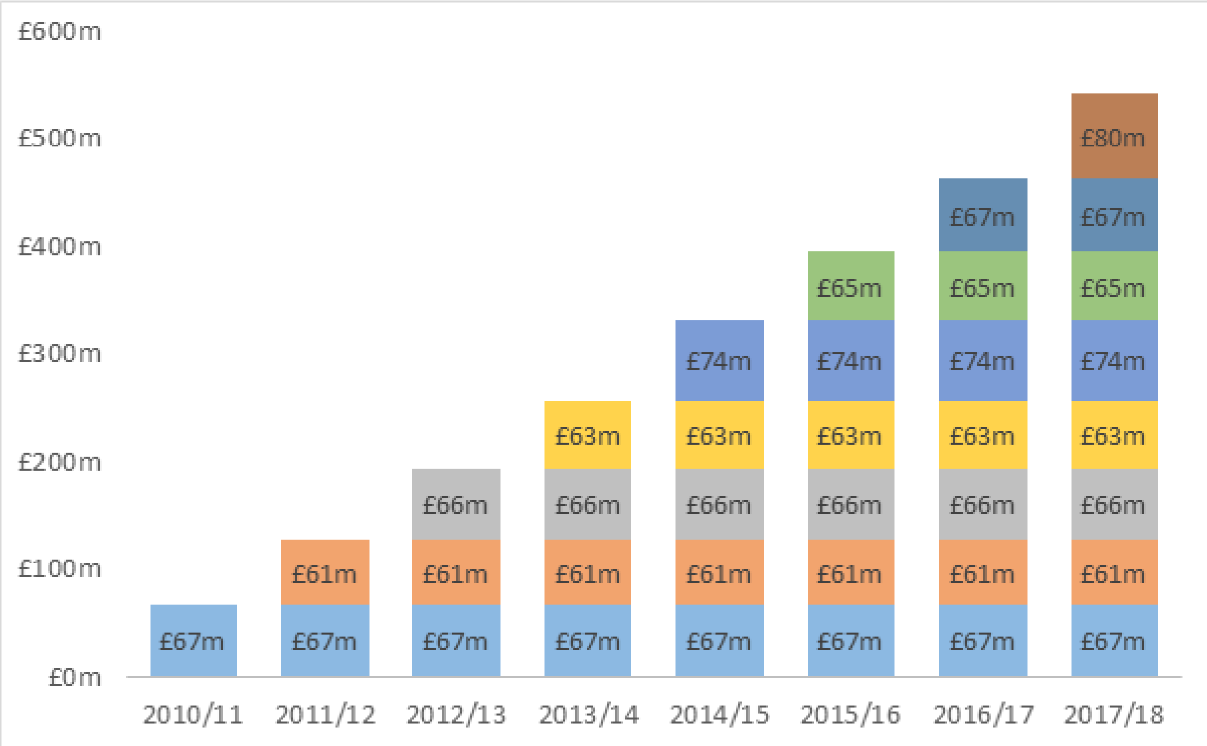
The Council has responsibility for putting in place a sound system of governance and appropriate internal controls to ensure that business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The council's Governance Strategy sets out the approach to good governance and is supplemented by the Code of Corporate Governance.

Details of the 2017/18 annual review of governance can be found in the Council's Annual Governance Statement, which is included in these accounts at page 117. The review has identified some key areas of focus, where actions are required to strengthen governance during 2018/19, specifically in relation to the governance of Childrens' Services improvement plans, compliance controls and the need to revise and reinforce the financial regulations and leadership risk register. These improvements are of particular importance as the Council undertakes a significant transformation programme and continues to operate in a challenging financial climate.

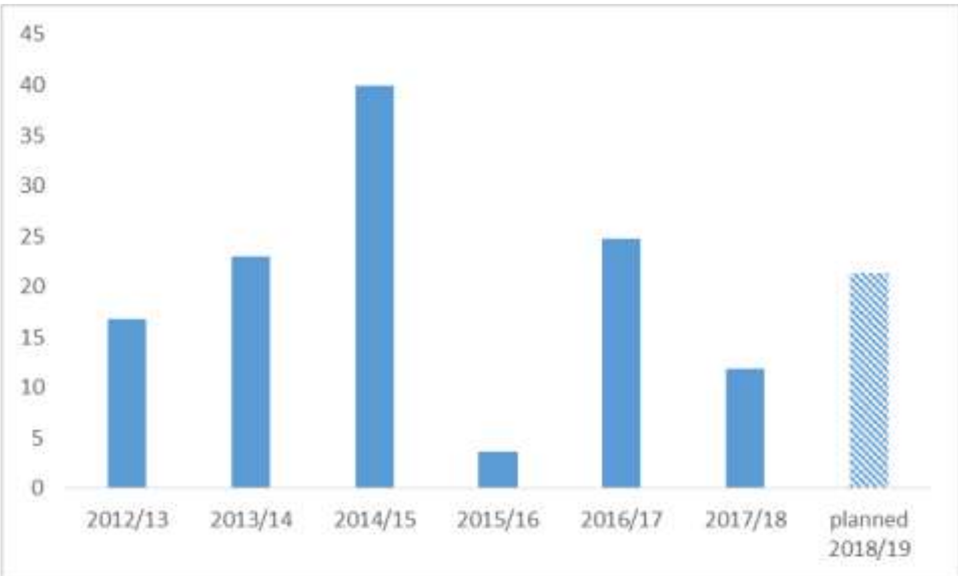
FINANCIAL PERFORMANCE

Financial Context

In common with the rest of local government, the Council has seen a steady reduction in its core funding, putting increased pressure on Council Tax. The Council have worked hard to contain the costs and volume pressures, finding over £540m worth of savings over the last 8 years:

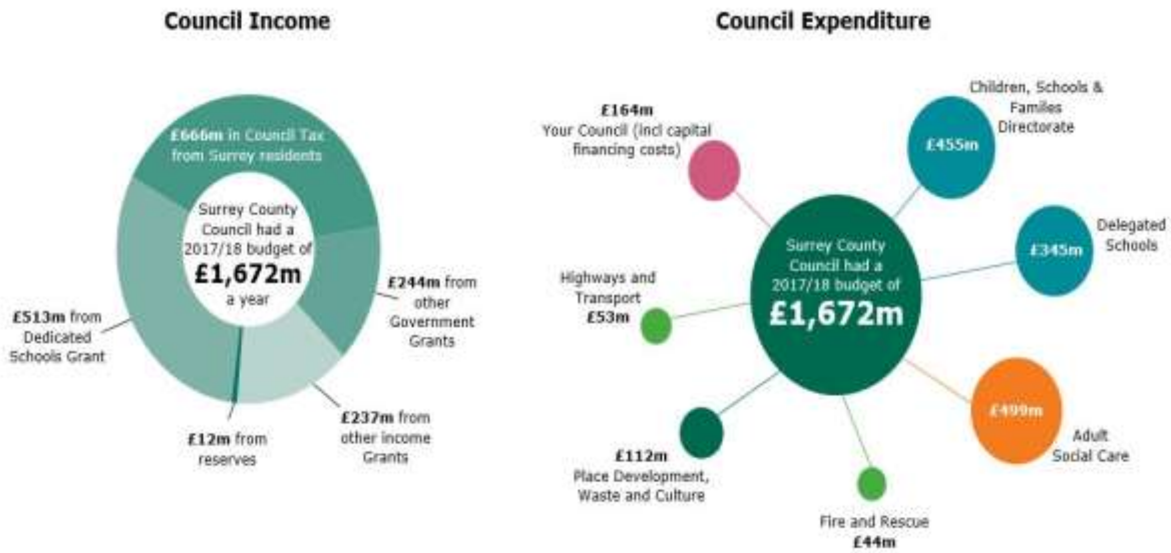


Despite these levels of savings, the Council has over recent years had to utilise its reserves, as a one-off measure, to balance the budget. Earmarked revenue reserves is shown in note 9.



2017/18 Revenue Budget

The Council has a legal duty to prepare a balanced and sustainable budget and to deliver statutory services to residents. The 2017/18 budget was set in a climate of rising demand for services and continuing falls in Government funding. The Council set its revenue expenditure budget at £1,672m, approved in February 2017, and balanced this budget through a combination of targeted savings of £104m and the use of £11.8m of reserves.



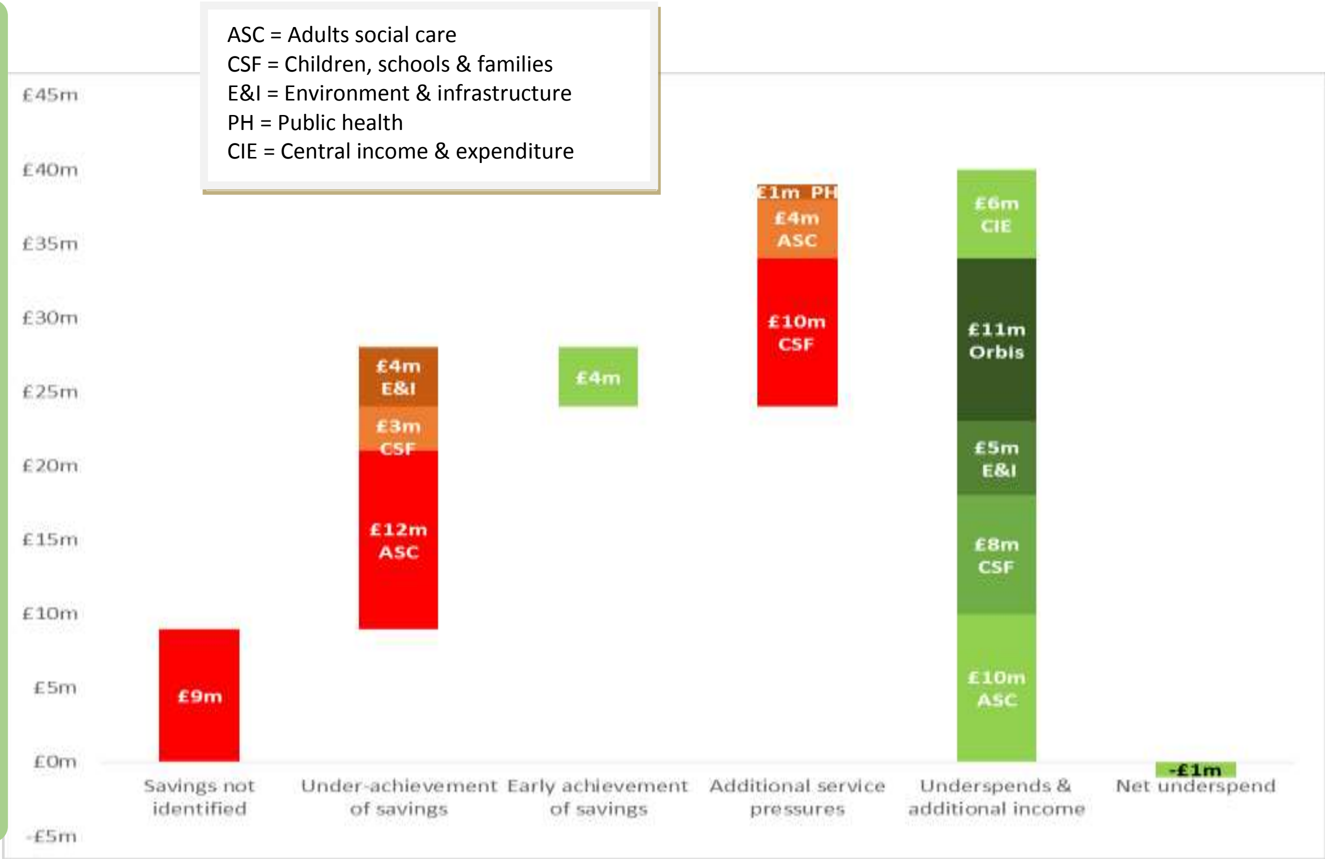
2017/18 Revenue Outturn

The revenue outturn position for 2017/18 provides a clearer indication of the Council's financial stewardship during the year than is apparent from the accounting shortfall provided in the Comprehensive Income and Expenditure Statement, which takes a different view of financial performance. The outturn position records only those expenses which statute allows to be charged against the Council's annual budget and the amounts to be collected from Council Tax and therefore provides a more appropriate reflection of the Council's financial performance to residents. Both the Expenditure and Funding Analysis (EFA) and the Movement in Reserves Statement help to provide an explanation of the differences between these two financial positions (see section on Statement of Accounts below).

During 2017/18, monthly budget monitoring was reported to elected members and council officers within four weeks of each month end. This enabled officers and members to take any necessary actions. During 2017/18, the Council was projecting a significant overspend, this peaked at a forecast of £24m as at the end of June 2017. Measures taken over the remaining months of the financial year, aimed to reduce the forecast overspend, succeeded in bringing the budget back into balance. These measures included one off actions, delays in spend, on-going efficiencies and achieving future years' savings early. Despite these actions and the regular monitoring of savings, the full savings target for 2017/18 was not met, with £15m of planned savings not being achieved. As the financial challenges the Council face continues it is essential that we strengthen arrangements and more robust processes for monitoring savings targets in 2018/19 are being implemented.

Details of the outturn position by service area and further information on financial performance during the year can be found in the 'Financial Budget Outturn 2017/18' Report presented to Cabinet on 24 April 2018. The main variances resulting in the underspend are summarised below:

2017/18 Revenue Outturn



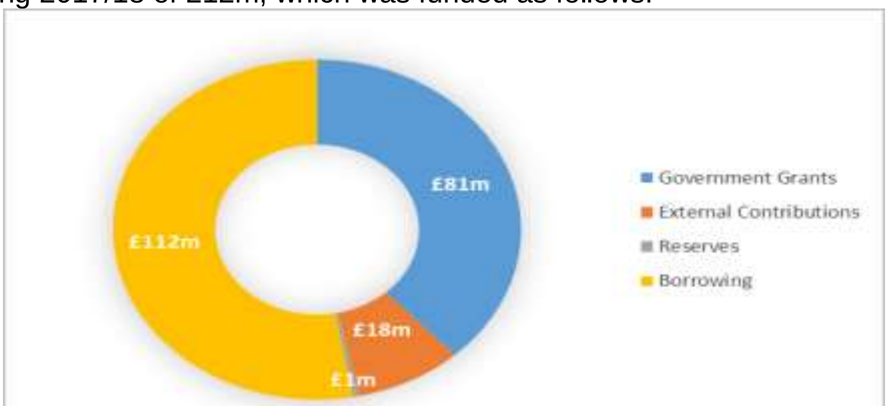
2017/18 Capital Outturn

Against this underspend of £1.3m, the Cabinet approved £1m of revenue carry forwards from 2017/18 to 2018/19 to ensure funding is available for schemes and commitments that need to be funded in the new financial year. This results in a residual underspend of £0.3m, which has been transferred to the Budget Equalisation Reserve, to support future years' budgets. This results in a general fund movement of zero in the Statement of Accounts.

The Council continued to demonstrate its long term commitment to supporting Surrey's infrastructure by committing to a £387m capital programme for 2017-20. The capital budget for 2017/18 was £146m, after approved carry-forwards, re-profiling and other movements. The total capital spend for 2017/18 was £109m resulting in an underspend of £37m. This underspend was significant and deep dives into the capital expenditure plans for 2018-21 have been undertaken early in 2018/19 to ensure the capital programme reflects a more accurate account of the capital expenditure plans for the year.

	Full year budget £m	Full year outturn £m	Variance £m
Schools Basic Need	31.7	27.7	-4.0
Highways recurring programme	42.7	35.8	-6.9
Property and IT recurring programme	47.8	31.4	-16.4
Other capital projects	23.7	14.1	-9.6
Service capital programme	**145.9**	**109.0**	**-36.9**

In addition, the Council has continued its programme of investment in revenue generating assets to improve its self-sufficiency and reduce reliance on government funding. During 2017/18 the Council invested a further £103m under the approved investment strategy. This results in total capital expenditure during 2017/18 of 212m, which was funded as follows:



Looking forward to 2018/19 and beyond

The council continues to face pressures from increasing demographic demands alongside decreasing funding from Central Government. The level of savings required to produce a balanced budget in 2018/19 and beyond continue to be significant. A focused process to ensure delivery of these savings has been put in place by the Chief Executive and the Director of Finance. Alongside this, demand pressures will be monitored, to avoid the depletion of levels of reserves below minimum acceptable levels.

In addition, the Council will continue to try to influence strategy and raise awareness nationally of the demands on services and challenges posed by this and the current Government funding methodology.
Looking ahead to 2019/20 the scale of the budget challenge means the council is re-thinking how it delivers its services and the future operating model. This means during 2018/19, the council is undertaking a significant transformation programme with strong programme management support, clear governance and a programme to develop the right change capacity vital to delivering the necessary transformation at pace. A Transformation Steering Board (officer board) and a Change Management Board (Councillor and officer board) have been created to provide key governance arrangements, overseeing this programme of change. The council will engage closely with partners to develop and then implement this service transformation with a close focus on improved service outcomes for those in need of our services.

STATEMENT OF ACCOUNTS 2017-18

Surrey County Council is a large and diverse organisation and the information contained in these accounts is technical and complex. This section aims to provide a general guide to the items of interest and highlights some of the more significant matters that have determined the position for the financial year ended 31 March 2018.

The Council's Statement of Accounts is prepared in accordance with proper accounting practices as defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). Accounting policies which have a material impact on the statement of accounts are detailed in note 3. There are no significant changes in accounting policies for 2017/18.

Local Authorities are required to produce 3 primary statements, as a private sector company would. However, as tax raising bodies, local authorities are also required to produce an additional financial statement known as the movements in reserve statement. A brief explanation of the purpose of each of the four primary statements is provided below:

- Comprehensive Income & Expenditure Statement CIES (page 16) – shows the true accounting cost in year of providing services, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
  The 'deficit on the provision of services' for 2017/18 was £164m (£152m for 2016/17) represents an accounting shortfall on the provision of service, rather than spending being greater than funding raised. The main reasons for the deficit on the CIES are:
  - The writing off of £89m of assets in relation to schools which have transferred to academy status.
  - A £72m adjustments for the current service costs of pensions compared to actual employer pension contributions paid.

- Movement in Reserves Statement (page 18) – shows the movement in reserves held by Council during 2017/18, analysed into usable and unusable reserves. Usable reserves reflect where money is set aside to fund future expenditure plans, whereas unusable reserves reflect the difference between the accounting cost of providing services and the statutory amounts required to be charged to the general fund balance for council tax setting purposes.

Primary Statements

The total decrease in the Council's reserves during 2017/18 is £46m (£360m in 2016/17). This is caused by a decrease in both useable and unusable reserves, primarily caused by an increase in the pension liability and a reduction in the capital adjustment account for the de-recognition of academy schools, this is partially off-set by an increase in the value of the revaluation reserve.

- Balance Sheet (page 19) – shows the value of the assets and liabilities recognised by the Council as at 31 March 2018 are £324m (£278m as at 31 March 2017). This is matched by reserves, the movements in which are set out above.

- Cash Flow Statement (page 20) – shows the changes in cash and cash equivalents during the year. It identifies the inflows and outflows of cash and cash equivalents arising from the Council's revenue and capital transactions with external parties. The total decrease in cash and cash equivalents during 2017/18 was £4.9m.

In addition to the primary statements above, from 2016/17 local authorities have been required to produce an additional disclosure statement, known as the Expenditure & Funding Analysis (EFA). This provides a direct link between the CIES position and the budget outturn position or net charge against council tax.

Material Balances

The Councils holds £2,063m of long term assets (£1,986m as at 31 March 2018), these are primarily made up of the property, plant and equipment held by the Council. Details on these assets can be found in notes 13 & 14. In addition to these balances, the Council holds material balances relating to pension liabilities and borrowing.

- The pension liability recognised on the Council's balance sheet has a significant impact on the net worth of the Council. Pension benefits do not become payable until employees retire, however the Council is required to account for the future obligations at the same time as the employees earn their future entitlement. The pension liability is calculated by an independent actuary Hymans Robertson. It is estimated to be £945m at the balance sheet date (£923m at 31 March 2017). The firefighters pension liability is also included within the Council's accounts and is estimated to be £630m, a decrease of £6.3m on the previous year. This increase in the valuation of liabilities is due mainly to rising real bond yields decreasing the net discount rate. This liability does not need to be met within the next year but over the working lifetime of the scheme members. The council is making appropriate lump sum payments to the pension fund in addition to the contributions related to current employees. The accounting deficit is based on a snapshot in time and does not predict the funds financial condition or its ability to pay benefits in the future.
- The Council continues to pursue a strategy of temporarily using its internal resources to finance capital expenditure and using short term borrowing to cover short term cash flow requirements, rather than borrowing long term. This results in reduced interest payable costs relating to borrowing and is considered a prudent strategy in an economic climate when interest rates achievable on holding large cash balances are at historic lows. As a result of this strategy, no additional long term borrowing has been undertaken during 2017/18 and the long term borrowing of the Council remains at £397.8m. Short term borrowing, from other Local Authorities, has increased to £212.7m (from £140.7m at 31 March 2017).

In addition to these material balances, the Council holds £21.8m of provisions at 31 March 2018 (£29.4m at 31 March 2017). These are created when the Council has a liability to make future payments, but precise timing of the payment and the amounts are uncertain. Further details on provisions can be found in Note 21.

Material Balances

Details of specific material items of income and expenditure are included in note 6. These include:

- expenditure on the Council's Private Finance Initiative Schemes (note 37),
- government grant and Council Tax income (note 12)
- De-recognition of academy schools – when a school changes status to an academy, the ownership of the land and buildings transfers from the Council to the school. The assets are written out of the balance sheet and an accounting adjustments is made in the CIES.
- The following material items of capital expenditure were incurred as part of the Council's investment strategy:
    - £60.2m of long-term loans to Halsey Garton Property Ltd, included as a long term debtor on the balance sheet.
    - £25.3m equity investment in Halsey Garton Property Ltd, included as a long term investments on the balance sheet.

Group Accounts

The Council considers all its relationships and interests in other entities and has concluded that it exercises control of significant influences over the economic activities of the following organisations:

- S E Business Services Ltd - a Local Authority Trading Company (LATC), wholly owned by the Council, set up for the provision of business services.
- Surrey Choices Ltd - a LATC, wholly owned by the Council, set up for the delivery of day services and community support options for people with disabilities and older people.
- Halsey Garton Property Ltd - a LATC, wholly owned by the Council, to make property investments.
- Henrietta Parker Trust – the Council exercises control over this trust fund, the income of which supports adult learning.

Group accounts are therefore prepared (and included at page 107), combining the accounts of these organisations with those of the Council and excluding any intra-group transactions and balances, to give an overall group position. However, the economic activity of the trust fund is not deemed material and therefore has not been incorporated into the group accounts.

FURTHER INFORMATION

Additional information on the Council's overall revenue and capital outturn position and achieved savings for 2017/18 can be found in the 2017/18 outturn report, considered by Cabinet on 24 April 2018. Further information on the financial statements presented in this document can be obtained from Nikki O'Connor (nicola.oconnor@surreycc.gov.uk)

The council's responsibilities

The council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council that officer is the S151 Officer (This role is currently being filled by the Deputy Chief Finance Officer);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The S151 Officer's responsibilities

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

In preparing this Statement of Accounts, the S151 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 S151 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 16 to 116 presents a true and fair view of the financial position of the council and of its expenditure and income for the year ended 31 March 2018; that the firefighter pension fund accounting statements on pages 125 to 127 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2018; that the statement of accounts on pages 128 to 168 presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2018 and its income and expenditure for the year then ended.

Kevin Kilburn CPFA

Deputy Chief Finance Officer (Interim S151 Officer)

26 July 2018

David Harmer

Chairman of Audit & Governance Committee

26 July 2018

Comprehensive Income & Expenditure Statement

Restated year ended 31 March 2017 Gross Expenditure £000	Income £000	Net Expenditure £000		Year ended 31 March 2018 Gross Expenditure £000	Income £000	**Net Expenditure £000**
1,067	-77	**990**	Economic Growth	1,026	-111	**915**
980		**980**	Strategic Leadership	978	-3	**975**
458,372	-73,130	**385,242**	Adult Social Care	478,338	-110,938	**367,400**
117,361	-11,227	**106,134**	Children's Services	132,735	-12,252	**120,483**
99,554	-56,004	**43,550**	Commissioning & Prevention	109,022	-67,005	**42,017**
264,955	-138,682	**126,273**	Schools & SEND	272,653	-147,821	**124,832**
399,051	-392,073	**6,978**	Delegated Schools Budget	363,939	-351,281	**12,658**
1,609		**1,609**	Coroner	2,147	-1	**2,146**
24,809	-13,579	**11,230**	Cultural Services	24,953	-13,691	**11,262**
3,689	-159	**3,530**	Customer Services	3,635	-88	**3,547**
1,107	-179	**928**	Directorate Support (Com)	803	-56	**747**
588	-114	**474**	Emergency Management	657	-161	**496**
32,349	-1,795	**30,554**	Surrey Fire & Rescue Service	30,901	-2,126	**28,775**
3,914	-1,808	**2,106**	Trading Standards	4,058	-1,681	**2,377**
93,984	-8,774	**85,210**	Environment & Planning	96,058	-8,604	**87,454**
81,967	-8,027	**73,940**	Highways & Transport Services	81,417	-8,772	**72,645**
41,164	-38,486	**2,678**	Public Health	32,375	-31,626	**749**
-10,592	-30,611	**-41,203**	Central Income & Expenditure	-1,678	-3,362	**-5,040**
2,065	-31	**2,034**	Communications	1,889	-8	**1,881**
1,277	-340	**937**	Finance	2,752	-1,804	**948**
3,789	-360	**3,429**	Human Resources & Org. Dev.	3,203	-83	**3,120**
13,215	-444	**12,771**	Information Management & Tech.	13,327	-517	**12,810**
4,622	-567	**4,055**	Legal Services	4,980	-605	**4,375**
4,726	-199	**4,527**	Democratic Services	6,513	-729	**5,784**
1,729	-663	**1,066**	Policy & Performance	2,095	-268	**1,827**
830		**830**	Procurement	815		**815**
63,086	-6,569	**56,517**	Property	38,284	-8,473	**29,811**
38,850	-120	**38,730**	Orbis joint operating budget	42,430	-48	**42,382**
-70		**-70**	Business Operations	-92		**-92**
1,750,047	**-784,018**	**966,029**	**Cost of Services - continuing operations**	**1,750,213**	**-772,114**	**978,099**

Comprehensive Income & Expenditure Statement

Restated year ended 31 March 2017 Gross Expenditure £000	Income £000	Net Expenditure £000		Year ended 31 March 2018 Gross Expenditure £000	Income £000	**Net Expenditure £000**
1,750,047	**-784,018**	**966,029**	**Cost of Services - continuing operations**	**1,750,213**	**-772,114**	**978,099**
29,988	-45,486	**-15,498**	Other Operating Income & Expenditure (note 10)	31,146	-29,648	**1,498**
235,738	-69,704	**166,034**	Financing & Investment Income & Expenditure (note 11)	204,750	-62,635	**142,115**
	-670,312	**-670,312**	Local Taxation (Note 12)		-714,740	-714,740
	-294,233	**-294,233**	General grants & contributions (note 12 and note 32)		-243,210	-243,210
	-964,545	**-964,545**	Taxation, general grants & contributions		-957,950	**-957,950**
2,015,773	**-1,863,753**	**152,020**	**Surplus(-) or Deficit on Provision of Services**	**1,986,109**	**-1,822,347**	**163,762**
		-67,777	(Surplus) or deficit on revaluation of non-current assets			**-60,808**
		275,768	Remeasurement of the net defined benefit liability			**-56,628**
		207,991	**Other Comprehensive Income & Expenditure**			**-117,436**
		360,011	**Total Comprehensive Income & Expenditure**			**46,326**

2016/17 Restatement of Comprehensive Income & Expenditure Statement

The High Needs Block (mainly special schools and units) and Early Years Block (nursery schools and classes) were previously included within the Delegated Schools line, as the expenditure is incurred by schools under the governance arrangements applied to the school. In order to increase transparency and visibility, this expenditure is now included within Schools and Learning (High Needs Block) or Commissioning and prevention (Early Years Block).

Community Partnership and Safety is now part of Highways and no longer reported separately.

Both these changes are now reported in the Comprehensive Income & Expenditure Statement for 2017/18 and restated 2016/17 (see note 43).

In 2016/17 the Better Care Fund (BCF) grant £25m is included in Central Income & Expenditure and in 2017/18 the BCF grant increased by £8m and is now accounted for in Adult Social Care.

Movement in Reserves Statement

2017/18	General Fund and Earmarked Reserves* £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2017	**-160,668**	**-103,401**	**-77,036**	**-341,105**	**618,976**	**277,871**
(Surplus) or deficit on provision of services (accounting basis)	163,762			**163,762**		**163,762**
Other comprehensive income & expenditure					-117,436	**-117,436**
Total comprehensive income & expenditure	**163,762**			**163,762**	**-117,436**	**46,326**
Adjustments between accounting basis & funding basis under regulations (note 8)	-163,602	10,897	-101	**-152,806**	152,806	
Increase/decrease in year	**160**	**10,897**	**-101**	**10,956**	**35,370**	**46,326**
Balance at 31 March 2018	**-160,508**	**-92,504**	**-77,137**	**-330,149**	**654,346**	**324,197**
2016/17						
Balance at 31 March 2016	**-192,298**	**-75,319**	**-49,491**	**-317,108**	**234,968**	**-82,140**
(Surplus) or deficit on provision of services (accounting basis)	152,020			**152,020**		**152,020**
Other comprehensive income & expenditure					207,991	**207,991**
Total comprehensive income & expenditure	**152,020**			**152,020**	**207,991**	**360,011**
Adjustments between accounting basis & funding basis under regulations (note 8)	-120,390	-28,082	-27,545	**-176,017**	176,017	
Increase/decrease in year	**31,630**	**-28,082**	**-27,545**	**-23,997**	**384,008**	**360,011**
Balance at 31 March 2017	**-160,668**	**-103,401**	**-77,036**	**-341,105**	**618,976**	**277,871**

* See note 9 earmarked reserves and note 22 usable reserves

Balance Sheet

As at 31.03.2017 £000		Note:	As at 31.03.2018 £000
1,752,293	Property, plant & equipment	13	1,723,073
1,024	Heritage assets		1,024
54,050	Investment property	14	74,800
7,016	Intangible assets		7,879
46,735	Long term investments	16	72,065
124,547	Long term debtors	16	184,606
1,985,665	**Long term assets**		**2,063,447**
	Short Term:		
785	Intangible assets		613
10,850	Assets held for sale	19	10,100
1,397	Inventories		967
144,710	Short term debtors	17	136,936
56,120	Cash & cash equivalents	18	51,224
213,862	**Current Assets**		**199,840**
	Short Term:		
-140,699	Borrowing	16	-212,711
-190,762	Creditors	20	-207,816
-4,277	Provisions	21	-3,105
-91	Revenue grants receipts in advance		-102
-9,152	Capital grants receipts in advance		-19,762
-13,281	Other current liabilities	36	-17,938
-358,262	**Current liabilities**		**-461,434**
-25,180	Provisions	21	-18,739
-397,786	Long term borrowing	16	-397,786
-1,696,170	Other long term liabilities	36	-1,709,525
-2,119,136	**Long term liabilities**		**-2,126,050**
-277,871	**Net assets/liabilities(-)**		**-324,197**
-341,105	Usable reserves	9,22	-330,149
618,976	Unusable reserves	23	654,346
277,871	**Total Reserves**		**324,197**

Cash Flow Statement

2016/17 £000		Note	**2017/18 £000**
152,020	Net surplus (-) / deficit on the provision of services		163,762
-268,694	Adjustments to net surplus / deficit on the provision of services for non-cash movements	41	-274,062
-21,962	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities		-13,836
-138,636	**Net cash inflow from operating activities**		**-124,136**
131,401	Purchase of property, plant & equipment, and investment property	42	127,715
-28,446	Proceeds from the sale of property, plant & equipment		-16,728
41,545	Payments for short-term and long-term investments		25,330
-65,000	Receipts of short-term and long-term investments		
85,648	Other receipts & expenditure from investing activities		46,754
165,148	**Net cash outflow from investing activities**		**183,071**
7,564	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		17,973
166,589	Payments for short-term and long-term borrowing		401,246
-276,400	Receipts of short-term and long-term borrowing		-473,258
-102,247	**Net cash inflow from financing activities**		**-54,039**
-75,735	**Net increase (-) / decrease in cash & cash equivalents**		4,896
19,615	Cash & cash equivalents at the beginning of the reporting period		-56,120
-56,120	Cash & cash equivalents at the end of the reporting period	18	**-51,224**

The cash flows from operating activities in 2017/18 include interest received of £9.5m (2016/17, £5.1m) and interest paid of £25.2m (2016/17, £23.6m).

Note 1: Expenditure and Funding Analysis

2017/18	As reported for resource management in outturn report £000	Adjustments to arrive at the net amount chargeable to the General Fund £000	Net Expenditure Chargeable to the general fund £000	Adjustments between the funding and accounting basis (Note 1a) £000	Net expenditure in the Comprehensive Income & Expenditure Statement £000
Economic Growth	815		815	100	915
Strategic Leadership	823		823	152	975
Adult Social Care	359,359	234	359,593	7,807	367,400
Children's & Safeguarding Services	112,606	-248	112,358	8,124	120,482
Commissioning & Prevention	35,375	594	35,969	6,049	42,018
Schools & SEND	60,476	3,447	63,923	60,909	124,832
Delegated Schools Budget		730	730	11,928	12,658
Coroner	2,088		2,088	58	2,146
Cultural Services	8,468	58	8,526	2,736	11,262
Customer Services	3,004		3,004	543	3,547
C&C Directorate Support	631		631	116	747
Emergency Management	413		413	83	496
Surrey Fire & Rescue Service	31,617	-227	31,390	-2,615	28,775
Trading Standards	1,807		1,807	570	2,377
Place Development & Waste	83,013	-2,807	80,206	7,248	87,454
Highways & Transport	45,185	95	45,280	27,365	72,645
Public Health	741		741	8	749
Communications	1,625		1,625	256	1,881
Finance	2,387	-1,439	948		948
Human Resources & Organisational Development	2,800	75	2,875	245	3,120
Information Management & Technology	11,033	-1,878	9,155	3,655	12,810
Legal Services	3,800	-7	3,793	582	4,375
Democratic Services	5,478		5,478	306	5,784
Strategy & Performance	1,396	41	1,437	390	1,827
Procurement	815		815		815
Property	16,871	22	16,893	12,918	29,811
Joint Operating Budget Orbis	33,856	32	33,888	8,494	42,382
Business Operations	-115		-115	23	-92
Central Income & Expenditure	52,281	-19,445	32,836	-37,876	-5,040
	878,648	-20,723	857,925	120,174	978,099
Other Income and Expenditure	-868,194	10,429	-857,765	43,428	-814,337
Surplus (-) or deficit	10,454	-10,294	160	163,602	163,762

Comparator information showing the 2016/17 Expenditure and Funding is below:

2016/17	As reported for resource management in outturn report £000	Adjustments to arrive at the net amount chargeable to the General Fund £000	Net Expenditure Chargeable to the general fund £000	Adjustments between the funding and accounting basis (Note 1a) £000	Net expenditure in the Comprehensive Income & Expenditure Statement £000
Economic Growth	949		949	41	990
Strategic Leadership	907		907	73	980
Adult Social Care	381,943	383	382,326	2,916	385,242
Children's Service	103,090	1,228	104,318	1,816	106,134
Commissioning & Prevention	40,086	447	40,533	2,638	43,171
Schools and SEND	62,636	1,797	64,433	59,522	123,955
Delegated Schools Budget*	479	6,127	6,606	3,069	9,675
Coroner	1,585		1,585	24	1,609
Cultural Services	9,087	-109	8,978	2,252	11,230
Customer Services	3,299		3,299	231	3,530
C&C Directorate Support	855		855	73	928
Emergency Management	403	36	439	35	474
Magna Carta					
Surrey Fire & Rescue Service	32,824	-21	32,803	-2,249	30,554
Trading Standards	1,975	-95	1,880	226	2,106
Place Development & Waste	80,378	1,003	81,381	3,829	85,210
Highways & Transport Services	46,081	-6,353	39,728	32,247	71,975
Public Health*		2,674	2,674	4	2,678
Central Income & Expenditure**	41,890	-64,795	-22,905	-18,298	-41,203
Communications	2,012	-77	1,935	99	2,034
Finance	2,206	-1,269	937		937
Human Resources & Org. Dev.	3,558	1,728	5,286	108	5,394
Information Management & Tech.	11,727	-1,908	9,819	2,952	12,771
Legal Services	3,824	-5	3,819	236	4,055
Democratic Services	4,364	26	4,390	137	4,527
Policy & Performance	1,500	118	1,618	-552	1,066
Procurement	787	-12	775	55	830
Property	16,821	-384	16,437	40,080	56,517
Orbis Joint Operating Budget	35,288	-3	35,285	3,445	38,730
Business Operations	-54	-25	-79	9	-70
	890,500	-59,489	831,011	135,018	966,029
Other income & expenditure	-872,479	73,098	-799,381	-14,628	-814,009
Surplus (-) or deficit	18,021	13,609	31,630	120,390	152,020

General fund balance (including earmarked) reserves reconciliation

2016/17 £000		2017/18 £000
-192,298	Opening general fund balance (including earmarked reserves)	-160,668
31,630	Deficit on general fund	160
-160,668	**Closing general fund balance (including earmarked reserves)**	-160,508

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

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

Note 1a: Note to the Expenditure and Funding Analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
2017/18	£000	£000	£000	£000
Economic Growth		100		100
Strategic Leadership		152	-1	151
Adult Social Care	-2,459	10,234	32	7,807
Children's & Safeguarding Services	225	7,891	7	8,123
Commissioning & Prevention	584	5,482	-17	6,049
Schools & SEND	60,475	3,277	-2,843	60,909
Delegated Schools Budget	219	11,711		11,930
Coroner		58		58
Cultural Services	63	2,694	-21	2,736
Customer Services		545	-2	543
C&C Directorate Support		118	-2	116
Emergency Management		84		84
Surrey Fire & Rescue Service	1,411	-4,017	-9	-2,615
Trading Standards	3	567		570
Place Development & Waste	5,321	1,918	9	7,248
Highways & Transport	24,919	2,455	-9	27,365
Public Health		8		8
Communications		256		256
Human Resources & Organisational Development		245		245
Information Management & Technology	3,534	122		3,656
Legal Services		575	6	581
Democratic Services		313	-7	306
Strategy & Performance	173	219	-2	390
Property	12,827	90		12,917
Orbis Joint Operating Budget		8,494		8,494
Business Operations		23		23
Central Income & Expenditure	-13,083	-24,792		-37,875
Net cost of service	**94,212**	**28,822**	**-2,859**	**120,175**
Other Income and Expenditure	-8,392	43,461	8,358	43,427
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit	**85,820**	**72,283**	**5,499**	**163,602**

Notes to the Financial Statements

Comparator information relating to the 2016/17 adjustments between accounting basis and funding basis under regulations is provided in the table below:

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
2016/17	£000	£000	£000	£000
Economic Growth		41		41
Strategic Leadership		69	4	73
Adult Social Care	-1,545	4,415	46	2,916
Children's Service	102	1,694	20	1,816
Commissioning & Prevention	685	1,848	105	2,638
Schools and SEND	54,555	2,206	2,761	59,522
Delegated Schools Budget	223	2,846		3,069
Community Partnership & Safety				
Coroner		24		24
Cultural Services	1,050	1,142	60	2,252
Customer Services		230	1	231
C&C Directorate Support		73		73
Emergency Management		35		35
Surrey Fire & Rescue Service	1,395	-3,648	4	-2,249
Trading Standards		226		226
Place Development & Waste	3,108	726	-5	3,829
Highways & Transport Services	31,095	1,139	13	32,247
Public Health		5	-1	4
Central Income & Expenditure	-18,298			-18,298
Communications		98	1	99
Finance				
Human Resources & Org. Dev.		108		108
Information Management & Tech.	2,887	65		2,952
Legal Services		235	1	236
Democratic Services		137		137
Policy & Performance	-662	113	-3	-552
Procurement		55		55
Property	40,044	36		40,080
Orbis Joint Operating Budget		3,669	-224	3,445
Business Operations		9		9
Net cost of service	114,639	17,596	2,783	135,018
Other income & expenditure	-32,319	15,731	1,960	-14,628
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit	82,320	33,327	4,743	120,390

Note 1: Adjustments for Capital Purposes

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

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

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

Taxation and non-specific grant income and expenditure –

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

Note 2: Net Change for the Pensions Adjustments

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

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

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

Note 3: Other Differences

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

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

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

Note 1b: Customer income - segmental analysis

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

2016/17 £000	Service	**2017/18 £000**
-7	Economic Growth	
-51,923	Adult Social Care	**-58,931**
-186	Children's Service	**-207**
-3,678	Commissioning & Prevention	**-3,229**
-34,462	Schools and SEND	**-32,891**
-17,357	Delegated Schools Budget	**-18,489**
-327	Community Partnership & Safety	**-160**
-8,715	Cultural Services	**-9,198**
-1	Customer Services	**-141**
-174	C&C Directorate Support	**-56**
-4	Emergency Management	**-4**
-438	Surrey Fire & Rescue Service	**-292**
-1,189	Trading Standards	**-1,147**
-3,780	Place Development & Waste	**-3,641**
-7,974	Highways & Transport Services	**-8,294**
-31	Communications	**-8**
-1,491	Finance	**-1,722**
-6	Human Resources & Org. Dev.	**-25**
-45	Information Management & Tech.	**-48**
-275	Legal & Democratic Services	**-341**
-2,180	Property	**-2,426**
-3,606	Orbis Joint Operating Budget	**-3,304**
-137,849	**Total**	**-144,554**

Note 2: Income and expenditure analysed by nature

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

2016/17 £000	Restated 2016/17 £000		2017/18 £000
		Expenditure	
516,119	504,586	Employee benefits expenses	492,106
126,461	178,965	Staff expenditure at Voluntary Aided and Foundation schools	193,632
230,073	230,073	Depreciation, amortisation and impairment	194,618
1,022,529	979,694	Other service expenses	991,723
121,378	121,378	Interest payments	112,941
1,077	1,077	Precepts and levies	1,089
2,017,637	2,015,773	**Total expenditure**	**1,986,109**
		Income	
-891,341	-909,247	Government grant and contributions	-833,685
-219,535	-199,765	Fees, charges and other service income	-211,544
-14,725	-14,725	Gain or loss on disposal of non-current assets	257
-670,312	-670,312	Income from council tax and business rates	-714,740
-69,704	-69,704	Interest and investment income	-62,635
-1,865,617	-1,863,753	**Total income**	**-1,822,347**
152,020	152,020	**Deficit on the provision of services**	**163,762**

The classification of some expenses has been reviewed, as a result 2016/17 has been restated on the same basis. The comparative figures from the prior year financial statements is shown above

Note 3. Accounting policies

i. General principles

The statement of accounts summarises the council's transactions for the 2017/18 financial year and its position at the year ending 31 March 2018. The council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015. The Regulations require the statement of accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 supported by International Financial Reporting Standards (IFRS).

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

ii. Recognition of income and expenditure

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

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

Council tax and business rates

The collection of council tax and business rates is an agency arrangement. Billing authorities (the Borough and District Councils) act as agents, collecting council tax and business rates (non-domestic rates) on behalf of the authority (and others). Billing authorities are required by statute to maintain a separate fund (known as the collection fund) for the collection and distribution of the amounts due.

Council tax and business rate income included in the Comprehensive Income and Expenditure Statement as local taxation is the total of the:

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

Regulations then dictate that the amount credited to the general fund must be equal to the amount precepted as part of the annual budget process (ie the cash flow for the year). Therefore the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the general fund is taken to the collection fund adjustment account and included as a reconciling item in the Movement in Reserves Statement.

Under the legislative framework for the collection fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted. Therefore, the Code requires that the council recognises on its balance sheet its share of arrears, impairment allowance for bad debts, overpayments, prepayments and collection fund surplus or deficit for both council tax and business rates. For business rates, an appeals provision has also been created to cover successful appeals by ratepayers against business rates.

iii. Cash and cash equivalents

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

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

iv. Charges to revenue for non-current assets

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

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

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

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

v. Employee benefits

Benefits payable during employment

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

Termination benefits

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the pension reserve to remove the notional debits and credits for pension enhancement termination benefits and are replaced with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-employment benefits

Employees of the council may be members of four separate pension schemes:

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

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

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

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

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

- liabilities of the pension funds attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees);
- liabilities are discounted to their value at current prices, using a discount rate of 2.7%.

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

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unitised securities – current bid price;

- property – market value.

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

- Service cost comprising:
  - current service cost – The increase in the present value of the defined benefit obligation resulting from employee service in the current period. The cost to the employer of benefits accruing over the period are allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - net interest on the defined benefit liability – the net interest expense for the council. The change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability as a result of contribution and benefit payments.
- Re-measurements comprising:
  - return on plan assets – excluding amounts included in the net interest on the net defined liability are charged to the Pension Reserve as other comprehensive income and expenditure;
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions are charged to the Pensions Reserve as other comprehensive income and expenditure.
- Contributions paid to the pension funds – cash paid as employer's contributions to the pension fund in settlement of liabilities are not accounted for as an expense.

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

Discretionary benefits

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

vi. Events after the Balance Sheet date

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;

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

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

vii. Financial instruments

Financial liabilities

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

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

The council entered into a Lender Option Borrower Option (LOBO) loan in 2003/04. The lender converted this into a fixed long-term loan during 2016/17. The loan is carried on the balance sheet at a higher amortised cost than the outstanding principal and interest is charged at a marginally higher effective rate of interest than the rate of interest payable to the lender. This is to smooth the effect of previous stepped interest rate changes over the life of the loan.

The council provides treasury management services to the Office of the Police and Crime Commissioner for Surrey. The cash belonging to the Police is held as short-term borrowing on the balance sheet as it is an arrangement with the substance of a loan. The balances held in the Police bank account are consolidated with the daily funds available for the Council and any surplus invested in accordance with the Council’s treasury strategy. Interest is then paid to the Police and Crime Commissioner on their balances. These transactions are classified as short term as the Police can terminate the arrangement with 6 months’ notice.

Financial assets

Loans and receivables

Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

viii. Fair value measurement

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

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

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

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

ix. Government grants and contributions

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

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

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

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

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

x. Interests in companies and joint operations

Where the council has the power to exercise significant control or influence over another economic entity, the relationship with that organisation will be assessed to determine if that organisation should be part of the Surrey County Council group for accounting purposes. The requirement to produce group accounts will be based on qualitative factors as well as materiality levels based on the level of transactions between the council and all the organisations in the group.

The council has determined that it exerts significant control over S.E. Business Services Limited, Surrey Choices Limited and Halsey Garton Property Limited as these are all Local Authority Trading Companies wholly owned by the council. In 2017/18 group accounts have been produced due to material balances held by subsidiary companies.

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

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

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

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

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

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

In addition, the council is part of a partnership with East Sussex County Council and Brighton & Hove City Council that aims to provide business services to the public sector. The partnership is established under a Joint Committee. The Joint Committee is responsible for delivering services from a Joint Operating budget. During 2017/18 Surrey County Council and East Sussex County Council contributed to the Joint Operating budget in proportion to their service delivery requirements, which were 70% and 30% respectively.

xi. Leases

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

The council does not have any material finance leases.

The council as lessee

Operating leases

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

The council as lessor

Operating leases

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

xii. Overheads and support services

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

xiii. Private Finance Initiative (PFI) and similar contracts

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

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

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

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

- Anchor Homes;
- Waste;
- Street Lighting;
- Care UK.

xiv. Property, plant and equipment (including assets held for sale)

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

Recognition

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

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 on the Balance Sheet using the following measurement bases:

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

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

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

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

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

Impairment

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure

Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

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

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

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

For schools that have attained Academy status and disengaged from the council, the net book value of the land and building is de-recognised from the Balance Sheet through a charge to the Financing & Investment Income & Expenditure line of the Comprehensive Income & Expenditure Statement and then reversed out to the Capital Adjustment Account through the Movement in Reserve Statement to ensure there is no impact on the General Fund.

xv. Investment properties

Investment properties are used solely to earn rentals and/or for capital appreciation and hence the criteria is not met if the property is used in any way to facilitate the delivery of services or the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Investment properties are not depreciated but are re-valued annually according to market conditions at year end with gains and losses on revaluation being posted to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement; the same treatment is applied to gains and losses on disposals.

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

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

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

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

xvii. Provisions, contingent liabilities and contingent assets

Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) this is recognised as income for the relevant service only if it is certain that reimbursement will be received if the council settles the obligation.

Contingent liabilities

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

xviii. Reserves

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

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

xix. Revenue expenditure funded from capital under statute

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

xx. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the Schools Standard Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and do not result in a requirement to produce Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were transactions, cash flows and balances of the authority.

xxi. 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 3a: Accounting policies issued but not adopted

The council is required to disclose information on accounting changes that have been issued but not yet adopted. The requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (ie on or before 1 January 2018 for 2018/19). The following changes will be introduced by CIPFA into the 2018/19 Code of Practice on Local Authority Accounting:

- ***IFRS 9 Financial Instruments*** - the main changes include the reclassification of financial assets and the requirement to recognise the impairment of financial assets earlier than at present. The council does not expect these changes to have a material impact upon the financial statements because the majority of its financial assets will retain the same measurement basis. In relation to the impairment changes, the impairment charge will be immaterial for treasury management assets (ie bank deposits and short term investments with other local authorities), the council already makes a provision for doubtful debts on its service related assets (ie trade receivables) and other long term assets are mainly capital in nature and so any impairment will not have an impact on the general fund balance.
- ***IFRS 15 Revenue Contracts with Customers*** – this standard presents new requirements for the recognition of revenue, based on a control based revenue recognition model. The majority of the material revenue streams of the council are outside the scope of this standard as other existing standards apply (ie leases, council tax, business rates) and therefore the council does not expect this change to have a material impact on the financial statements although additional disclosures may be required.

Note 4: Critical judgements in applying accounting policies

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

Issue	Judgement
Local government funding	There is a high degree of uncertainty about future levels of funding for local government, however, the council has determined that this uncertainty is not sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.
Grant conditions	The council reviews its grants and contributions annually and where the contributions are conditional upon the money being expended in a specific way and the council is satisfied initially that the money could be expended as intended it is set aside in usable reserves (either earmarked revenue or capital unapplied) to be drawn down at a future date. Should circumstances change whereby the council decides that money can no longer be deployed as specified it would be transferred to receipts in advance prior to being refunded.
Fair value measurement of surplus assets	The surplus asset portfolio is made up of 102 separate assets. Of these, 54 made up 98% of the value on the balance sheet as at 31 March 15. During 2015/16 the council's valuers, Bruton Knowles LLP, valued these 54 assets, in line with the fair value measurement requirements of IAS13, as part of the rolling valuation programme. It is judged that this method provides the council with a materially accurate valuation of the surplus asset portfolio without the expense of having to value every individual, small asset within the portfolio.
Carrying value of assets not revalued in 2017/18	The council revalues its land & buildings assets on a 5 year rolling programme. This is permitted under the Code provided that the carrying value of the assets on the balance sheet is not materially different to the current value at the balance sheet date. In consultation with the council's valuers, the council has determined that whilst there have been inflationary pressures in the market that would increase the value of assets valued at Depreciated Replacement Cost, such as schools, these increases would be mitigated by deprecation to the asset over the relevant period. This means that the values are unlikely to be materially different at the balance sheet date.
Schools accounting	The Code specifies that, under accounting definitions, local authority maintained schools (community, foundation, voluntary aided and voluntary controlled, but not academies or free schools) are separate entities under the control of local authorities for financial reporting purposes and meet the criteria for producing group accounts. However, in order to simplify the consolidation process and to avoid consolidating a considerable number of smaller entities the Code of Practice also confirms that the definition of the single entity financial statements includes all transactions of local authority schools (income, expenditure, assets, liabilities, reserves and cash flows) so instead of being

consolidated in group accounts they are consolidated in the main council accounts.

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

In line with guidance produced by CIPFA for recognising school non-current assets, the council has determined that all foundation schools meet the recognition requirements in the code for Property, Plant and Equipment and has recognised these assets on the balance sheet.

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

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

PFI and similar contracts

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

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

The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the assets are recognised as property, plant and equipment on the council’s Balance Sheet (see note 37 for additional details).

The waste disposal PFI includes investment in a number of waste disposal assets. These have all been recognised on the council’s balance sheet including an asset under construction of £74.3m for the Eco Park as at 31 March 2018 (£53.8m as at 31 March 2017).

Interests in other entities

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

- S.E. Business Services Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the provision of business services and was incorporated on 20 June 2013. The economic activity of this company has been incorporated into the group accounts.
- Surrey Choices Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until August 2014. The economic activity of this company has been incorporated into the group accounts.
- Halsey Garton Property Ltd – is a Local Authority Trading Company wholly owned by the council to make property investments. It is a holding company and has three subsidiaries; Halsey Garton Property Investments Ltd, Halsey Garton Property Developments Ltd and Halsey Garton Residential Ltd. To date, only the holding company and Halsey Garton Property Investments Ltd have commenced trading and therefore only the economic activity of these companies has been incorporated into the group accounts.
- Henrietta Parker Trust - the council does exercise control over the Henrietta Parker Trust, the income of which supports adult learning. However, the economic activity of this trust fund is not deemed material and therefore the trust has not been incorporated into the group accounts.

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

The Statement of Accounts contains estimated figures based on assumptions about the future or that are otherwise uncertain. Estimates take into account historical experience, current trends and other relevant factors. In addition, contingent assets and liabilities, which are not reflected in the statements, are assessed and any material items are disclosed in note 6.

The items in the council's Balance Sheet at 31 March 2018 for which significant assumptions have been made are set out in the table that follows:

Item	Uncertainties	Effect if actual results differ from assumptions

Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain whether authorities will be able to sustain spending on repairs and maintenance, bringing into question the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by around £1.2m for every year that useful lives had to be reduced.
Pensions Liability	The council's actuary advises on the sensitivity analysis to be applied to the calculation for estimating the net pension liability. The calculation is dependent upon a number of complex judgements relating to: the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a decrease of 0.5% in the real discount rate would result in an increase in the pension liability of £282m for the LGPS and £60m for the firefighters' pension fund. A 1 year increase in member life expectancy would potentially result in an increase in the pension liability of up to £139m for the LGPS and £19m for the firefighters' pension fund.
Debtors	At 31 March 2018, the council had a balance of £153m on short term debtors (including government grants, receipts in advance and the council's share of Council Tax and Business Rates debtors). A credit risk review suggested that an impairment level of £16m for doubtful debts was sufficient.	Debtors are monitored regularly and should general debtors rise in 2018/19 the council may consider raising its provision for bad and doubtful debt. This provision is reviewed quarterly.
Fair value measurements	When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets.	The council uses a combination of valuation techniques to measure the fair value of some of its investment properties and surplus assets. These include comparable open market value, floor areas, tenancies, rent reviews, planning and all other ongoing management issues.
	Where Level 1 inputs are not available, the council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example the investment properties and surplus asset valuations are done by expert firms).	Significant changes in any of the observable inputs would result in a significantly lower or higher fair value measurement for the investment properties and surplus assets

Note 6: Material items of income and expenditure

Included in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement (CIES) is an impairment charge of £89.3m related to the derecognition of academy schools (£113m in 2016/17). When a school changes status to an academy, the ownership of the land and buildings transfers from the council to the school. The assets are written out of the balance sheet and an accounting adjustment is made against the Financing and Investment line in the CIES. During 2017/18, 20 schools transferred to academy status (25 in 2016/17).

The council has been receiving a firefighters top up grant since 2006. In May 2014 it became apparent that between 2006 and 2013 the council had received funding under this grant for an element of firefighters' pensions relating to injury awards that should have been borne by the council under the terms of the scheme. At that time a provision for the potential repayment of the over claim was made in the accounts. The council has been in discussion with MHCLG on resolving this issue for a number of years. Repayment of the full amount over-claimed, amounting to £8.9m, was made during 2017/18 and the provision drawn down to match the expenditure.

During the year the council incurred the following capital expenditure as part of its investment strategy:

- £60m in long-term loans to Halsey Garton Property Ltd. Included as a long term debtor on the balance sheet;
- £25m equity investment in Halsey Garton Property Ltd. Included as a long term investment on the balance sheet;
- £15.4m on property at Gatwick Diamond Crawley. Included as Property Plant and Equipment on the balance sheet;
- £3.3m on property at Farnham Town Centre. Included as Property Plant and Equipment on the balance sheet.

Note 7: Events after the balance sheet date

The Director of Finance and section 151 officer left the council in July 2018. The Deputy Chief Finance Officer is acting as the interim s151 officer and has certified the statement of accounts.

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

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

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

This note sets out the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the 2017/18 financial year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

2017/18	General Fund and Earmarked Reserves	Capital Receipts Reserve	Capital grant & contributions unapplied reserve
	£000	£000	£000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs (transferred to Pension Reserve)	-72,282		
Council tax and business rates (transfers to Collection Fund)	-8,358		
Holiday pay (transferred to the Accumulated Absences Reserve)	2,856		
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):			
Charges for depreciation and impairment of non-current assets	-77,740		
Revaluation losses on property, plant & equipment	-26,466		
Other movements in valuation on property, plant and equipment			
Movement on fair value on investment property	-1,248		
Amortisation of intangible assets	-1,117		
Disposal of academies	-89,295		
Revenue expenditure funded from capital under statute	-13,836		
Deferred Income in respect of PFI schemes	205		
Reversal of donated asset adjustment	116		
Net book value of disposals	-4,872		
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	97,946		-97,946
Total Adjustments to the Revenue Resources	**-194,091**		**-97,946**
Adjustments between Revenue & Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	4,615	-4,615	
Transfer of asset sale proceeds from the Deferred Capital Receipts Reserve		-12,113	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	24,458		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,416		
Total Adjustments between Revenue & Capital Resources	**30,489**	**-16,728**	
Adjustments to Capital Resources			
Application of capital grants to finance capital expenditure			97,845
Application of capital receipts to reduce capital financing requirement		27,625	
Total Adjustments to capital resources		**27,625**	**97,845**
Total Adjustments	**-163,602**	**10,897**	**-101**

Comparator information relating to the 2016/17 adjustments between accounting basis and funding basis under regulations is provided in the table below:

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

Note 9: Transfers to / from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves, to provide financing for future expenditure plans, commitments and possible liabilities and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

	Restated Balance at 31/03/16	Transfers In	Transfers Out	**Restated Balance at 31/03/17**	Transfers In	Transfers Out	**Balance at 31/03/18**
	£000	£000	£000	**£000**	£000	£000	**£000**
Schools Balances	**40,945**	5,542	-4,898	**41,589**	5,468	-5,071	**41,986**
Transfer of Schools Balances to Academies	**9,929**		-4,193	**5,736**		-5,736	
Investment Renewals	**8,846**	1,550	-5,441	**4,955**	485	-396	**5,044**
Equipment Replacement	**2,053**	1,880	-3,264	**669**	1,875	-297	**2,247**
Vehicle Replacement	**3,925**	23	-3,948				
Budget Equalisation	**13,063**	19,321	-6,187	**26,197**	16,310	-19,931	**22,576**
Private Finance Initiative	**5,065**		-673	**4,392**		-657	**3,735**
Insurance	**11,943**	1,756	-5,953	**7,746**	1,439		**9,185**
Eco Park Sinking Fund	**11,736**		-7,333	**4,403**	2,294		**6,697**
Child Protection	**1,120**		-1,000	**120**			**120**
Revenue Grants Unapplied	**18,157**	13,089	-18,157	**13,089**	15,249	-13,089	**15,249**
General Capital	**5,238**	157	-131	**5,264**	179	-636	**4,807**
Interest Rate	**1,000**			**1,000**			**1,000**
Economic Downturn	**9,239**			**9,239**			**9,239**
Revolving Investment & Infrastructure Fund	**21,139**		-10,000	**11,139**			**11,139**
Public Health	**2,674**		-2,674				
Pension Stabilisation	**1,139**		-1,100	**39**			**39**
Business Rate Appeals	**1,258**			**1,258**	2,354		**3,612**
Economic Prosperity	**2,505**			**2,505**			**2,505**
	170,972	43,318	-74,952	**139,337**	45,653	-45,813	**139,177**

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

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

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

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

Budget equalisation reserve: The budget equalisation reserve was set up to support future years' revenue budgets from unapplied income and budget carry forwards. The balance includes £1m service budget carry forwards into 2018/19 and a further £4.6m which has been agreed to support the 2018/19 budget.

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

Insurance reserve: This reserve holds the balance resulting from a temporary surplus or deficit on the council's self insurance fund and is assessed by an actuary for the possible liabilities the council may face. It specifically holds £4.2m to cover potential losses from the financial failure of Municipal Mutual Insurance (MMI) in 1992. The company had limited funds to meet its liabilities, consequently, future claims against policy years covered by MMI may not be fully paid, so would be funded from this reserve. The balance on this reserve represents the latest assessed possible liability.

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

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

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

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

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

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

Revolving investment & infrastructure fund: The revolving infrastructure & investment fund was established in the 2013-18 Medium Term Financial Plan in order to provide the revenue costs of funding infrastructure and investment initiatives that will deliver savings and enhance income in the longer term.

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

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

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

Note 10: Other operating income and expenditure

Net Expenditure 2016/17 £000		Gross Expenditure 2017/18 £000	Income 2017/18 £000	**Net Expenditure 2017/18 £000**
1,077	Land Drainage Precept	1,089		**1,089**
	Miscellaneous Income			
-1,848	Contributions from Trading Services (note 24)	29,800	-29,648	**152**
	Change in Provisions			
-14,727	Gain on disposal of non-current assets	257		**257**
-15,498		**31,146**	**-29,648**	**1,498**

Note 11: Financing and investment income and expenditure

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

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

2016/17 £000		**2017/18 £000**
23,581	Interest payable and similar charges	**25,233**
43,351	Net interest on the net defined benefit liability (Note 39)	**40,750**
-6,505	Interest receivable and similar income	**-10,787**
-7,360	Income & expenditure in relation to investment properties (Note 14)	**-2,376**
112,967	Disposal charge for the derecognition of schools that transfer to Academy status	**89,295**
166,034		**142,115**

Note 12: Council tax and general grants & contributions

2016/17		**2017/18**
£000		**£000**
	Local taxation:	
-624,538	- Council tax income	**-661,576**
-45,774	- Business rate income	**-53,164**
	Grants and contributions:	
-126,484	- Formula grant	**-86,633**
-46,157	- Non ring-fenced government grants	**-58,631**
-121,592	- Capital grants and contributions	**-97,946**
-964,545		**-957,950**

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

Note 13: Property, plant & equipment

	Land and Buildings	Vehicle, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000
Restated Cost (revalued)							
Balance at 1 April 2017	**1,245,690**	**73,967**	**926,908**	**6,273**	**40,275**	**142,286**	**2,435,399**
Additions**	24,071	4,259	27,633	306	42	71,674	127,985
Donations		116					116
Revaluations recognised in the Revaluation Reserve	13,051	229			855		14,135
Disposals	-3,923	-3,516					-7,439
Derecognition - academies	-120,063						-120,063
Assets reclassified to Assets Held for Sale	-499						-499
Reclassifications from Assets Under Construction	131	196	1,626		1,669	-23,686	-20,064
Other Movements in assets and valuation	1,083			110	3,652		4,845
At 31 March 2018	**1,159,541**	**75,251**	**956,167**	**6,689**	**46,493**	**190,274**	**2,434,415**
Restated Accumulated Depreciation and Impairment							
at 1 April 2017	**-74,034**	**-45,590**	**-556,496**		**-6,986**		**-683,106**
Depreciation charge	-33,749	-5,265	-38,726				-77,740
Depreciation written out to the Revaluation Reserve	59,743						59,743
Impairment losses recognised in the Revaluation Reserve	-19,709						-19,709
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-25,916						-25,916
Disposals	1,240	3,377					4,617
Derecognition - academies	30,768						30,768
Reclassifications	192				-192		
At 31 March 2018	**-61,464**	**-47,478**	**-595,222**	**0**	**-7,178**	**0**	**-711,342**
Net Book Value							
at 31 March 2017	**1,171,656**	**28,377**	**370,412**	**6,273**	**33,289**	**142,286**	**1,752,293**
at 31 March 2018	**1,098,077**	**27,773**	**360,945**	**6,689**	**39,315**	**190,274**	**1,723,073**

	Land and Buildings	Vehicle, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000
Cost (revalued)							
Balance at 1 April 2016	1,687,640	68,098	883,414	6,273	40,275	118,482	2,804,182
Adjustment for accumulated depreciation*	-367,163						-367,163
Restated Balance at 1 April 2016	1,320,477	68,098	883,414	6,273	40,275	118,482	2,437,019
Additions**	28,384	4,781	41,767			47,642	122,574
Donations		68					68
Revaluations recognised in the Revaluation Reserve	24,023						24,023
Disposals	-2,482	-1,275					-3,757
Derecognition - academies	-144,769						-144,769
Reclassifications	19,342	2,282	1,727			-23,351	
Assets reclassified to Intangible Assets						-345	-345
Other Movements in assets and valuation	715	13				-142	586
Restated at 31 March 2017	**1,245,690**	**73,967**	**926,908**	**6,273**	**40,275**	**142,286**	**2,435,399**
Accumulated Depreciation and Impairment							
at 1 April 2016	-442,785	-42,102	-519,293		-6,986		-1,011,166
Adjustment for accumulated depreciation*	367,163						367,163
Restated at 1 April 2016	-75,622	-42,102	-519,293		-6,986		-644,003
Depreciation charge	-36,023	-4,608	-37,203				-77,834
Depreciation written out to the Revaluation Reserve	44,720						44,720
Impairment losses recognised in the Revaluation Reserve	-2,316						-2,316
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-37,043						-37,043
Disposals	450	1,120					1,570
Derecognition - academies	31,800						31,800
Other Movements in Depreciation							
Restated at 31 March 2017	**-74,034**	**-45,590**	**-556,496**		**-6,986**		**-683,106**
Net Book Value							
at 31 March 2016	**1,244,855**	**25,996**	**364,121**	**6,273**	**33,289**	**118,482**	**1,793,016**
at 31 March 2017	**1,171,656**	**28,377**	**370,412**	**6,273**	**33,289**	**142,286**	**1,752,293**

* The restated opening balances account for the accumulated depreciation written out on the revaluation of assets, which is applied to the cost of the asset. This has no impact on the net book value of the assets presented on the Balance Sheet. (see note 43)

** These amounts include assets acquired under PFI schemes (see note 37), but excludes £16.4m revenue expenditure funded from capital under statute (£24.8m in 2016/17).

Capital commitments

At 31 March 2018, the council has entered into contracts for the acquisition/enhancement of Property, Plant & Equipment in 2018/19 and future years, total cost £25.9m (£7.6m as at 31 March 2017). The major commitments as at 31 March 2018 are:

Schools Basic Need capital projects,

- St Bedes secondary (Reigate) £6.0m
- Farnham Heath End £5.0m
- De Stafford School £3.2m
- Ewell Grove Infant & Nursery £2.6m
- Thomas Knyvett £2.3m

Corporate capital projects,

- Linden Farm £4.3m
- Fordbridge (Spelthorne) Fire Station £2.5m

Revaluations

The council carries out a rolling programme that ensures that all Land and Buildings, except a small proportion of the portfolio for school's tied accommodation, required to be measured at fair value is revalued at least every five years. Valuations of land and buildings were carried out by Bruton Knowles LLP, 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	258
Carried at current value	3,876
Carried at current value. Last revalued as at:	
31 March 2014	169,150
31 March 2015	220,962
31 March 2016	267,565
31 March 2017	166,889
31 March 2018	269,377
Total	**1,098,077**

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

Revaluation losses

During 2017/18 the council has recognised an revaluation loss of £46.2m in total. The land and building assets are re-valued based on existing use value, as part of the five year rolling programme by external valuers. The result was an revaluation loss of £26.5m charged to the Comprehensive Income and Expenditure Statement and £19.7m offset from the balance in the revaluation reserve in relation to these assets.

Note 14: Investment properties

The council has several properties purchased for future service needs or for the purposes of economic development which are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2018, under the code of practice they are classed as investment properties.

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (see note 11):

2016/17		**2017/18**
£000		**£000**
4,218	Rental income from investment property	**4,890**
-392	Direct operating expenses arising from investment property	**-1,266**
3,826	**Net gain**	**3,624**
4,534	Gain on sale of investment property	**0**
-1,000	**Net loss on fair value adjustments**	**-1,248**
7,360	**Income & expenditure in relation to investment properties**	**2,376**

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

2016/17		**2017/18**	Offices	Retail	Leisure	Fair Value Hierarchy
£000		**£000**	£000	£000	£000	
62,850	Balance at start of the year	**54,050**	47,650	5,250	1,150	Level 2
	Additions	**2,114**	2,114			
	Reclassification	**19,884**	19,884			
-7,800	Disposal					
-1,000	Net loss/gain from fair value adjustments*	**-1,248**	-748	-500		
54,050	**Balance at end of the year**	**74,800**	68,900	4,750	1,150	Level 2

*the valuation of Investment Properties is based on prevailing market conditions and existing lease agreements as at 31 March 2018.

The fair value of the council's investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The fair value calculation takes into account the prevailing market conditions and lease agreements in place as at 31 March 2018.

The revaluation exercise has resulted in an overall reduction in asset values of £1.2m. The majority of the assets have increased in value compared to the original purchase price and compared to the March 2017 valuation. There are however two exceptions; the property at Pixham Lane, Dorking has significantly reduced in value since the end of the tenant's lease draws closer and the valuation is not able to take into account the possibility of a further lease or alternative use and a reduction in value for the property at Staines High Street due to the length of the lease remaining and market sentiment for high street shops. The works to develop the upper floors to residential use are expected to commence during 2018/19 which is expected to result in an enhanced asset value at the next valuation.

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

Note 15: Foundation, voluntary aided and voluntary controlled schools and academies

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

Local authority maintained schools (community, foundation, voluntary aided and voluntary controlled, but not academies or free schools) are separate entities under the control of local authorities for financial reporting purposes and meet the criteria for producing group accounts. However, in order to simplify the consolidation process and to avoid consolidating a considerable number of smaller entities, the Code confirms that the definition of the single entity financial statements includes all transactions of local authority schools (income, expenditure, assets, liabilities, reserves and cash flows) so instead of being consolidated in group accounts they are consolidated in the main county council accounts.

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

Foundation

Foundation schools are owned by a trust and the local council have a significant control over the school through funding arrangements, representation on the governing body of the school and legal rights around the disposal of assets. SCC has significant control over the resources inherent in an asset as a result of substantive and enforceable rights, therefore SCC has recognised foundation school assets on the balance sheet since 2014/15.

Voluntary aided

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

Voluntary controlled

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

Academies

During 2017/18, 20 schools had transferred to academy status (13 Community Schools, 3 Voluntary Aided Schools, 3 Voluntary Controlled Schools and 1 Foundation School). Academy schools are owned and managed completely independently of the local authority and therefore the non-current assets have been excluded from this balance sheet.

Note 16: Financial instruments

Categories of financial instruments

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

31/03/2017 Long-Term £000	31/03/2017 Short-Term £000		**31/03/2018 Long-Term £000**	**31/03/2018 Short-Term £000**
		Investments		
40		Loans & receivables	**26**	
46,695		Available for sale financial assets	**72,039**	
46,735		**Total Investments**	**72,065**	
		Debtors		
124,547	113,398	Financial assets carried at contract amounts*	**184,606**	**126,269**
		Cash		
	56,120	Cash & Cash Equivalents		**51,224**
		Borrowings		
-397,786	-140,699	Financial liabilities at amortised cost	**-397,786**	**-212,711**
		Other Liabilities		
-124,194	-13,281	PFI, finance lease liabilities and third party balances	**-122,100**	**-17,938**
		Creditors		
	-139,051	Financial liabilities carried at contract amounts*		**-157,243**

*Short-term debtors excludes payments in advance and collection fund debtors. Short term creditors excludes receipts in advance and collection fund creditors

Income, expense, gains & losses

2016/17 Financial Liabilities Measured at amortised cost £000	2016/17 Financial Assets Loans & receivables £000	2016/17 Total £000		2017/18 Financial Liabilities Measured at amortised cost £000	2017/18 Financial Assets Loans & receivables £000	2017/18 Total £000
23,581		23,581	Interest expense	**25,233**		**25,233**
			Net impairment on financial asset			
23,581		23,581	**Total expense in Surplus or Deficit on the Provision of Services**	**25,233**		**25,233**
	-5,166	-5,166	Interest Income		**-9,476**	**-9,476**
	-1,339	-1,339	Dividend Income		**-1,311**	**-1,311**
	-6,505	-6,505	**Total income in Surplus or Deficit on the Provision of Services**		**-10,787**	**-10,787**

Fair value of assets and liabilities

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

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

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

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

31/03/2017 Carrying value £000	31/03/2017 Fair Value £000	**Financial liabilities**	**Fair Value Level**	**31/03/2018 Carrying value £000**	**31/03/2018 Fair Value £000**
387,247	577,344	Long-term loans from PWLB	2	**387,247**	**555,468**
10,539	14,934	Long-term Commercial loans	2	**10,539**	**16,482**
124,194	124,194	PFI and other lease liabilities	2	**122,100**	**122,100**
521,980	716,472			**519,886**	**694,050**

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 2018) arising from a commitment to pay interest to lenders above current market rates.

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

31/03/2017				**31/03/2018**	
Carrying Amount £000	Fair Value £000	**Financial assets**	**Fair Value Level**	**Carrying Amount £000**	**Fair Value £000**
46,695	46,695	Shares in unlisted companies	3	**72,065**	**72,065**
123,633	123,633	Long-term loans to companies	2	**184,017**	**184,017**
913	913	Other long term loans	2	**589**	**589**
171,241	171,241			**256,671**	**256,671**

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

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

Movement of shares in unlisted companies

2016/17 £000	**Shares in unlisted companies**	2017/18 £000
3,163	Opening balance	**46,695**
43,539	Purchases	**25,370**
-7	Sales	
46,695	Closing balance	**72,065**

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

Nature and extent of risks arising from financial instruments

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

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

Overall procedures for managing risk

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

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

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

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

Credit risk

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

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

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

Estimated maximum exposure to default		Amount	Historical experience of default	Adjustment for market conditions	**Estimated maximum exposure to default**
£000s		£000s	%	%	**£000s**
31/03/2017		31/03/18	31/03/18	31/03/18	**31/03/18**
	Deposits with banks and financial institutions	**(a)**	**(b)**	**(c)**	**(a x c)**
	Local Authorities		**0.00%**	**0.00%**	
	AAA rated counterparties	**43,000**	**0.04%**	**0.04%**	**17**
	AA rated counterparties		**0.03%**	**0.03%**	
	A rated counterparties		**0.06%**	**0.06%**	
	Other counterparties				
7,527	Trade debtors*	**86,218**			**8,356**
7,527	**Total**	**129,218**			**8,373**

* a single percentage has not been applied to trade debtors. The bad debt provision is calculated using various percentage rates of possible default depending on the type and age of the outstanding debt. The estimated maximum exposure to default equates to the total bad debt provision (see note 17).

The council does not generally allow credit for its trade debtors, such that £24.0m of the £153.4m balance (see note 17) is past its due date for payment. The past due amount can be analysed by age as follows:

31/03/2017		**31/03/2018**
£000		**£000**
5,172	Less than six months	**7,138**
3,560	Six months to one year	**3,621**
11,490	More than one year	**13,247**
20,223	**Total**	**24,006**

Liquidity risk

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

Refinancing and maturity risk

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

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

31/03/2017		**31/03/2018**
£000		**£000**
107,206	Less than one year	**230,391**
73,502	Between one and five years	**68,980**
92,818	Between five and 15 years	**69,330**
404,792	More than 15 years	**409,106**
678,318		**777,807**

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

31/03/2017		**31/03/2018**
£000		**£000**
174,022	Less than one year	**179,076**

Market risk

Interest rate risk

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

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

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

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

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

If interest rates had been 1% higher (with all other variables constant) then the fair value of the PWLB loan portfolio would have been £107m lower.

Price risk

The council, excluding the pension fund, does not generally invest in equity shares or marketable bonds. The council does have holdings to the value of £72m in eight companies. £69m of this is in the council's property investment trading company Halsey Garton Property Ltd. These companies are not quoted and the shares are held at book value as an estimate of fair value.

Foreign exchange risk

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

Note 17: Short term debtors

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

31/03/2017		**31/03/2018**
£000		**£000**
20,964	Central government bodies	**21,451**
65,492	Other local authorities	**58,488**
3,512	NHS bodies	**2,915**
224	Public corporations and trading funds	**474**
70,793	Bodies external to general government (i.e. All other bodies)	**70,078**
160,985	**Total**	**153,406**
	Less:	
	Provision for doubtful debts	
-6,947	- Social services and health services	**-7,525**
-580	- Other services	**-831**
-8,748	- Local taxation arrears	**-8,114**
144,710		**136,936**

Note 18: Cash and cash equivalents

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

31/03/17		**31/03/18**
£000		**£000**
34,318	General account	**8,224**
21,802	Money market funds	**43,000**
56,120	**Total cash and cash equivalents**	**51,224**

Note 19: Assets held for sale

Assets held for sale (current) 31/03/2017 £000		**Assets held for sale (current) 31/03/2018 £000**
24,160	**Balance outstanding at 1 April**	**10,850**
	Assets newly classified as held for sale:	
	- Property, plant and equipment	**499**
	Revaluation gain	**1,351**
	Revaluation loss	**-550**
-13,310	Assets sold*	**-2,050**
10,850	**Balance outstanding at 31 March**	**10,100**

* Of the total assets sold in 2017/18, all relates to land and property included in the opening balance.

Note 20: Creditors

31/03/17 £000		**31/03/18 £000**
-18,518	Central government bodies	**-23,521**
-28,992	Other local authorities	**-27,919**
-9,426	NHS bodies	**-13,797**
-629	Public corporations and trading funds	**-402**
-133,197	Bodies external to general government (i.e. All other bodies)	**-142,177**
-190,762	**Total**	**-207,816**

Note 21: Provisions

	Business Rates Appeals	Insurance liabilities	Equal pay	Fire fighters Pensions Fund	Redundancy	Other provisions	Total provisions
	£000	£000	£000	£000	£000	£000	**£000**
Balance at 1 April 2017	8,069	5,162	2,000	8,949	2,729	2,548	**29,457**
Additional provisions made in 2017/18	490	300	1,500		1,960	354	**4,604**
Amounts used in 2017/18				-8,910	-2,238	-833	**-11,981**
Unused amounts reversed in 2017/18				-39		-197	**-236**
Balance at 31 March 2018	8,559	5,462	3,500	0	2,451	1,872	**21,844**
Current Provisions		300			2,451	354	**3,105**
Non-Current Provisions	8,559	5,162	3,500			1,518	**18,739**
	8,559	5,462	3,500	0	2,451	1,872	**21,844**

Comparator information relating to 2016/17 provisions are provided in the following table:

	Business Rates Appeals	Insurance liabilities	Equal pay	Fire fighters Pensions Fund	Redundancy	Other provisions	Total provisions
	£000	£000	£000	£000	£000	£000	**£000**
Balance at 1 April 2016	11,778	5,846	4,000	8,949	1,319	1,734	**33,626**
Additional provisions made in 2016/17		11			2,729	1,030	**3,770**
Amounts used in 2016/17	-3,709	-695			-1,030		**-5,434**
Unused amounts reversed in 2016/17			-2,000		-289	-216	**-2,505**
Balance at 31 March 2017	8,069	5,162	2,000	8,949	2,729	2,548	**29,457**
Current Provisions					2,729	1,548	**4,277**
Non-Current Provisions	8,069	5,162	2,000	8,949		1,000	**25,180**
	8,069	5,162	2,000	8,949	2,729	2,548	**29,457**

Business rates

Since the introduction of Business Rates Retention Scheme, local authorities have been liable for successful appeals against business rates charged to businesses in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2018. The council's provision for the business rates appeals is based on our share of the provision calculated by each of the 11 borough and district councils in Surrey.

Insurance

The provision for insurance liabilities represents the assessed future claims on the county council's self-insurance fund. The fund was established to enable the county council to move towards self-insurance and is now considered to fully cover service risks. The fund and its liabilities are subject to review by the council's actuaries and the last review took place during 2015/16. The council has an earmarked reserve to cover any unknown future liabilities. In May 2016, a levy payment of £695,000 in relation to Municipal Mutual Insurance (MMI) was drawn down from this provision.

Unequal pay claim

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

Firefighters Pensions

The council has been receiving a firefighters top up grant since 2006. In May 2014 it became apparent that between 2006 and 2013 the council had received funding under this grant for an element of firefighters' pensions relating to injury awards that should have been borne by the council under the terms of the scheme. The council has been in discussion with DCLG on resolving this issue for a number of years. Repayment of the full amount over-claimed was made during 2017/18.

Redundancy costs

As at 31 March 2018 there is a provision of £2.5m to cover the cost of redundancies agreed during **2017**/18 but for which the expenditure will not be incurred until 2018/19.

Other provisions

During 2016/17, Guildford and Waverley CCG ran a procurement process for the Surrey Children's Community Health Service on behalf of itself, 5 other CCGs, NHS England and Surrey County Council. The procurement process was challenged and a provision was set up during 2016/17. Following legal advice and a mediation process, the parties involved agreed on an out of court settlement and during 2017/18 a total payment of £440,000 has been made on behalf of Surrey County Council towards the settlement sum.

A number of other smaller provisions have been identified.

Note 22: Usable reserves

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

	Balance at 1 April 2017	Transfers In	Transfers Out	**Balance at 31 March 2018**
	£000	£000	£000	**£000**
Revenue				
General Fund Balance	21,331			**21,331**
Earmarked Reserves	139,337	45,653	-45,813	**139,177**
Total revenue reserves	160,668	45,653	-45,813	**160,508**
Capital				
Capital Grant Unapplied	77,036	97,946	-97,845	**77,137**
Capital Receipts Reserve	103,401	16,728	-27,625	**92,504**
Total capital reserves	180,437	114,674	-125,470	**169,641**
Total usable reserves	341,105	160,327	-171,283	**330,149**

Note 23: Unusable reserves

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

31/03/17		**31/03/18**
£000		**£000**
-787,477	Revaluation Reserve	-833,209
-144,494	Capital Adjustment Account	-96,661
-12,113	Deferred Capital Receipts	
19	Financial Instruments Adjustment Account	19
1,560,191	Pensions Reserve	1,575,845
-7,581	Collection Fund Adjustment Account	777
10,431	Accumulated Absences Account	7,575
618,976		**654,346**

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.

31/03/17		**31/03/18**	**31/03/18**
£000		**£000**	**£000**
-731,042	**Balance at 1 April**		**-787,477**
-68,743	Upward revaluation of assets	-75,230	
2,316	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services	19,709	
-624	Asset reclassification		
	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the Provision of Services		-55,521
10,615	Difference between fair value depreciation and historical cost depreciation	9,789	
	Amount written off to the Capital Adjustment Account		9,789
-787,477	**Balance at 31 March**		**-833,209**

Capital Adjustment Account

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

31/03/17 £000		31/03/18 £000	31/03/18 £000
-283,232	**Balance at 1 April**		**-144,494**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
77,834	Charges for depreciation and impairment of non-current assets	77,740	
12,534	De minimis capital expenditure		
26,175	Revaluation losses on Property, Plant and Equipment	26,466	
-1,036	Other movements in valuation on Property, Plant and Equipment	-5,287	
1,000	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	1,248	
870	Amortisation of intangible assets	1,117	
21,962	Revenue expenditure funded from capital under statute	13,836	
-195	Deferred Income	-205	
-68	Donated Assets credited to the Comprehensive Income and Expenditure Statement	-116	
134,268	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	94,167	
273,344			208,966
-10,615	Adjusting amounts written out of the Revaluation Reserve		-9,789
262,729	Net written out amount of the cost of non-current assets consumed in the year		199,177
	Capital financing applied in the year:		
-364	Use of the Capital Receipts Reserve to finance capital expenditure		-27,625
	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing		
-94,049	Application of grants to capital financing from the Capital Grants Unapplied Account		-97,845
-24,339	Statutory provision for the financing of capital investment charged against the General Fund		-24,458
-5,238	Capital expenditure charged against the General Fund		-1,416
-144,494	**Balance at 31 March**		**-96,661**

Deferred Capital Receipts Account

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets for which cash settlement has yet to take place. Under statutory arrangements, the council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve. There is nil balance for 2017/18 (£12.1m was recognised in 2016/17 in relation to a sale of land) for which the cash has been received during 2017/18 and so this amount has been recognised in the capital receipts reserve.

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 2018 is for to the loss of interest on a soft loans issued by the council in 2007/08 to Painshill Park Trust Ltd. There were no movements during 2017/18 (reduction by 18k during 16/17).

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 recognised 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.

31/03/17		**31/03/18**
£000		**£000**
1,251,095	**Balance at 1 April**	**1,560,191**
275,768	Actuarial gains or losses on pensions assets and liabilities	**-56,628**
115,415	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	**151,596**
-82,087	Employer's pensions contributions and direct payments to pensioners payable in the year	**-79,314**
1,560,191	**Balance at 31 March**	**1,575,845**

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.

31/03/17		**31/03/18**
£000		**£000**
-9,543	**Balance at 1 April**	**-7,581**
1,962	Amount by which local taxation income credited to the Comprehensive Income and Expenditure Statement is different from local taxation income calculated for the year in accordance with statutory requirements	**8,358**
-7,581	**Balance at 31 March**	**777**

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.

31/03/17		31/03/18	**31/03/18**
£000		£000	**£000**
7,653	**Balance at 1 April**		**10,431**
-7,653	Settlement or cancellation of accrual made at the end of the preceding year	-10,431	
10,431	Amounts accrued at the end of the current year	7,575	
2,778	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		**-2,856**
10,431	**Balance at 31 March**		**7,575**

Note 24: Trading operations

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

The table below shows the income and expenditure for 2017/18

2016/17 £000		**2017/18 £000**
-30,759	Turnover	**-29,648**
27,982	Expenditure	**28,805**
-2,777	Surplus(-)	**-843**
929	Support services recharged to Expenditure of Continuing Operations	**995**
-1,848	**Net deficit/surplus(-) debited to other Operating Expenditure**	**152**

Note 25: Pooled budgets

Section 75 of the National Health Service Act 2006 enables health and local authorities to work together for a common objective. This may involve a pooled budget where all partners make a contribution. The main section 75 arrangement in Surrey is the Better Care Fund which was set up during 2015/16.

Better Care Fund

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

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

The council acts as the 'host' authority for all these pooled budgets. The table below summarises the financial position of each pooled budget arrangement for 2017/18. The council recognises its share of income, expenditure, assets and liabilities in its accounts.

2017/18

	North West Surrey LJCG	Surrey Downs LJCG	Guildford & Waverley LJCG	East Surrey LJCG	Surrey Heath LJCG	North East Hampshire & Farnham LJCG	Windsor, Ascot & Maidenhead LJCG	Total
Funding provided to the pooled budget								
- Surrey County Council	-163	-81	-56	-72	-30	-9	-7	**-418**
- North West Surrey CCG	-20,100							**-20,100**
- Surrey Downs CCG		-16,693						**-16,693**
- Guildford & Waverley CCG			-11,698					**-11,698**
- East Surrey CCG				-10,215				**-10,215**
- Surrey Heath CCG					-5,597			**-5,597**
- North East Hampshire & Farnham CCG						-2,531		**-2,531**
- Windsor, Ascot & Maidenhead CCG							-672	**-672**
	-20,263	-16,775	-11,754	-10,287	-5,627	-2,540	-679	**-67,925**
Expenditure met from the pooled budget	20,290	16,393	11,508	9,790	5,608	2,497	607	**66,695**
Surplus or deficit (-)	27	-381	-246	-497	-19	-43	-72	**-1,230**
SCC Share	14	-191	-123	-248	-9	-21	-36	**-615**

2016/17

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

Orbis Joint Operating Budget

Orbis is a partnership between Surrey County Council, East Sussex County Councils and Brighton & Hove City Council that aims to provide seamless and resilient business services to the public sector, creating a compelling alternative to other providers. This decision is built on the successful collaboration between Surrey and East Sussex County Councils, established through a joint procurement function in 2012, and the provision of transactional shared services since April 2013. Brighton & Hove joined the partnership in October 2016.

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

During 2017/18 Surrey County Council and East Sussex operated joined operating budget to fund business services. Brighton & Hove will be incorporated to the joint operating budget from 1.4.2018.

2016/17 £000		2017/18 £000
	Funding provided to the pooled budget	
-35,004	- Surrey County Council	-33,586
-15,038	- East Sussex County Council	-14,580
-50,042		-48,166
50,042	Expenditure met from the pooled budget	48,166
	Net surplus on the pooled budget	

The council is also part of the following pooled budgets arrangements;

- Surrey integrated community equipment service for the supply of equipment to enable people with physical disabilities to live at home;
- Child and adolescent mental health service offering support and advice to young people experiencing mental health, emotional and behavioural problems;
- HOPE is a partnership that provides intensive support for young people with serious mental health needs;
- Surrey safeguarding children's board is a key statutory mechanism for agreeing how agencies in Surrey will cooperate to safeguard and promote the welfare of children in Surrey;
- East Surrey Local Transformation Investment Fund is a pooled budget with East Surrey CCG to transform the provision of Adult Social Care services in the east of the county.

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

Note 26: Member allowances

2016/17 £000		**2017/18 £000**
1,859	Member Allowances*	**1,641**
80	Member Expenses	**65**
1,939		**1,706**

*Includes the employer's contributions for national insurance and superannuation £132k (2016/17, £282k).

Note 27: Officer remuneration – senior officers

Senior officers are specified as: all employees whose annualised salary is £150,000 or more; the head of paid services and any (non secretarial/clerical) person for whom the head of paid services is directly responsible, the directors of children and adult social services, the chief education officer, chief officer of a fire brigade, the section 151 officer and any other individuals who are directly accountable to the council (committee or sub committee) and earn £50,000 or more.

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 (1) - David McNulty	2017/18	120,803	2,109	122,912	17,219	140,131
	2016/17	230,719	4,289	235,008	34,146	269,154
Chief Executive (2) – Joanna Killian	2017/18	15,968		15,968	2,363	18,331
Deputy Chief Executive and Strategic Director of Children, Schools & Families (3) - Julie Fisher	2017/18	180,884		180,884	26,970	207,854
	2016/17	157,934		157,934	23,833	181,767
Strategic Director, Adults Social Care & Public Health	2017/18	134,595		134,595	19,355	153,950
	2016/17	133,797		133,797	19,112	152,909
Strategic Director of Environment & Infrastructure	2017/18	119,479		119479	17,627	137,106
	2016/17	136,649		136,649	20,165	156,814
Strategic Director, Communities (4)	2017/18					
	2016/17	133,806		133,806	19,803	153,609
Director of Finance (5)	2017/18	127,924	1,948	129,872	18,933	148,805
	2016/17	119,372		119,372	17,667	137,039
Director of Legal, Democratic and Cultural Services (6)	2017/18	109,910		109,910	15,973	125,883
	2016/17	112,990		112,990	16,722	129,712
Head of Fire & Rescue	2017/18	122,498		122,498	15,573	138,071
	2016/17	122,648		122,648	15,601	138,249
Total	**2017/18**	**932,061**	**4,057**	**936,118**	**134,013**	**1,070,131**
	2016/17	**1,147,915**	**4,289**	**1,152,204**	**167,049**	**1,319,253**

Notes to the Financial Statements

1. David McNulty left his post in September 2017, his annualised salary was 230,719.
2. Joanna Killian started her post in March 2018. Her annualised salary in 2017/18 was £220,000.
3. Julie Fisher was also an acting Chief Executive from October 2017 to March 2018.
4. This post did not exist in 2017/18 due to changes in organisational structure. The Strategic Director Communities left in June 2017.
5. The Director of Finance is the Director of Finance for the Orbis partnership and therefore her salary is paid from the Orbis joint operating budget. This means it is ultimately paid 70% by Surrey County Council and 30% by East Sussex County Council. The full salary is shown in the table for the purposes of this note.
6. The Director of Legal, Democratic and Cultural Services retired in December 2017. The Head of Legal services took over the Monitoring Officer role. The reported amount for 2017/18 contains combined data for both officers. The split reflecting proportion of time spent in the role is as follows:

   The Director of Legal, Democratic and Cultural Services: salary of £81,045, pension contribution of £11,701, total remuneration £92,746.

   The Head of Legal services: salary of £28,865, pension contribution of £4,272, total remuneration £33,137.

Note 28: Officers' remuneration

2016/17 Non school numbers	Schools numbers	Total numbers	Remuneration (£)	**2017/18 Non-schools numbers**	**Schools numbers**	**Total numbers**
127	98	225	50,000 - 54,999	**141**	**77**	**218**
131	81	212	55,000 - 59,999	**139**	**67**	**206**
67	65	132	60,000 - 64,999	**62**	**52**	**114**
45	45	90	65,000 - 69,999	**45**	**31**	**76**
24	26	50	70,000 - 74,999	**23**	**28**	**51**
25	13	38	75,000 - 79,999	**22**	**9**	**31**
13	11	24	80,000 - 84,999	**23**	**9**	**32**
10	5	15	85,000 - 89,999	**6**	**3**	**9**
4	4	8	90,000 - 94,999	**5**	**2**	**7**
5	1	6	95,000 - 99,999	**3**	**3**	**6**
1	4	5	100,000 - 104,999	**2**		**2**
1		1	105,000 - 109,999			
3		3	110,000 - 114,999	**3**		**3**
2		2	115,000 - 119,999	**1**		**1**
2		2	120,000 - 124-999	**3**		**3**
1		1	125,000 - 129,999	**1**		**1**
2		2	130,000 - 134,999	**1**		**1**
1		1	135,000 - 139,999		**1**	**1**
			140,000 - 144,999			
			145,000 – 149,999			
	1	1	150,000 – 154,999			
2		2	155,000 – 159,999			
			160,000 – 164,999			
2		2	165,000 – 169,999			
			180,000 – 184,999	**1**		**1**
			220,000 - 224,999			
1		1	235,000 – 239,999			
469	354	823		**481**	**282**	**763**

The table above includes 102 staff (89 in 2016/17) whose salary costs are paid from the Orbis joint operating budget and are therefore split 70% Surrey County Council and 30% East Sussex County Council. There are an additional 32 staff (28 in 2016/17) at East Sussex County Council that earned over £50,000 in 2017/18, not included in the above table above, that were paid from the Orbis joint operating budget and are therefore also split 70% Surrey County Council and 30% East Sussex County Council.

The table also includes the full salary costs of 2 officers who spend a proportion of their time working for Mole Valley District Council. One of the officers left during 2017/18. The full salary cost is shown in the table above but the council does recover a proportion of these costs from Mole Valley District Council.

Note 29: Exit packages

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

2016/17					2017/18			
Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total cost of exit packages in each band	Exit package cost band (including special payments)	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Total cost of exit packages in each band***
			£000	**Cost (£)**				**£000**
65	24	89	621	0-20,000	**26**	**16**	**42**	**389**
9	2	11	274	20,001-40,000	**6**	**4**	**10**	**299**
1	1	2	92	40,001-60,000	**3**	**7**	**10**	**493**
0	3	3	189	60,001-80,000	**1**	**2**	**3**	**193**
1	1	2	178	80,001-100,000	**1**	**3**	**4**	**350**
1	0	1	105	100,001-150,000	**1**	**1**	**2**	**229**
1		1	154	150,001 – 200,000				
1		1	222	200,001 – 250,000				
79	31	110	1,834	**Total cost included in bandings**	**38**	**33**	**71**	**1,953**
141	25	166	2,649	ADD: Amounts provided for in CIES not yet paid**	**28**	**101**	**129**	**1,916**
220	56	276	4,483	**Total cost included in CIES**	**66**	**134**	**200**	**3,869**

* Includes cost of pension fund strain where applicable

** Included in the total cost charged to the CIES are movements in the redundancy provision for redundancies that had been approved in 2017/18 but for which no payment had yet been made.

Note 30: External audit costs

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

2016/17 £000		2017/18 £000
142	Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year	**142**
4	Fees payable to the external auditors for the certification of grant claims and returns for the year	**4**
146	**Total**	**146**

Note 31: Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools' budget, as defined in the School Finance (England) Regulations 2015. The school budget includes elements for a range of educational services provided on a council-wide basis and for the individual school's budget, which is divided into a budget share for each maintained school, plus allocations for private nursery providers.

Details of the deployment of DSG receivable for 2017/18 are shown on the table below:

Ref:	2016/17 £000s		Central	ISB*	2017/18 £000s
A	764,410	Final DSG 2017/18 before academy recoupment (DFE gross allocation)			**804,410**
A1	-7,899	Less deducted by DfE for high needs placing			**-13,198**
B	-248,585	Academy figure recouped			**-294,275**
C	507,926	Total DSG after academy recoupment			**496,937**
D	6,568	Brought forward from 2016/17			**3,477**
D1		Early years adjustment in 2017/18 in respect of 2016/17			**603**
	2,165	Estimate of additional Early Years DSG			
E1		Less estimated early years sum to be recovered by DfE in 2018/19			**-3,869**
E2		Less contribution to reserves for funding high needs block overspend in 2016/17			**-3,102**
E3		Carry forward agreed in advance			**-1,910**
	516,659				**492,136**
			Central	ISB*	
F	516,659	Agreed initial budgeted distribution	125,244	366,269	**491,513**
G	-2,801	In year adjustments	5,091	-4,468	**623**
H	513,858	**Final distribution**	130,335	361,801	**492,136**
I	-126,471	Actual central expenditure	-133,919		**-133,919**
J	-390,959	Actual Individual Schools Budget (ISB)		-361,801	**-361,801**
K	7,049	Local authority contribution	1,848		**1,848**
	-510,381	**Total funded by DSG**	-132,071	-361,801	**-493,872**
L		DSG spent less budgeted distribution 2017/18	-1,736		**-1,736**
M	3,477	**Total amount carried forward to 2018/19**			**4,043****

*Individual Schools Budget
**See reference M

The DSG carried forward above includes an estimated sum of £3.869m which the council expects to be recovered by the DfE because the number of three and four (estimated by the DfE based on January 2017 data) year olds funded for free entitlement in January 2018 is less than that previously.

Reference:

A Final DSG figure before deducting academy recoupment and funding for high needs places directly funded by the ESFA, and before the January 2018 early years block adjustment (which will be made in summer 2018)

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

B Figure recouped from the authority in 2017/18 by the DfE for the conversion of maintained schools into academies.

C Total DSG after final ESFA academy recoupment and place funding deductions

D Figure brought forward from 2016/17 as agreed with the Department

D1 Additional funding received from DfE in 2017/18 in respect of 2016/17 because the number of 2, 3 and 4 year olds taking up their free entitlement in Jan 2017 was higher than in Jan 2016

E1 Estimated DSG to be recovered by DfE in 2018/19 because the estimated takeup of the 2,3 and 4 year old free entitlement was lower in Jan 2018 than previously estimated by the DfE

E2 High needs block overspend in 2016/17 which was temporarily funded from council reserves in 2016/17 and repaid from DSG in 2017/18

E3 Any amounts which the authority decided after consultation with the Schools Forum, to carry forward to 2018/19 rather than distribute in 2017/18

F Initial budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum

G Changes to DSG after the initial distribution comprise the final early years adjustment for 2016/17 made by ESFA in 2017/18 (extra £0.6m) , adjustments to budgets for maintained and private early years providers , adjustments for permanently excluded pupils, reductions in de=delegated budgets for central services as more schools convert to academies and additional DSG brought forward

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

I Actual amount of central expenditure items in 2017/18

J Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares). Includes final budget shares for private nursery providers

K Contribution from LA which has the effect of substituting for DSG in 2017/18

L Carry-forward to 2018/19, ie:
For central expenditure, difference between final budgeted distribution of DSG and actual expenditure , plus any local authority contribution
For ISB, difference between amount allocated to individual providers and funding budgeted for that purpose

M Sum carried forward to 2018/19 (a positive figure=a surplus) This is the total of the overspend against the final 2017/18 budget (L) plus the sum agreed with Schools Forum in advance to be carried forward (E3) plus the sum expected to be due back to the DfE in respect of their overestimate of early years takeup (E1)

Note 32: Grants and contributions

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

2016/17 £000			2017/18 £000
	General grants & contributions		
126,484	Formula Grant*		**86,633**
11,044	Private Finance Initiative Grant	10,917	
9,507	Education Services Grant	2,374	
	Public Health**	6,242	
11,902	RSG Transitional Funding	12,174	
4,033	New Homes Bonus	4,756	
3,479	Dedicated Schools Grant** (non ring-fenced)	11,391	
6,192	Other Revenue Grants	10,777	**58,631**
71,113	Education Funding Agency (Schools Basic Need & Schools Condition Allocation)	45,643	
22,076	Highways Maintenance & Integrated Transport Grant	23,354	
11,669	Capital developer contributions	3,801	
10,220	Local Growth Deal	9,914	
4,104	Capital contributions from schools	8,151	
	National Productivity Grant	3,451	
2,410	Other Capital grants & Contributions	3,632	**97,946**
294,233			**243,210**

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

**These grants are ring-fenced but these figures represent where expenditure outside of the service to which they apply is funded from these grants in accordance with the conditions of the grant. The DSG amount includes the £3.1m ring-fenced in note 31 (E2).

Grants credited to services are analysed in the following table:

2016/17 £000		2017/18 £000
	Credited to services	
503,817	Dedicated Schools Grant	**486,145**
38,452	Public Health Grant	**31,262**
14,171	Young People Learning Agency	**10,894**
17,043	Pupil Premium	**15,046**
11,357	Universal Infant Free School Meals	**10,781**
27,403	Other revenue grants	**33,824**
	Government "Capital" Grant applied to Revenue Expenditure Funded by Capital under Statute:	

1,428	- Community Capacity grant	**548**
1,343	- Capital Contributions from Schools	**961**
	- Capital Contributions from third party	**866**
	Other grants	**147**
615,014	**Total**	**590,474**

Note 33: Related parties

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

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

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

The total of members' allowances paid in 2017/18 is shown in Note 26.

In addition, a survey of the related party interests of members in office during the 2017/18 financial year and their immediate family members was carried out in preparing this statement of accounts. There were responses from 81 of 81 members. The council had transactions with 29 bodies that members declared an interest in, with a total value of £12.0m. Of this, payments of £3.5m were to Young Epilepsy in which 1 member declared an interest, £3.2m to Kings International College, in which 1 member declared an interest, £2.2m to St. John the Baptist in Woking in which 1 member declared an interest, £0.9m to London Care Partnership in which 1 member declared an interest, £0.8m was to Surrey Wildlife Trust in which 3 members declared an interest.

Senior Officers are deemed to include all officers earning over £65,025. The council had transactions with 10 other bodies in which an interest was declared totalling £5.8m.

Entities controlled or significantly influenced by the council

The council wholly owns the following companies

- S.E. Business Services Ltd - The company was set up for the provision of business services and was incorporated on 20 June 2013.
- Surrey Choices Ltd -. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until August 2014.
- Halsey Garton Property Ltd – is a property investment company. It is a holding company with three subsidiaries; Halsey Garton Property Investments Ltd, Halsey Garton Property Developments Ltd and Halsey Garton Residential Ltd. The latter two companies are not yet active or trading.

- BSDL (Fire Station) Ltd – This company is a special purpose vehicle established for the transfer of the new fire station in Woking. The company does not trade and is being wound up.

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

Group accounts for 2017/18 have been prepared and are presented on page 107 to show the combined financial performance and position of the county council, SE Business Services, Surrey Choices, Halsey Garton Property Ltd and BSDL.

During 2017/18 the council purchased £25.3m of shares in Halsey Garton Property Ltd (£41.5m 2016/17) and provided long-terms of £60.2m (£108.8m 2016/17). It received £9m in interest payments from Halsey Garton Property Ltd (£3.9m 2016/17) and £0.5m in recharges from the company for services provided in year (£0.3m 2016/17).

The council purchased £12.8m of Adult Social Care services from Surrey Choices Ltd (£13.9m 2016/17). It received £2.7m in recharges from the company for services provided in year (£3.3m in 2016/17).

The council received £0.5m in recharges from SE Business Services for services provided in year (£0.5m in 2016/17).

Other public bodies *(*subject to common control by central government)

The council is subject to a number of pooled budget arrangements for the provision of health services and these are detailed in note 25.

Surrey Pension Fund

The fee payable by the Surrey Pension Fund to the county council for services provided in 2017/18 was £1.8m (£1.5m in 2016/17). This is split into the fee for providing pension administration services £1.6m (£1.2m in 2016/17) and £0.2m (£0.3m in 2016/17) for treasury management, accounting and managerial services.

During 2017/18 the council paid employer pension contributions of £65.2m (£68.4m in 2016/17).

Net amounts owed by the council to the fund as at 31 March 2018 were £1.7m (£1.5m at 31 March 2017).

Orbis

Orbis is a partnership between Surrey County Council, East Sussex County Council and Brighton & Hove City Council that aims to provide seamless and resilient business services to the public sector, creating a compelling alternative to other providers. During 2017/18 Surrey and East Sussex operated a joint operating budget to fund business services at each council. (See note 25 for more information).

Note 34: Capital expenditure and capital financing

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

The CFR is analysed in the following table:

2016/17 £000		**2017/18 £000**
	Capital Financing	
903,841	Opening Capital Financing Requirement	1,063,058
	Adjustment for loans	-2,516
	Restated Opening Capital Financing Requirement	**1,060,542**
	Capital investment:	
123,786	Property, Plant and Equipment	127,543
	Investment Properties	2,114
2,410	Intangible Assets	1,800
21,962	Revenue Expenditure Funded from Capital Under Statute	13,836
135,244	Long Term Debtor	85,591
	Sources of Finance	
-363	Capital receipts	
-94,049	Government grants and other contributions	-97,845
-4,361	Sums set aside from revenue	-843
-878	Direct revenue contributions	-573
	Application of capital receipts to prior year capital expenditure	-27,625
	Capital payment for waste PFI	12,000
-24,339	Minimum Revenue Provision	-24,458
-195	PFI Deferred Income	-205
1,063,058	**Closing Capital Financing Requirement**	**1,151,877**
	Explanation of movements in year	
166,994	Increase in underlying need to borrowing (unsupported by government financial assistance)	111,523
	Application of capital receipts	-27,625
	Capital payment for waste PFI	12,000
-24,339	Minimum Revenue Provision	-24,458
16,757	Assets acquired under finance leases	20,100
-195	PFI Deferred Income	-205
159,217	**Increase / (decrease) in Capital Financing Requirement**	**91,335**

Note 35: Leases

Council as lessee

Operating leases:

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

31 March 2017 £000		31 March 2018 £000
	Operating lease liabilities - land and buildings	
2,427	Not later than one year	2,674
8,082	Later than one year but not later than five years	9,151
6,204	Later than five years	14,613
16,713		**26,438**

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

31 March 2017 £000	Amounts charged to the Comprehensive Income and Expenditure Statement during the year Operating leases - land and buildings	31 March 2018 £000
3,295	Minimum lease payments for the year	3,304

Council as lessor

Operating leases:

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

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

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

31 March 2017 £000		31 March 2018 £000
	Lease liabilities - land and buildings:	
6,360	Not later than one year	5,522
18,683	Later than one year but not later than five years	15,495
12,271	Later than five year	21,448
37,314		**42,465**

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

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

31 March 2017 Other liabilities Short term	Long-term	Total		31 March 2018 Other liabilities Short term	Long-term	Total
£000	£000	£000		**£000**	**£000**	**£000**
13,222	121,858	135,080	PFI finance lease liabilities (Note 37)	17,938	119,711	**137,649**
	11,785	11,785	Deferred income liabilities (Note 37)		11,580	**11,580**
59	383	442	Other finance lease liabilities			
	1,560,191	1,560,191	Pension liabilities (Note 39)		1,575,845	**1,575,845**
	1,953	1,953	Balances held for third parties		2,389	**2,389**
13,281	1,696,170	1,709,451		**17,938**	**1,709,525**	**1,727,463**

Note 37: Private finance initiatives and similar contracts

In 1999 the council entered into a 25-year contract for waste disposal with Surrey Waste Management. The annual payments under the contract are in part dependent upon the tonnage of waste sent for disposal so that the contractor manages demand risk at higher tonnage levels whereas this risk falls on the council if tonnages fall. A large proportion of the investment remains to be delivered. As a result the council faces a contingent liability as described in note 40.

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

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

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

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

Property plant and equipment

The assets used to provide services in relation to these arrangements are recognised on the Balance Sheet. Movements in their value over the year are included in the analysis of the movement on the Property, Plant and Equipment balance in Note 13.

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

The table below summarises the movement:

2016/17				2017/18		
Land & Buildings £000	Infra-structure £000	Asset Under Construction £000		**Land & Buildings £000**	**Infra-structure £000**	**Asset Under Construction £000**
100,928	76,653	37,000	**Gross cost at 1 April**	100,928	76,653	53,757
		16,757	Additions			20,542
100,928	76,653	53,757	**Gross Cost at 31 March**	100,928	76,653	74,299
-24,178	-10,634		**Accumulated Depreciation and Impairment at 1 April**	-27,667	-12,551	
-3,489	-1,917		Depreciation charge for the year	-2,085	-1,917	
			Impairment losses recognised in the Surplus/Deficit on the Provision of Services			
-27,667	-12,551		**Accumulated Depreciation and Impairment at 31 March**	-29,752	-14,468	
76,750	66,019	37,000	**Net book Value at 1 April**	73,261	64,102	53,757
73,261	64,102	53,757	**Net book Value at 31 March**	71,176	62,185	74,299

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 2018 (based on 2017/18 prices, excluding any estimation of inflation and availability/performance deductions) are as follows:

Payable in 2017/18 £000		Payable in 2018/19 £000	Payable within two to five years £000	Payable within six to ten years £000	Payable within 11 to 15 years £000	Payable within 16 to 20 years £000	**Total £000**
	Payment for Services						
44,495	- Waste	13,582	218,209	83,994			**315,785**
16,465	- Anchor Trust	16,299					**16,299**
7,330	- Care UK	7,731	30,924	30,924			**69,579**
2,797	- Street Lighting	2,897	11,639	14,875	15,626	7,131	**52,168**
71,087		40,509	260,772	129,793	15,626	7,131	**453,831**
	Reimbursement of Capital Expenditure						
2,059	- Waste	13,782	59,059	30,008			**102,849**
1,923	- Anchor Trust	2,040					**2,040**
95	- Care UK	101	469	594			**1,164**
1,896	- Street Lighting	2,015	9,452	15,956	22,772	11,320	**61,515**
5,973		17,938	68,980	46,558	22,772	11,320	**167,568**
	Interest						
317	- Waste	6,505	20,563	1,246			**28,314**
241	- Anchor Trust	124					**124**
77	- Care UK	71	218	93			**382**
6,506	- Street Lighting	6,388	24,109	25,668	18,102	4,149	**78,416**
7,141		13,088	44,890	27,007	18,102	4,149	**107,236**
84,201	**Total**	**71,535**	**374,642**	**203,358**	**56,500**	**22,600**	**728,635**

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

2016/17 Finance Lease Liability £000	2016/17 Deferred Income Liability £000		**2017/18 Finance Lease Liability £000**	**2017/18 Deferred Income Liability £000**
-125,888	-11,980	**Balance outstanding at 1 April**	-135,080	-11,785
7,564		Payments during the year	17,973	
-16,757		Capital expenditure incurred in the year	-20,542	
	195	Amortisation of deferred income		205
-135,080	-11,785	**Balance outstanding at 31 March**	**-137,649**	**-11,580**

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

31 March 2017 £000		**31 March 2018 £000**
66	not later than one year	65
252	later than one year but not later than 5 years	250
588	later than 5 years	525
906		**840**

Note 38: Pension schemes accounted for as defined contribution schemes

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

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

In 2017/18, the council paid £41m to teachers' pensions in respect of retirement benefits, representing 16.48% of pensionable pay. The figures for 2016/17 were £46.7m and 16.5%. The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and the council is not liable to the scheme for any other entities' obligations under the scheme.

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

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

In 2017/18 the council paid £514,408 to NHS pensions representing 14.38% of pensionable pay (2016/17, £355,461). The increase in paid contribution to NHS pension is due to the new TUPE direction order EA8144.

Note 39: Defined benefit pension schemes

Participation in pension schemes

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

Surrey County Council contributes to two defined benefit schemes:

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

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

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

Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. There is a significant increase in 2017/18 cost of services caused by a change in a discount rate from 3.5% to 2.6%. The discount rate is published a year ahead and used by the actuary to calculate the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

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	
	2016/17	**2017/18**	2016/17	**2017/18**
	£000	**£000**	£000	**£000**
Comprehensive Income & Expenditure Statement				
Cost of Services:				
- current service cost	76,788	**113,056**	9,700	**9,400**
- past service cost	-1,477	**-634**		
- (gain)/loss on settlements	-12,947	**-10,976**		
Financing & Investment Income & Expenditure				
- net interest on the net defined benefit liability	25,251	**24,250**	18,100	**16,500**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	87,615	**125,696**	27,800	**25,900**
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
- return on plan assets (excluding the amount included in the net interest expense)	196,576	**-15,649**		
- actuarial gains and losses arising on changes in demographic assumptions	30,922		-3,200	**6,600**
- actuarial gains and losses arising on changes in financial assumptions	-426,393	**54,085**	-101,100	**11,400**
- other experience	27,427	**192**		
Total remeasurement of the net defined benefit liability	-171,468	**38,628**	-104,300	**18,000**
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	-83,853	**164,324**	-76,500	**43,900**
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	-87,615	**-125,696**	-27,800	**-25,900**
Actual amount charged against the General Fund Balance for pensions in the year:				
- employers' contributions to the scheme/ retirement benefits paid direct to pensioners	68,390	**65,160**	13,697	**14,154**

Pension assets and liabilities recognised in the balance sheet

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

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2016/17 £000	**2017/18 £000**	2016/17 £000	**2017/18 £000**
Present value of the defined benefit obligation	-2,730,828	**-2,786,837**	-636,713	**-630,459**
Fair value of plan assets	1,807,348	**1,841,449**		
Net liability arising from defined benefit obligation	-923,480	**-945,388**	-636,713	**-630,459**

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	
	2016/17 £000	**2017/18 £000**	2016/17 £000	**2017/18 £000**
Opening Balance at 1 April	-2,287,583	**-2,730,828**	-518,310	**-636,713**
Current service cost	-76,788	**-113,056**	-9,700	**-9,400**
Interest cost	-79,697	**-71,208**	-18,100	**-16,500**
Contributions by scheme participants	-19,422	**-18,177**	-2,400	**-2,300**
Remeasurements:				
- Actuarial gains and losses arising on changes in demographic assumptions	30,922		-3,200	**6,600**
- Actuarial gains and losses arising on changes in financial assumptions	-426,393	**54,085**	-101,100	**11,400**
- Other experience	27,427	**192**		
Pensions and lump sum expenditure			15,200	**15,200**
Benefits paid	72,571	**67,165**		
Past service costs (including curtailments)	1,477	**634**		
Settlements	27,781	**24,436**		
Employer contributions adjustment*	-1,123	**-80**	897	**1,254**
Closing balance at 31 March	-2,730,828	**-2,786,837**	-636,713	**-630,459**

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

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

	Local Government Pension Scheme		Firefighters' pension scheme	
	2016/17	**2017/18**	2016/17	**2017/18**
	£000	**£000**	£000	**£000**
Opening fair value of scheme assets at 1 April	1,554,797	**1,807,348**		
Interest income	54,446	**46,958**		
Remeasurement:				
Return on assets excluding amounts included in net interest	196,576	**-15,649**		
Employer Contributions	68,389	**65,160**		
Employer contributions adjustment*	1,123	**80**		
Contributions by scheme participants	19,422	**18,177**		
Benefits paid	-72,571	**-67,165**		
Settlements	-14,834	**-13,460**		
Closing fair value of scheme assets at 31 March	1,807,348	**1,841,449**		

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

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total net liability of £1,576m has a substantial impact on the net worth of the council as recorded in the Balance Sheet. The statutory arrangements for funding the deficit, however, mean that the financial position of the council remains stable:

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

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and the Firefighters' Pension Scheme have been assessed by the council's actuaries, Hymans Robertson using the latest full valuation of the scheme as at 31 March 2016.

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

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme 2016/17	Local Government Pension Scheme **2017/18**	Firefighters' Pension Scheme 2016/17	Firefighters' Pension Scheme **2017/18**
Mortality assumptions:				
- longevity at 65 for current pensioners (60 for firefighters):				
- Men	22.5 years	22.5 years	30.2 years	29.5 years
- Women	24.6 years	24.6 years	31.7 years	31.5 years
- longevity at 65 for future pensioners (60 for firefighters):				
- Men	24.1 years	24.1 years	31.6 years	30.8 years
- Women	26.4 years	26.4 years	33.2 years	32.8 years
Rate of inflation	3.4%	3.4%	3.4%	3.4%
Rate of increase in salaries	2.7%	2.7%	3.4%	3.4%
Rate of increase in pensions	2.4%	2.4%	2.4%	2.4%
Rate for discounting scheme liabilities	2.6%	2.7%	2.6%	2.7%

The Firefighters’ Pension Scheme does not hold assets to cover its liabilities which are met by the government for Ministry of Housing, Communities and Local Government.

Sensitivity analysis

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

	Local Government Pension Scheme		Firefighters’ Pension Scheme	
	Approximate % increase to employer liability	Approximate monetary amount £000	Approximate % increase to employer liability	Approximate monetary amount £000
0.5% decrease in real discount rate	10%	282,047	9%	59,542
1 year increase in member life expectancy*	3-5%	139,048	3%	18,953
0.5% increase in the salary increase rate	1%	36,184	1%	6,302
0.5% increase in the pension increase rate	9%	242,742	8%	50,127

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

Investment assets

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

31 March 2017 Quoted prices in active markets £000			31 March 2018 Quoted prices in active markets £000	
		Quoted prices in active markets		
		Equity securities		
146,628	8%	Consumer	149,395	8%
132,917	7%	Manufacturing	135,425	7%
72,865	4%	Energy & utilities	74,240	4%
127,856	7%	Financial institutions	130,268	7%
48,295	3%	Health & care	49,206	3%
101,795	6%	Information technology	103,715	6%
3,681	0%	Other	3,750	0%
634,037			**645,999**	
		Debt securities		
62,742	3%	Corporate bonds (investment grade)	63,925	3%
3,961	0%	Corporate bonds (non-investment grade)	4,036	0%
3,682	0%	UK government	3,752	0%
8,284	0%	Other	8,441	0%
78,669			**80,154**	
		Real estate		
102,765	6%	UK property	104,704	6%
668	0%	Overseas property	681	0%
103,433			**105,385**	
		Investment funds & unit trusts		
501,182	28%	Equities	510,639	28%
197,558	11%	Bonds	201,285	11%
	0%	Other		0%
698,740			**711,924**	
		Derivatives		
-54	0%	Interest rate	-55	0%
2,562	0%	Foreign exchange	2,610	0%
2,508			**2,555**	
214,104	12%	Cash & cash equivalents	**218,144**	**12%**
1,731,491	96%	Sub-total	**1,764,161**	**96%**
		Quoted prices in non-active markets		
75,856	4%	Private Equity	**77,287**	**4%**
1,807,347	100%	**Total**	**1,841,448**	**100%**

Asset and liability matching strategy

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

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

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

Impact on the council's cash flows

The council has a stabilisation strategy in place to keep employer contributions at a consistent rate as possible. The council has agreed a strategy with the fund's actuary to achieve 100% funding over the next 15-20 years. The council's employer contribution rate is set at a level to help achieve this objective. The contribution level is periodically reviewed as part of the triennial valuation to ensure it is appropriate. The most recent review was as at the 31 March 2016 and the next review will take place during 2018/19 with a valuation date of 31 March 2019.

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

The council expects to make employer contributions of £52.41m to the LGPS in 2018/19.

Defined benefit obligation

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

Local Government Pension Scheme

2016/17			**2017/18**	
Liability split (%)	Weighted average duration (years)		**Liability split (%)**	**Weighted average duration (years)**
41.5	23.3	Active members	44.2	23.3
24.5	22.6	Deferred members	23.9	22.6
34.0	11.1	Pensioner members	31.9	11.1
100.0	17.9	**Total**	**100.0**	**17.9**

Firefighters' Pension Scheme

2016/17 Liability split (%)	2016/17 Weighted average duration (years)		**2017/18 Liability split (%)**	**2017/18 Weighted average duration (years)**
42.5	24.8	Active members	43.8	25.0
2.9	26.6	Deferred members	2.9	26.6
54.6	12.0	Pensioner members	53.3	12.0
100.0	17.9	**Total**	**100.0**	**18.1**

Note 40: Contingent liabilities

Potential liabilities are not required to be incorporated within the accounts where there is no certainty that an actual liability will arise or where the extent of an obligation cannot be measured with sufficient reliability. At 31 March 2018 the council had the following contingent liabilities:

The council embarked upon a PFI for waste disposal in 1999. By the end of 2017/18 £150.1m has been received in PFI credits. In return, the council has an obligation to invest in waste disposal infrastructure. A proportion of this obligation is still to be delivered. If these obligations are not met then a liability may arise to repay some or the entire PFI grant received to date.

In 2001, the county council arranged for consultants to undertake a desk review of the potential liabilities at a number of closed landfill sites where some responsibility for the impact of the waste remained with the council. During 2013/14 a review of this assessment was carried out to ascertain how investigation strategies have developed since the initial report was issued and update potential remedial works and possible costs should a site be found to be contaminated. These liabilities would occur if the local District and Borough Councils, who are the enforcing authorities, investigate the sites and oblige the council to take action under the provisions of Part IIA of the Environment Protection Act 1990. The review concluded that the likelihood of remedial work being required in relation to one closed landfill site was high and the estimated cost of these works (£700,000) has been included as a provision. The potential costs identified in relation to the other sites range from between £2.8m to £3.3m. These costs are considered to be less likely to be incurred and to date very few investigations have taken place. The council would seek to share any eventual liabilities with those in ownership of the sites when they were landfilled.

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

2016/17 £000		**2017/18 £000**
-115,415	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	**-151,596**
82,087	Employer's pensions contributions and direct payments to pensioners payable in the year	**79,314**
195	Deferred Income in respect of PFI schemes	**205**
-77,833	Charges for depreciation & impairment of non-current assets	**-77,740**
-870	Amortisation of intangible assets	**-1,117**
-38,403	Revaluation losses on property, plant & equipment	**-26,466**
-1,000	Change in fair value of investment properties	**-1,248**
-112,975	Disposals of academies	**-89,295**
4,169	Contributions to provisions	**7,613**
14,727	Net gain/loss on sale disposal of property, plant & equipment	**-257**
4,534	Net gain/loss on sale disposal of investment property	
-5,520	Movement in creditors	**-19,774**
-283	Movement in third party balances	**-436**
28	Movement in inventories	**-430**
-19,484	Movement in debtors	**4,192**
-2,778	Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**2,857**
68	Donated asset adjustment	**116**
59	Finance lease repayment	
-268,694		**-274,062**

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

2016/17 £000		**2017/18 £000**
107,029	Purchase of Property, Plant & Equipment	**107,443**
	Purchase of Investment Property	**2,114**
2,410	Purchase of Intangible Assets	**1,800**
21,962	Revenue Expenditure Funded from Capital Under Statute	**16,358**
131,401		**127,715**

Note 43: Prior period adjustments

This note summarises the adjustments made to the 2016/17 comparators in these accounts from the figures in the 2016/17 Statement of Accounts for

a) The comprehensive income and expenditure statement (page 16), Commissioning and Prevention, Schools and SEND and Delegated Schools Budget,

	Gross Expenditure	Income	Net expenditure
2016/17	£000	£000	£000
Commissioning and Prevention	90,271	-47,100	43,171
Schools and SEND	193,887	-69,932	123,955
Delegated Schools Budget	481,266	-471,591	9,675
	765,424	-588,623	176,801
Adjustments			
Commissioning and Prevention	9,283	-8,904	379
Schools and SEND	71,068	-68,750	2,318
Delegated Schools Budget	-82,215	79,518	-2,697
	-1,864	1,864	
Restated 2016/17			
Commissioning and Prevention	99,554	-56,004	43,550
Schools and SEND	264,955	-138,682	126,273
Delegated Schools Budget	399,051	-392,073	6,978
	763,560	-586,759	176,801

The High Needs Block (mainly special schools and units) and Early Years Block (nursery schools and classes) were previously included within the Delegated Schools line, as the expenditure is incurred by schools under the governance arrangements applied to the school. In order to increase transparency and visibility, this expenditure is now included within Schools and Learning (High Needs Block) or Commissioning and prevention (Early Years Block).

b) The comprehensive income and expenditure statement (page 16), Community Partnership & Safety and Highways

	Gross Expenditure	Income	Net expenditure
2016/17	£000	£000	£000
Community Partnership and Safety	2,824	-364	2,460
Highways	79,143	-7,663	71,480
	81,967	-8,027	73,940
Restated 2016/17			
Community Partnership and Safety			
Highways	81,967	-8,027	73,940
	81,967	-8,027	73,940

Note: Expenditure and Funding Analysis	As Reported for Resource Management in Outturn Report	Adjustments to arrive at the net amount chargeable to the General Fund	Net Expenditure Chargeableto the General Fund	Adjustments between the funding and accounting basis	Net Expenditure in the I&E Account
2016/17	£000	£000	£000	£000	£000
Community Partnership and Safety	2,368	2	2,370	90	2,460
Highways	43,713	-6,355	37,358	32,157	69,515
	46,081	-6,353	39,728	32,247	71,975
Restated 2016/17					
Community Partnership and Safety					
Highways	46,081	-6,353	39,728	32,247	71,975
	46,081	-6,353	39,728	32,247	71,975

Note to the Expenditure and Funding Analysis	Adjustments for Capital Purposes	Net Charge for the Pensions Adjustment	Other Differences	Total Adjustments
2016/17	£000	£000	£000	£000
Community Partnership and Safety		90		90
Highways	31,095	1,049	13	32,157
	31,095	1,139	13	32,247
Restated 2016/17				
Community Partnership and Safety				
Highways	31,095	1,139	13	32,247
	31,095	1,139	13	32,247

Community Partnership and Safety is now part of Highways and no longer reported separately.

c) Property, Plant and Equipment (note 13) the restated 2016/17 land & building balances for the cost (or revalued cost), the accumulated depreciation and impairment which is eliminated when an asset is revalued. The capital expenditure has no formal de minimis policy and the expenditure is recognised as property, plant and equipment in the Balance Sheet

	Cost (revalued)	Accumulated depreciation and impairment	Net Book Value
	£000	£000	£000
Land and Buildings originally stated 2016/17:			
balance 1 April 2016	1,687,640	-442,785	1,244,855
balance 31 March 2017	1,621,601	-449,945	1,171,656
Adjustments			
accumulated depreciation opening balance	-367,163	367,163	
accumulated depreciation 2016/17	-19,616	19,616	
de minimis capital expenditure 2016/17	10,868	-10,868	
Land & Buildings restated 2016/17:			
balance at 1 April 2016	1,320,477	-75,622	1,244,855
balance at 31 March 2017	1,245,690	-74,034	1,171,656

For income and expenditure analysed by nature presented in note 2. The classification of some expenses has been reviewed, as a result 2016/17 has been restated on the same basis. The comparative figures from the prior year financial statements is shown in note 2.

Group Accounts

In order to provide a full picture of the council's economic activities and financial position, the accounting statements of the council and its wholly owned Local Authority Trading Companies, SE Business Services Ltd, Surrey Choices Ltd and Halsey Garton Property Ltd have been consolidated.

Halsey Garton Property Ltd has three subsidiaries, of which only one was active and trading as at 31 March 2018. The economic activities and financial position of the Halsey Garton Property Group is included within these group accounts.

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

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

These statements (*the purposes of which are explained on page 14*), together with those explanatory notes that are considered necessary in addition to those accompanying the council's 'single entity' accounts, and accounting policies, are set out in the following pages.

Group Comprehensive Income & Expenditure Statement

Restated year ended 31 March 2017 Gross Expenditure £000	Income £000	Net Expenditure £000		Year ended 31 March 2018 Gross Expenditure £000	Income £000	**Net Expenditure £000**
1,067	-77	**990**	Economic Growth	1,026	-111	**915**
980		**980**	Strategic Leadership	978		**978**
456,335	-70,435	**385,900**	Adult Social Care	476,653	-112,490	**364,163**
117,361	-11,227	**106,134**	Children's Services	132,735	-12,252	**120,483**
99,554	-56,004	**43,550**	Commissioning & Prevention	109,022	-67,005	**42,017**
264,953	-138,679	**126,274**	Schools & SEND	272,653	-147,819	**124,834**
399,051	-392,073	**6,978**	Delegated Schools Budget	363,939	-351,281	**12,658**
1,609		**1,609**	Coroner	2,147	-1	**2,146**
24,809	-13,579	**11,230**	Cultural Services	24,953	-13,691	**11,262**
3,689	-159	**3,530**	Customer Services	3,635	-88	**3,547**
1,107	-179	**928**	Directorate Support (Com)	803	-56	**747**
588	-114	**474**	Emergency Management	657	-161	**496**
32,562	-2,464	**30,098**	Surrey Fire & Rescue Service	31,050	-2,784	**28,266**
3,913	-1,807	**2,106**	Trading Standards	4,058	-1,679	**2,379**
93,984	-8,774	**85,210**	Environment & Planning	96,058	-8,604	**87,454**
81,967	-8,027	**73,940**	Highways & Transport Services	81,417	-7,566	**73,851**
41,164	-38,486	**2,678**	Public Health	32,375	-31,626	**749**
-10,592	-30,611	**-41,203**	Central Income & Expenditure	-1,678	-1,762	**-3,440**
2,065	-31	**2,034**	Communications	1,889	-7	**1,882**
1,155	-218	**937**	Finance	2,752	-1,314	**1,438**
3,789	-360	**3,429**	Human Resources & Org. Dev.	3,203	-83	**3,120**
14,225	-1,530	**12,695**	Information Management & Tech.	14,215	-1,543	**12,672**
4,602	-547	**4,055**	Legal Services	4,980	-541	**4,439**
4,726	-199	**4,527**	Democratic Services	6,513	-729	**5,784**
1,729	-663	**1,066**	Policy & Performance	2,095	-268	**1,827**
826	4	**830**	Procurement	815		**815**
63,085	-6,568	**56,517**	Property	38,284	-6,864	**31,420**
38,850	-120	**38,730**	Orbis joint operating budget	42,430	-44	**42,386**
-71		**-71**	Business Operations	-92		**-92**
1,749,082	**-782,927**	**966,155**	**Cost of Services - continuing operations**	1,749,564	-770,369	**979,195**

Group Comprehensive Income & Expenditure Statement

Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	**Net Expenditure £000**
1,749,082	**-782,927**	**966,155**	**Cost of Services - continuing operations**	**1,749,564**	**-770,369**	**979,195**
29,988	-45,486	**-15,498**	Other Operating Income & Expenditure	31,146	-29,648	**1,498**
243,651	-70,919	**172,732**	Financing & Investment Income & Expenditure	206,451	-65,916	**140,535**
	-670,312	**-670,312**	Local Taxation		-714,740	**-714,740**
	-294,233	**-294,233**	General grants & contributions		-243,210	**-243,210**
2,022,721	**-1,863,877**	**158,844**	**Deficit on Provision of Services**	**1,987,161**	**-1,823,883**	**163,278**
		296	Tax expense of subsidiaries			**437**
		159,140	**Group deficit**			**163,715**
		-67,777	(Surplus) or deficit on revaluation of non-current assets			**-60,808**
		276,204	Remeasurement of the net defined benefit liability			**-56,767**
		208,427	**Other Comprehensive Income & Expenditure**			**-117,575**
		367,567	**Total Comprehensive Income & Expenditure**			**46,140**

Group Movement in Reserves Statement

2017/18	General Fund and Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Profit and Loss Reserve £000	Pension Reserve of Subsidiary £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2017	**-160,668**	**-103,401**	**-77,036**	**11,071**	**1,719**	**-328,315**	**618,976**	**290,661**
(Surplus) or deficit on provision of services (accounting basis)	165,362			**-666**		**164,696**		**164,696**
Other comprehensive income & expenditure					**243**	**243**	-117,436	**-117,193**
Total comprehensive income & expenditure	**165,362**			**-666**	**243**	**164,939**	**-117,436**	**47,503**
Adjustments between accounting basis & funding basis under regulations	-163,602	10,897	-101			**-152,806**	152,806	
Increase/decrease in year	**1,760**	**10,897**	**-101**	**-666**	**243**	**12,133**	**35,370**	**47,503**
Balance at 31 March 2018	**-158,908**	**-92,504**	**-77,137**	**10,405**	**1,962**	**-316,182**	**654,346**	**338,164**

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

Group Balance Sheet

As at 31.03.2017 £000		Note:	As at 31.03.2018 £000
1,752,712	Property, plant & equipment		1,723,224
1,024	Heritage assets		1,024
209,425	Investment property	5	319,425
7,016	Intangible assets		7,879
2,653	Long term investments	6	2,639
3,722	Long term debtors	6	4,160
1,976,552	**Long term assets**		**2,058,351**
	Short Term:		
785	Intangible assets		613
10,850	Assets held for sale		10,100
1,397	Inventories		967
144,472	Short term debtors		135,330
58,691	Cash & cash equivalents		56,021
216,195	**Current Assets**		**203,031**
	Short Term:		
-140,699	Borrowing		-212,711
-195,041	Creditors		-217,916
-4,277	Provisions		-3,105
-91	Revenue grants receipts in advance		-102
-9,152	Capital grants receipts in advance		-19,762
-13,281	Other current liabilities		-17,938
-362,541	**Current liabilities**		**-471,534**
-25,180	Provisions		-18,739
-397,786	Long term borrowing		-397,786
-1,697,901	Other long term liabilities		-1,711,487
-2,120,867	**Long term liabilities**		**-2,128,012**
-290,661	**Net assets/liabilities(-)**		**-338,164**
-328,315	Usable reserves		-316,182
618,976	Unusable reserves		654,346
290,661	**Total Reserves**		**338,164**

Group Cash Flow Statement

2016/17 £000		**2017/18 £000**
158,844	Net surplus (-) / deficit on the provision of services	163,715
-278,760	Adjustments to net surplus / deficit on the provision of services for non-cash movements	-276,187
-21,962	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities	-13,836
-141,878	**Net cash inflows from operating activities**	**-126,308**
283,949	Purchase of property, plant & equipment, and investment property	213,252
-28,446	Proceeds from the sale of property, plant & equipment	-16,728
	Payments for short-term and long-term investments	-202
-65,000	Receipts of short-term and long-term investments	
-23,174	Other receipts & expenditure from investing activities	-13,305
167,329	**Net cash outflows from investing activities**	**183,017**
7,564	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	17,973
166,589	Payments for short-term and long-term borrowing	401,246
-276,400	Receipts of short-term and long-term borrowing	-473,258
-102,247	**Net cash inflows from financing activities**	**-54,039**
-76,796	**Net increase (-) / decrease in cash & cash equivalents**	2,670
18,105	Cash & cash equivalents at the beginning of the reporting period	-58,691
58,691	Cash & cash equivalents at the end of the reporting period	**-56,021**

The cash flows from operating activities in 2017/18 include interest received of £9.5m (2016/17, £5.1m) and interest paid of £25.2m (2016/17, £23.6m).

Note 1: General

The Group Accounts should be read in conjunction with the Surrey County Council single entity accounts on pages 16 to 106. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.

Note 2: Group boundary

The council has an interest in a number of entities, the most significant of which are the wholly owned Local Authority Trading Companies SE Business Services Ltd, Surrey Choices Ltd and Halsey Garton Property Ltd which are consolidated into these accounts. The table over the page provides information on the nature of, and risks associated with, each company.

- S.E. Business Services Ltd – Provides business services such as IT data storage and Fire support services.
- Surrey Choices Ltd - The company delivers day services and community support options for people with disabilities and older people.
- Halsey Garton Property Ltd – is a property investment company. It acts as a holding company for three subsidiaries; Halsey Garton Property Investments Ltd, Halsey Garton Property Developments Ltd and Halsey Garton Residential Ltd. At 31/03/2018 only the holding company and Halsey Garton Property Investments Ltd were active and trading and therefore only the economic activity of these companies has been incorporated into the group accounts.

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

The overall impact of the companies on the financial performance, financial position and cash flows of the group is relatively low. Compared to the single entity Surrey County Council accounts the overall deficit on the Comprehensive Income and Expenditure Statement reduced by £186,000, the net liability increased by £13.9m and the net reduction in cash reduced by £2.2m.

However, there are some significant differences between classifications of assets in the balance sheet and in the headings on the cash flow statement. These differences result from the significant capital investment the council has made in investment property during 2017/18 through its property investment company Halsey Garton Property Ltd. These investments have been funded by the council providing long-terms loans and equity investments to Halsey Garton Property Ltd, which is why these headings have increased significantly in the single entity accounts. When the group accounts are consolidated these balances are removed and the additional investment properties purchased by Halsey Garton Property Ltd are added into the group accounts as investment properties on the balance sheet.

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

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

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

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

Note 3: Accounting policies

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

Note 4: Material Items of income & expenditure

During 2017/18 the group purchased the following material assets:

- £79.0m retail park investment property
- £11.1m industrial park investment property

Note 5: Investment properties

The group has a portfolio of properties purchased for future service needs, for the purposes of economic development or as part of a long-term capital strategy to generate investment returns. These properties are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2018, under the code of practice they are classed as investment properties.

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

2016/17 £000		**2017/18 £000**
9,554	Rental income from investment property	**16,963**
-917	Direct operating expenses arising from investment property	**-2,437**
8,637	**Net gain**	**14,526**
4,534	Gain on sale of investment property	
-8,864	Net loss on fair value adjustments	**-2,170**
4,307	**Income & expenditure in relation to investment properties**	**12,356**

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

2016/17		**2017/18**	Office	Indust-rial	Retail	Leisure	Mixed	Fair Value Hierarchy
£000		**£000**	£000	£000	£000	£000	£000	
73,541	Balance at start of the year	**209,425**	67,550	38,900	80,825	1,150	21,000	Level 2
152,548	Purchases	**112,170**	21,998	11,168	79,003			
-7,800	Disposal							
-8,864	Net loss from fair value adjustments*	**-2,170**	-808	3,032	-4,393			
209,425	**Balance at end of the year**	**319,425**	88,740	53,100	155,435	1,150	21,000	Level 2

The fair value of the council's investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation methodology used to determine fair value incorporates some estimation techniques which mean the valuations are categorised as being level two in the fair value hierarchy (see Note 5 on page 45 for more information).

Note 6: Financial instruments

Categories of financial instruments

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

31/03/2017 Long-Term	31/03/2017 Short-Term		**31/03/2018 Long-Term**	**31/03/2018 Short-Term**
£000	£000		**£000**	**£000**
		Investments		
2,613		Available for sale financial assets	**2,613**	

Fair value of assets and liabilities

31/03/2017 Carrying Amount £000	31/03/2017 Fair Value £000	**Financial assets**	**Fair Value Level**	**31/03/2018 Carrying Amount £000**	**31/03/2018 Fair Value £000**
2,613	**2,613**	Shares in unlisted companies	**3**	**2,613**	**2,613**
2,125	**2,125**	Long-term loans to companies	**2**	**2,125**	**2,125**
913	**913**	Other long term loans	**2**	**589**	**589**
5,651	**5,651**			**5,327**	**5,327**

Note 7: External audit costs

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

2016/17 £000		**2017/18 £000**
184	Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year	**183**
8	Fees payable to the external auditors for the certification of grant claims and returns for the year	**8**
192	**Total**	**191**

OVERVIEW

Surrey County Council (the Council) has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. We also have responsibility for ensuring there is a sound system of governance and appropriate internal controls in place. We are committed to fulfilling our responsibilities in accordance with the highest standards of good governance to support our Corporate Strategy. The Council's Governance Strategy sets out our approach to good governance and is supplemented by our Code of Corporate Governance.

This document comprises the Surrey County Council Annual Governance Statement for 2017/18, which outlines the Council's governance arrangements during the year. This Annual Governance Statement also identifies key areas of focus, where actions are required to strengthen governance in 2018/19. This is of particular importance as the Council undertakes a significant transformation programme and continues to operate in a challenging financial climate.

THE GOVERNANCE ENVIRONMENT

Purpose and outcome

During 2017/18 Surrey County Council's Corporate Strategy provided direction for staff as well as a signpost for residents, businesses and partner organisations and incorporated the Council's four values of Listen, Responsibility, Trust and Respect at its heart. It was underpinned by a suite of supporting documents, such as the Medium Term Financial Plan and the Investment Strategy. Performance was measured through a variety of key indicators that related to wellbeing, economic prosperity and resident experience and progress was published on the external website. A new draft vision for the county has been developed and will be used as the basis for engagement with residents, staff, Members, partners and business over the summer of 2018.

The Council continues to develop its commercial activities and its property investment portfolio to enhance the financial resilience of the Council. The Shareholder Board monitors the activity and performance of the trading companies created and owned by the Council and provides oversight for the Council's shareholdings; the Investment Board was created in March 2017 to facilitate the further growth of the investment portfolio. Both these Boards are Member led, are supported by relevant internal and external professional advisors and produce annual reports to provide updates on progress and monitor performance.

The Statutory Responsibilities Network, chaired by the former Chief Executive, met throughout 2017 on a fortnightly basis and provided a forum for statutory officers to discuss key issues, share knowledge and offer challenge. The network provided governance oversight and ensured statutory responsibilities were managed through regular review of key risks and issues and progress of key strategies and implementation plans. For 2018/19 onwards this oversight will be provided by a new stronger Corporate Leadership Team model, as well as through a Risk and Governance group, which will meet monthly to provide a forum for considering current strategic risks and issues, and ensuring appropriate actions are taken in response. The group will support and ensure an effective assurance framework, incorporating risk management, internal control and regularity compliance.

The Council's external auditors' 2016/17 report on value for money published in July 2017 concluded that *'in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources, with the exception of the arrangements in place within the Council's Children's Services directorate.*'

Throughout 2017/18 the Children's Improvement Board, Surrey Safeguarding Children Board, Corporate Parenting Board and the Children & Education Select Committee have all overseen and scrutinised services for children and their families in Surrey. These arrangements have not had sufficient impact or provided sufficient oversight to deliver safe outcomes for children and families and are under review following the appointment of Dave Hill as Executive Director for Children, Families, Learning and Communities.

Senior officers and Cabinet Members continue to work with the others in local government, Surrey MPs and the Government to identify ways to ensure sustainable services. In the last year the Government has announced a number of consultations, including a Fair Funding Review and Social Care Green Paper, which will provide opportunities for the Council to influence policy on the future of local government funding and promote the issues that affect Surrey most.

In December 2017, it was announced that the Council, along with the 11 boroughs and districts, had been successful in their application to become a 100% business rates pilot. The pilot will operate from 1 April 2018 to 31 March 2019 and designates the authorities as a pool. Surrey County Council is acting as the lead authority for the pool and a Memorandum of Understanding is in place, setting out the terms by which the authorities in the pool will pilot 100% business rate retention to drive growth and promote sustainability.

Leadership and behaviour

There were a number of officer leadership changes throughout the year. The Chief Executive retired in October 2017 and the role was fulfilled on an interim basis by the Deputy Chief Executive. The Council's Monitoring Officer retired in December 2017 and this role is being filled by the Head of Legal. The new Chief Executive started in March 2018 and has put in place a strengthened leadership structure, with 6 new Executive Director roles working across People, Place and Corporate Support.

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

The Council's financial management arrangements during 2017/18 fully complied with the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Financial Officer (CIPFA, 2010). The Director of Finance met her financial responsibilities and ensured financial management arrangements were in place. She reported directly to the Chief Executive and had regular contact with the Leader and key Members, Chief Executive, Monitoring Officer, Chief Internal Auditor, External Auditor and other key Members and Strategic Directors. The new Chief Executive has put new arrangements in place to ensure robust financial management and effective governance is in place through the Corporate Leadership Team (supported by the Risk and Governance group.)

The 2017/18 budget was set in a climate of rising demand for services and targeted £104m of savings to be delivered. Throughout the year a process of monitoring of the delivery of the necessary savings was in place, including regular reporting to both the Chief Executive's Direct Reports meeting and Cabinet on progress against savings targets. By the end of the financial year, savings of £80m were achieved. While this marks the highest level of savings achieved by the Council, it fell short of the targeted savings plans by £24m. As the financial challenges the Council face continues it is essential that the Council strengthens its arrangements and implements more robust processes for identifying and monitoring savings targets in 2018/19.

In addition, strategic budget planning workshops, led by the Director of Finance were held with Cabinet and the Leadership Team on a regular basis. Finance briefings for all Members have been held throughout the year to support the preparation of the budget for future years. Additional meetings have also been held, as deemed necessary, in light of the financial challenges emerging from the Local Government financial settlement and the increased pressure and demand for our services.

The roles, responsibilities and delegated functions for officers and Members are set out in the Constitution of the Council. The Scheme of Delegation for Members and officers is regularly reviewed to reflect organisational and operational changes (last updated in May 2018) and updated in consultation with senior officers and the Cabinet, before being approved by full County Council. The Cabinet comprises the Leader, Deputy Leader and eight additional Cabinet Members, with each Member holding the brief for a particular portfolio of services. Decisions can be taken by individual members of the Cabinet or collectively by the full Cabinet. In line with legislation, the Leader determines which decisions are delegated to individual Members and this is set out in the Council's Constitution.

The Staff and Member Codes of Conduct set out the expected high standards of conduct and include the 7 Standards of Public Life. The Code of Conduct for staff, which applies to all staff, workers, contractors and their staff whilst working for, or on behalf of the Council, was updated in September 2017 to make explicit the requirement to behave ethically, to act in accordance with the Council's Counter Fraud Strategy and to make clear the expectation that employees must report to work in a fit and safe state to carry out their duties. The Codes of Conduct are supplemented by the Member/Officer Protocol, which provides principles and guidance for good working relations, and the Counter Fraud Strategy.

The Monitoring Officer and the Member Conduct Panel, in consultation with the Independent Person, deal with allegations of breaches of the Member Code of Conduct. The Members Code of Conduct also includes provisions for the registration and disclosure of pecuniary and other interests, which includes a requirement for Members to register significant personal interests, declare prejudicial interests and disclose pecuniary interests and significant personal interest at meetings of the Council and its committees. The register of pecuniary interests for all members can be viewed online.

Transparency and stewardship

The Cabinet meets in public on a monthly basis, with a forward plan of decisions published on a rolling three month basis outlining the upcoming decisions of both the Cabinet or individual Cabinet Members. Members of the public and back-bench members are invited to submit questions at any Cabinet meeting and there is a petition scheme in place, supported by an e-petition system. Every County Council, Cabinet and Planning & Regulatory Committee meeting is webcast to enable people to watch meetings online.

The Council had six Member select committees during 2017/18, which provided challenge to the Cabinet. The Overview and Budget Scrutiny Committee (OBSC), took a Council-wide view and led on collaborative scrutiny issues. In addition, a sub-group of OBSC received and provided scrutiny of the monthly budget monitoring reports including the achievement of savings targets. Changes have been made to the committees from May 2018 to align them to the new Cabinet portfolios and senior officer structure.

The Audit and Governance Committee provides independent assurance on the Council's control environment, the adequacy of the risk and governance arrangements, financial reporting and ethical standards. The Council has also appointed 9 local committees and 2 joint committees, aligned with the boroughs and districts, to ensure more efficient, transparent and accountable local decision making.

The Investment Panel, which is chaired by the Deputy Chief Finance Officer, and meets monthly, as necessary, continues to ensure all proposed service capital investments have robust business cases before formal decision by Cabinet or Cabinet Member as appropriate. It also approves any invest to save schemes (funding from this reserve is re-paid from future savings). During 2017/18 the Council underspent it capital programme by £37m which has highlighted the need to review the role of the Investment Panel and strengthen the governance arrangements in place for the monitoring of capital expenditure.

The Strategic Risk Forum, chaired by the Director of Finance, brings together lead officers from across the Council to review and challenge risk and ensure a consistent approach is adopted. The Leadership risk register was regularly reviewed by the Statutory Responsibilities Network, (now CLT), Audit and Governance Committee and Cabinet during 2017/18.

The Director of Finance also chaired the Information and Risk Governance Board and held the role of Senior Information Risk Officer during 2017/18. The Board provides strategic oversight and ensures that the Council has effective information and risk governance policies and management arrangements including breaches of confidentiality and information security.

The General Data Protection Regulation (GDPR) is a new legislative requirement on data protection and privacy for all individuals within the European Union. The GDPR applies in the UK from 25 May 2018 and the Council continues to work towards compliance with a Data Protection Officer in place to drive this forward.

The Council provides a confidential facility through an external provider for anyone wishing to whistle blow. The policy and guidance have been updated during 2017/18 to provide further clarification on the process and this service is publicised in Council buildings and through the front page of the Council's intranet.

The gifts and hospitality register is held on the internal website and provides a means for staff to register any gifts or hospitality whether offered, accepted or declined. Gifts and hospitality has its own policy and all declarations are electronic. These are reviewed regularly by HR and summary reports are received by appropriate senior officer groups and included annually in the bulletin of the Audit & Governance Committee. The requirement to declare gifts and hospitality has been promoted with a focus on out posted establishments as well as in the Council's main buildings.

Transparency and stewardship

The Surrey Pension Fund Committee takes decisions on behalf of the Council as the administering body for the Local Government Pension Scheme and meets four times a year. The Surrey Local Pension Board assists the Surrey Pension Fund Committee in the exercise of its functions but has no decision making powers. A Local Fire Pension Board also assists the Surrey Fire and Rescue Service in the administration of its Firefighters' Pension Scheme.

The Border to Coast Pensions Partnership, a pool of 12 Local Government Pension Schemes including the Surrey Pension Fund, has started to make senior staff appointments, build its investment structure and obtain Financial Conduct Authority approval for its operation.

Public Sector Audit Appointments Ltd (PSAA) appointed Grant Thornton as the Council's external auditor for up to 5 years from 2018/19. This is the result of a sector-led appointment process provided by PSAA who developed a national collective scheme.

In June 2017, a new Chief Internal Auditor for Orbis was appointed, who fulfils the role for the three authorities within the Orbis partnership. The 2018/19 Internal Audit plans for all three partners aim to provide a consistent approach and maximise the skills and knowledge of the team.

Orbis Internal Audit completed an independent external inspection against the Public Sector Internal Audit Standards in January 2018. The review was conducted by South West Audit Partnership (SWAP) and involved interviewing key stakeholders from all three partner organisations. The review gave an opinion of 'Generally Conforms' which is the highest of the three rankings, meaning that Orbis Internal Audit is achieving the highest level of conformance with the Standards and Code of Ethics.

A 'reasonable assurance' audit opinion was given following the annual internal audit of Organisational Ethics. The audit established that the Council has clear leadership on ethics and a clear ethical framework, which is effective in practice. It also concluded that the Council responds effectively if there is a breach in behaviour and that there are appropriate internal control mechanisms in place to detect such breaches.

Internal audits in areas such as employee expenses and other benefits claimed by staff identified an apparent diminution in the control environment in which such claims are made and authorised. In some instances the checking and validation of claims made by managers was insufficiently robust to reduce the risk of fraud and/or error in the amounts paid and claims were not fully compliant with Financial Regulations. Required improvements in the control environment include tightening of the Financial Regulations and the introduction of measures through the appraisal system to ensure the importance of compliance to core policies is understood and followed. The 2018/19 internal audit plan includes specific cultural compliance reviews to assess compliance across all directorates.

The overall opinion of the Chief Internal Auditor on the internal control environment for 2017/18 is "Reasonable Assurance." This opinion is based on the internal audit work completed throughout the year, and concludes that the majority of key controls examined are working in practice, with some specific exceptions. The annual report of internal audit highlights that there remains a need to strengthen governance and internal control arrangements within Children's, Families and Learning and sets out that internal audit will continue to support the improvement agenda and provide assurance wherever possible that sufficient progress is being made.

People

After the local elections in May 2017, the Council designed and delivered a comprehensive training and guidance programme for new and returning Councillors, including the code of conduct, committee processes and introductions to the Council's service areas. New members were 'buddied' with senior managers to help them learn the role and the services of the Council and signpost them to officers for queries. 97% of Councillors rated the induction as good or excellent as part of an induction survey conducted in September 2017.

A new leadership development programme has been developed that focuses on communication, setting clear expectations and coaching. It is a more self-directed and flexible programme to support leaders and managers with their varying challenges, needs and time constraints.

People

During October and November 2017 staff participated in a staff survey, which has provided evidence of how colleagues feel about working for our organisation. The data has been shared and teams across the Council are reviewing the feedback to identify and agree action plans to improve key areas.

The HR & OD strategy was reviewed and updated in 2017/18 following a review of the current people related strategies and to reflect and consider the challenges and opportunities for our workforce. The Continuous Improvement and Performance Network and Chief Executive's Direct Reports (now CLT) engaged with this review to ensure the vision and priority areas are the right ones for their services and the organisation. The updated strategy is published on the Council's external website.

Engagement and Collaboration

Health and social care integration continues to be one of the top priorities for the Council, working together with health partners to make the best use of collective resources to meet residents' needs.

Governance arrangements for the two Integrated Care Systems and one Sustainability and Transformation Plan that Surrey is a partner in are complex and differ between the three. The Surrey Health & Wellbeing Board (HWB) sets the strategic direction for health and social care in Surrey and a Joint Health and Wellbeing Strategy outlines their priorities. All three partnerships have signed memorandums of understandings which underpin the governance arrangements.

The STPs have prioritised citizen engagement and the Surrey Heartlands' engagement approach was recognised nationally as an exemplar model, receiving funding from NHS England as a result.

Internal Audit continue to work with external partners through chairing and coordinating the Surrey Counter Fraud Partnership, a collaborative approach for dealing with non-benefit fraud locally. Initially grant funded, the partnership has developed into a sustainable and innovative approach to tackling fraud at borough, district and county levels. This has led to increased cooperation and joint working between, and within, the different tiers of local authorities in Surrey. The partnership has grown into a multi-agency body led by Surrey with membership from all 11 districts and boroughs, Surrey Police, Trading Standards and registered social landlords from across the county. The partnership has delivered savings to the public purse of over £10m since its inception in 2015, including the recovery of over 100 social housing properties and the prevention of over 200 fraudulent applications for housing, homelessness or Right-to-Buy.

Partnership working has enabled the Council to reduce the cost of support services. Orbis, the shared services partnership with East Sussex County Council and Brighton & Hove City Council continues to deliver efficiencies. Orbis includes 2,000 staff across the three councils and drives savings by sharing business services across areas. The partnership is established under a joint committee which is responsible for delivering services from a joint operating budget.

Following the appointment of a Chief Internal Auditor for Orbis, the Internal Audit function has been developing its joint working practices and the fully integrated structure went live in April 2018. In addition to the three Orbis partners, Horsham District Council joined Orbis Internal Audit in April 2018, further strengthening the offering to sovereign authorities.

The Council currently engages and consults with residents and partners using a number of methods which include paper and electronic surveys, face to face engagement and social media. The Council has a dedicated consultation hub 'Surrey Says' where most consultations are published. As well as the consultations, the site also features a 'We Asked, You Said, We Did' section where the Council provides feedback on the actions taken or not taken as a result of consultation.

FOCUS FOR 2018/19

Under the leadership of the new Chief Executive, a Corporate Leadership structure has been introduced, adding much needed senior capacity and capabilities to the Council. Recruitment to all roles will be completed in summer 2018. The Leader and Members have set out their priority for the Chief Executive and the Corporate Leadership team to put in place a significant programme of transformational change to ensure the Council can deliver good outcomes, within a sustainable resource envelope.

The Council continues to face pressures from increasing demographic demands and changing expectations of residents in the context of decreasing funding from Central Government. In order to achieve a balanced budget in 2018/19, the Council has utilised a range of one-off funding methods and in addition, the level of savings required continues to be significant at £66m. A stronger control framework of tracking and monitoring savings, pressures and the overall budget throughout the year, through redesigned data packs, is being put in place to ensure delivery of these savings, as well as achievement of the budget overall. This will include a monthly report to the Corporate Leadership Team (CLT) on financial and service performance issues that provides key information and highlights variances.

Looking ahead to 2019/20 the scale of the budget challenge means the Council must set clear priorities, transform service delivery and introduce a new operating model. The County Council will be asked to agree a new Vision at its meeting in October 2018 followed by revised priorities and an outline budget in November 2018. These are important foundations to govern our focus for the next few years.

During 2018/19, the Council will need to approve and initiate a major transformation programme to deliver better outcomes as well as contribute to the £250m gap the Council faces. Robust programme management, governance and control mechanisms will be in place to deliver the benefits. Significant change capacity will need to be applied, alongside a deep culture change programme. Appropriate use of capital receipts will underwrite the cost of the programme and be tracked on a regular basis. CLT will meet fortnightly as a Transformation Steering Board and an officer and Member Change Management Board has been established, providing a key part of the governance arrangements. Standardised reporting of project progress is being developed and will be regularly monitored by CLT. The Council will engage closely with staff, residents and partners to develop and then implement this service transformation with a close focus on improved outcomes for those in need of our support.

In parallel, the Council continues to work to ensure Government understands the impact of current funding mechanisms on Surrey and inform any proposals for reform affecting local government. When the prospectus for the 2019/20 business rate retention pilot is issued, the Council will look to compile a strong application to secure a continuation of the business rate pilot. The Council will also take all opportunities to input into the fair funding review being carried out by the Ministry for Housing, Communities and Local Government and the emerging Social Care Green Paper led by the Secretary of State for Health and Social Care.

The Surrey Heartlands devolution agreement between the Council, three Clinical Commissioning Groups, NHS England and NHS Improvement will bring further opportunities to work differently with our partners in driving the integration of health and social care. An Integrated Commissioning Joint Committee, which was in shadow form in 2017/18, will become a formal committee in summer 2018. The Joint Committee is responsible for developing proposals for a joint Commissioning Strategy and for overseeing the development of the devolution/integrated commissioning governance arrangements and includes representatives from the County Council, the 3 Clinical Commissioning Groups and NHS England.

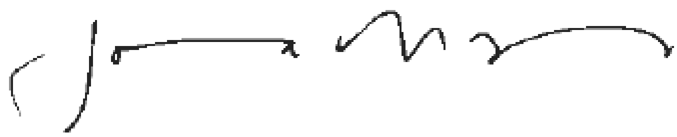
A key challenge for 2018/19 will be to transform services for children and families in Surrey, which will require strong leadership, effective management oversight and robust assurance. Significant changes to the Children's Improvement Board and Corporate Parenting Board will be put in place during summer 2018, including membership, roles and responsibilities, to ensure there is a clear focus on the improvement journey. We will also be engaging with other authorities and statutory bodies – along with Members and our key strategic partners – and adopting proven governance mechanisms that represent best practice to ensure we get this right.

We continue to face a growing and complex need for our learning disability services. It is important that we improve ways of working to manage these increasing demands and enable better outcomes. We know that key to achieving this is more joined up working between Adult Social Care, Children, Schools and Families and health which will ensure a more holistic approach is taken to supporting someone throughout their lifetime. We aim to enable adults with learning disabilities and their families to be able access support from a single countywide team, enabling us to better support our residents in the future.

Other areas of focus include:

- The need for a controls review has been identified in relation to the mechanisms and controls in place for assessing and approving care packages and accurately forecasting future costs, in both Children's and Adults Services. This controls review will be carried out during 2018/19 by internal audit and will prioritise the focus of this work on those areas where there is a higher risk in terms of the control environment and levels of expenditure;
- Reinforcing and supporting a culture of compliance through appropriate information, communication and training. To assist with this the Council is introducing a requirement for senior leaders and budget holders to reflect sound governance related goals in their annual performance accountability contract / objectives;
- The Council's Financial Regulations were updated in May 2018. A more fundamental review of these regulations will be carried out during 2018/19, in conjunction with a review of the Constitution;
- There will be review of the Leadership Risk Register to ensure both the identified risks and the mitigating actions are appropriate and effective;
- The Chartered Institute for Public Finance and Accountancy (CIPFA) has been commissioned to carry out a review of the financial capacity and capability of the finance function across the organisation. The conclusions of this review will be used to develop and implement an improvement programme to increase overall effectiveness of financial management across the Council;
- Make a permanent appointment to the role of Head of Legal and Democratic Services;
- Pensions pooling - building the investment structure and obtaining Financial Conduct Authority approval for its operation;
- The Council has recently appointed a Data Protection Officer who will lead on the work required to ensure the Council meet its obligations in relation to GDPR compliance;
- Implementing a new pay structure.

In light of the significant changes and challenges facing the organisation it has become increasingly important to ensure a robust and effective assurance framework is in place. The scale of the challenges facing the Council are significant and will require strong leadership and focus. 2018/19 will be a year of change, under the leadership of the new Chief Executive and a new Corporate Leadership structure. The Council is undergoing a significant programme of transformational change in order to achieve financial sustainability in the future and it is therefore essential that the Council's activities are underpinned by robust governance and control mechanisms to enable us to deliver our new shared vision and ensure we deliver good outcomes for our residents.



David Hodge CBE
Leader of the Council
17 July 2018

Joanna Killian
Chief Executive
17 July 2018

Narrative Report

Legal status

The Firefighters' Pension Fund is administered by Surrey County Council; it falls within the jurisdiction of the council's chief finance officer for certification and is subject to the council's statutory audit report prior to being submitted for approval to the Audit and Governance Committee. Since 1st April 2006, the council has administered (the 1992, 2006 and 2015 firefighters' pension) schemes from a separate local fire-fighter pension fund and therefore the firefighters' pension fund does not form part of the council's balance sheet.

Fund operations

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

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

As there are not any investment assets built up to meet these pension liabilities, cash, net of contributions from active members and government grants, has to be generated to meet pension payments as they fall due. When accounting for the cost of retirement benefits the liability is recognised and reported in the council's cost of services when pensions are earned by employees, rather than when the benefits are eventually paid as pensions. The council's actuary based their calculations on future pension increases being linked to the consumer prices index (see note 39 of the council's statement of accounts for details of these amounts).

Estimating the net liability to pay pensions depends upon a number of complex judgements relating to salary increase projections, changes in retirement ages and mortality, expected returns on pension fund assets and the discount rate used for financial modelling. A sensitivity analysis carried out by the actuary revealed that a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £59.7m.

Significant accounting policies

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

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

2016/17 £000	Ref: Note	Firefighters' pension fund account	2017/18 £000
		Contributions Receivable:	
-3,099	1	Contributions receivable from employer (normal)	**-2,933**
-2,422	1	Contributions receivable from employees	**-2,275**
	3	Individual transfers in from other schemes	
-5,521			**-5,208**
		Benefits payable	
12,398	2	Pensions	**12,914**
3,485	2	Commutations and lump sum retirement benefits	**2,177**
105	2	Lump sum death benefits	**95**
	3	Individual transfers out to other schemes	
15,988		Total amounts payable	**15,186**
10,467		**Net amount receivable for the year before top-up grant**	**9,978**
-7,613	4	Top-up grant received from DCLG	**-6,784**
-2,854	4	Top-up grant still owing from DCLG	**-3,194**
-10,467		**Net amount payable / receivable for the year**	**-9,978**

Net Asset Statement

31 March 2017 £000		31 March 2018 £000
	Current assets:	
2,854	Pension top-up grant receivable from Central Government	**3,194**
2,854		**3,194**
	Current liabilities:	
-2,854	Cash overdrawn	**-3,194**
-2,854		**-3,194**

Note 1 - Contributions receivable

Contributions represent the total amounts receivable from the council and the pensionable employees. The employer's contributions are made at the rates determined by the Government Actuaries Department, at a nationally applied rate of 21.7% for the 1992 Firefighter' Pension Scheme, 11.9% for the 2006 Scheme and 14.3% for the 2015 Scheme. The council is required to make payments into the pension fund in respect of ill health retirements, when they are granted. No provision is been made for employee and employer contributions for sums due on pay awards not settled.

Note 2 - Benefits and refunds

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

Note 3 - Transfer values

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

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

Note 4 – Top up grant

The fund was topped up by Government grant of £10.0m in 2017/18 (£10.5m in 2016/17) as contributions were insufficient to meet the cost of pension payments due for the year. £6.8m was received in year leaving an outstanding balance of £3.2m due from government (£2.9m 2016/17).

SURREY PENSION FUND ACCOUNTS 2017/2018

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2017/2018 and of the disposition of its assets at 31 March 2018.

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

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

The number of employees in the fund and the number of pensioners as at 31 March 2017 and 31 March 2018 are:

31 Mar 2017		31 Mar 2018
34,298	Employees in the fund	35,802
24,025	Pensioners	25,135
41,573	Deferred pensioners	45,079
99,896	**Total**	**106,016**

Surrey pension fund account

2016/2017 £000		Note	2017/2018 £000
	Contributions and benefits		
192,802	Contributions receivable	7	**178,283**
6,848	Transfers in	8	**12,881**
199,650			**191,164**
-136,484	Benefits payable	9	**-144,146**
-6,694	Payments to and on account of leavers	10	**-9,527**
-13,217	Investment and governance expenses	14	**-12,222**
-1,250	Administration expenses		**-1,626**
-157,645			**-167,521**
42,005	**Net additions from dealings with members**		**23,643**
	Return on investments		
62,306	Investment income	16	**65,751**
-1,068	Taxes on income	15	**-1,032**
541,953	Change in market value of investments	17	**98,662**
603,191	**Net return on investments**		**163,381**
645,196	**Net increase in the fund during the year**		**187,024**
	Net assets of the fund		
3,223,663	**At 1 April**		**3,868,859**
3,868,859	**At 31 March**		**4,055,883**

Net asset statement

31 Mar 2017 £000		Note	31 Mar 2018 £000
	Investment assets	17	
583,302	Bonds		**601,208**
2,288,136	Equities		**2,413,734**
275,367	Property unit trusts		**321,737**
390,257	Diversified growth		**394,288**
145,113	Private equity		**155,782**
	Derivatives	17c	
	- Futures		
1,050	- Foreign exchange contracts		**1,327**
117,498	Cash		**80,636**
42,000	Other short term investments		**60,000**
8,220	Other investment balances	17b	**4,740**
	Investment liabilities		
	Derivatives	17c	
0	- Futures		**0**
-1,095	- Foreign exchange contracts		**-1**
-4,876	Other investment balances	17b	**-3,393**
0	Borrowings		**0**
3,844,972	**Net investment assets**		**4,030,058**
9,075	**Long-term debtors**	12	**7,260**
22,371	**Current assets**	11	**29,861**
-7,559	**Current liabilities**	13	**-11,296**
3,868,859	**Net assets of the fund at 31 March**		**4,055,883**

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 25 of these accounts. Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

Note 1: Description of the fund

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

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

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

During 2017/18 the investment decision making and governance of the fund was undertaken by the Pension Fund Board, a committee of the Administering Authority, with representation on behalf of employers and members.

b) Membership

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

Organisations participating in the Surrey Pension Fund include:

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

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 and new rates applied from April 2017. Currently employer contribution rates range from 13.4% to 33.2% of pensionable pay.

d) Benefits

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

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

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

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

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

LGPS 2014 employee contribution rates for 2017/18	
Pensionable payroll banding	Contribution rate
Up to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
More than £151,800	12.5%
Estimated overall LGPS average	6.5%

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

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2017/18 financial year and its position at the year end at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 25 of these accounts.

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

Accounting standards issued, but not yet adopted.

IFRS 9 Financial instruments – Includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS39.

The impact of the standard issued but not yet adopted cannot yet be quantified.

Note 3: Summary of significant accounting policies

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs.

Fund account – revenue recognition

a) Contribution income

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

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

b) Transfers to and from other schemes

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

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

d) Private equity

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

Fund account – expense items

e) Benefits payable

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

f) Taxation

The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2018 is reported as a current liability.

g) Administration expenses

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

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

h) Investment and governance expenses

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

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

Net assets statement

i) Financial assets

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

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

i) Market quoted investments

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

ii) Fixed interest securities

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

iii) Unquoted investments

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

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

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

v) Limited partnerships

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

vi) Pooled investment vehicles

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

j) Foreign currency transactions

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

k) Derivatives

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

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

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

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

l) Cash and cash equivalents

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

m) Financial liabilities

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

n) Actuarial present value of promised retirement benefits

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

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

o) Additional voluntary contributions

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

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

Note 4: Critical judgements in applying accounting polices

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2018 was £155.8 million (£145 million at 31 March 2017).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The items in the net assets statement or subsequent notes as at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability of the fund would change. An increase in the discount rate would result in a corresponding decrease in the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy.
Private equity	Private equity investments, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £145 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £95 million. There is a risk that asset or investment transaction misclassification may occur.

Note 6: Events after the balance sheet date

The Director of Finance and section 151 officer left the Council in July 2018. The Deputy Chief Finance Officer is acting as the interim s151 officer and has certified the Statement of Accounts.

The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Fund’s assets and liabilities. No such adjustments have been deemed necessary.

Note 7: Contributions receivable

By category

2016/2017 £000		2017/2018 £000
105,316	Employers	97,181
49,390	Employers deficit	42,982
38,096	Members	38,121
192,802		**178,283**

2016/2017 £000		2017/2018 £000
87,529	Administering authority	83,861
85,967	Scheduled bodies	86,022
19,306	Admitted bodies	8,400
192,802		**178,283**

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

Note 8: Transfers in from other pension funds

2016/2017 £000		2017/2018 £000
0	Group transfers from other schemes	0
6,848	Individual transfers in from other schemes	**12,881**
6,848		**12,881**

Note 9: Benefits payable

By category

2016/17 £000		2017/18 £000
114,054	Pensions	119,064
19,023	Commutation and lump sum retirement benefits	21,606
3,355	Lump sum death benefits	3,399
52	Interest on late payment of benefits	77
136,484		**144,146**

By employer

2016/2017 £000		2017/2018 £000
64,320	Administering Authority	69,389
61,003	Scheduled Bodies	63,587
11,109	Admitted Bodies	11,093
136,432		**144,069**

Note 10: Payments to and on account of leavers

2016/2017 £000		2017/2018 £000
6,409	Group transfers to other schemes	9,257
0	Individual transfers to other schemes	0
316	Refunds of contributions	283
-31	Payments for members joining state schemes	-13
6,694		**9,527**

Note 11: Current assets

2016/2017 £000		2017/2018 £000
2,619	Contributions - employees	3,215
9,337	Contributions - employer	9,838
10,415	Sundry debtors	16,808
22,371		**29,861**

Analysis of current assets

2016/2017 £000		2017/2018 £000
3,730	Central government bodies	5,612
15,746	Other local authorities	19,122
2,895	Other entities and individuals	5,128
22,371		**29,861**

Note 12: Long term debtors

2016/2017 £000		2017/2018 £000
9,075	Central government bodies	7,260
9,075		**7,260**

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

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2018 is £9.075m but £1.815m was due in 2017/18, leaving a long term debtor of £7.260m.

Note 13: Current liabilities

2016/2017 £000		2017/2018 £000
7,368	Sundry creditors	11,094
123	Benefits payable	202
7,491		**11,296**

Analysis of current liabilities

2016/2017 £000		2017/2018 £000
1,574	Central government bodies	1,418
1,848	Other local authorities	6,254
4,069	Other entities and individuals	3,624
7,491		**11,296**

Note 14: Investment and governance expenses

2016/2017 £000		2017/2018 £000
12,105	Investment management fees	11,263
103	Investment custody fees	239
1,009	Oversight and governance costs	721
13,217		**12,222**

The investment management fees includes £613k (2016/17:£ 1.0million) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £1.1million in respect of transaction costs (2016/17: £1.5million).

As part of its oversight and governance costs in 2017/18, the fund had also spent £144k in respect of pooling costs as part of Surrey Pension Fund's transition into the Border to Coast Pensions Partnership (BCPP)

Note 15: Taxes on Income

2016/2017 £000		2017/2018 £000
988	Withholding tax – equities	978
80	Withholding tax – property	54
1,068		**1,032**

Note 15b: External Audit Costs

2016/2017 £000		2017/2018 £000
27	Payable in respect of external audit	27
27		**27**

Note 16: Investment income

2016/2017 £000		2017/2018 £000
	Bonds	
4,079	UK	**3,667**
8,060	Overseas	**7468**
	Equities	
22,358	UK	**24,959**
14,274	Overseas	**11,260**
7,808	**Property unit trusts**	**9,062**
1,226	**Diversified growth**	**1,052**
3,249	**Private equity**	**2,315**
745	**Interest on cash deposits**	**4,807**
507	**Other**	**1,161**
62,306		**65,751**

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2018
	£000	£000	£000	£000	£000
Bonds	**583,327**	304,323	-283,524	-2,918	**601,208**
Equities	**2,288,136**	1,938,482	-1,845,436	32,552	**2,413,734**
Property unit trusts	**275,367**	88,284	-54,202	12,288	**321,737**
Diversified growth	**390,257**	2,327	0	1,704	**394,288**
Private equity	**145,228**	53,184	-50,680	8,050	**155,782**
Derivatives					
- Futures		311	-406	95	
- Forex contracts	**-45**	28,423	-68,141	41,089	**1,326**
	3,682,270	**2,415,334**	**-2,302,389**	**92,860**	**3,888,075**
Cash	**117,498**			5,802	**80,636**
Other Short Term Investments	**42,000**				**60,000**
Other investment balances	**3,344**				**1,347**
Borrowing					
	3,845,112			**98,662**	**4,030,058**

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

Note 17b: Analysis of investments

	31 Mar 2017	31 Mar 2018
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	298,283	205,115
UK pooled funds	0	0
Overseas public sector & quoted	66,803	0
Overseas pooled fund	218,216	396,093
	583,302	**601,208**
Equities		
UK quoted	279,493	605,423
UK pooled funds	389,731	418,042
Overseas quoted	990,625	320,896
Overseas pooled funds	628,287	1,069,373
	2,288,136	**2,413,734**
Property unit trusts		
UK property funds	263,100	279,879
Overseas property funds	12,267	41,858
	275,367	**321,737**
Diversified growth		
UK diversified growth funds	0	0
Overseas diversified growth funds	390,257	394,288
	390,257	**394,288**
Private equity		
UK limited partnerships	25,859	22,717
Overseas limited partnerships	24,237	41,411
UK fund of funds	0	0
Overseas fund of funds	95,017	91,654
	145,113	**155,782**
Derivatives		
Futures		
FX forward contracts	-45	1,326
	-45	**1,326**
Cash deposits	**117,498**	**80,636**
Other short term investments	**42,000**	**60,000**
Other investment balances		
Outstanding sales	1,385	357
Outstanding purchases	-4,876	-3,393
Tax due on accrued income	0	
Accrued income - dividends and interest	6,835	4,383
	3,344	**1,347**
Total investments	**3,844,972**	**4,030,058**

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. As at 31 March 2018 the fund had no future contracts in place. At 31 March 2017 the fund had four futures contracts in place with an unrealised loss of £61k.

31 March 2018

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	**-**	**-**	**-**	**0**	**0**	**0**
				0	**0**	**0**

31 March 2017

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

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 2018 the Fund had forward currency contracts in place with a net unrealised gain of £1,327k (net unrealised loss of £45k at 31 March 2017).

2017/18

No of contracts	Contract settlement date within	Currency Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'000
1	One Month	GBP	JPY	137	-20,650	0	0
5	Two Months	GBP	EUR	118450	-134,064	702	0
5	Two Months	GBP	JPY	66,837	-9,954,387	19	0
8	Two Months	GBP	USD	374,615	-525,891	606	0
						1,327	**0**

2016/17

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

Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2017/18 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 18 the value of quoted securities on loan was £132.5million in exchange for collateral held by the fund custodian at fair value of £144.1million.

Note 17d: Investments analysed by fund manager

Market value 31 March 2017 £000	%	Manager	Market value 31 March 2018 £000	%
1,066,206	27.8	Legal & General Investment Management	1,151,591	28.6
382,372	10.0	Majedie Asset Management	373,811	9.3
300,771	7.8	UBS Asset Management	311,993	7.7
486,154	12.7	Marathon Asset Management	498,553	12.4
307,211	8.0	Newton Investment Management	317,106	7.9
312,688	8.2	Western Multi Asset Credit	322,509	8.0
74,119	1.9	Franklin Templeton Investments	73,663	1.8
143,695	3.7	Baillie Gifford Life Limited	150,596	3.7
232,323	6.1	CBRE Global Multi-Manager	260,170	6.5
68,875	1.8	Darwin Property Investment Management	73,508	1.8
123,768	3.2	Ruffer	122,576	3.0
122,793	3.2	Aviva	121,117	3.0
3,620,975			**3,777,193**	

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

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

Market value 31 March 2017 £000	% of total fund	Security	Market value 31 March 2018 £000	% of total fund
464,390	14.5	Legal & General World Developed Equity Index	496,453	12.3
0	0	Marathon Global Contractual Fund	494,553	12.3
355,919	11.1	Legal & General UK Equity Index	376,553	9.3

Note 18a: Classification of financial instruments

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

As at 31 March 2017				As at 31 March 2018		
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			
583,802	0	0	Bonds	601,208		
2,288,136	0	0	Equities	2,413,735		
275,367	0	0	Property unit trusts	321,737		
390,257	0	0	Diversified growth	394,288		
145,113	0	0	Private equity	155,782		
1,098	0	0	Derivatives			
0	117,498	0	Cash		80,636	
	42,000		Other short term investments		60,000	
8,220	0	0	Other investment balances	4,739		
0	31,446	0	Debtors		37,121	
3,691,493	**190,944**	**0**	**Total financial assets**	**3,891,489**	**177,757**	
			Financial liabilities			
-1,142	0	0	Derivatives	-1		
-4,876	0	0	Other investment balances	-3393		
0	0	-7,559	Creditors			-11,296
0	0	0	Borrowings			
-6,018	**0**	**-7,559**	**Total financial liabilities**	**-3394**		**-11,296**
3,685,518	**190,944**	**-7,559**		**3,888,095**	**177,757**	**-11,296**

Note 18b: Net gains and losses on financial instruments

31 March 2017 £000		31 March 2018 £000
	Financial Assets	
602,124	Designated at Fair Value through profit and loss	92,860
319	Loans and Receivables	5,802
	Financial Liabilities	
-60,490	Fair Value through profit and loss	0
0	Financial liabilities at amortised cost	0
541,953	**Total**	**98,662**

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

31 March 2018	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets through profit & loss	3,510,908	209,388	223,545	3,943,841
Total financial assets	3,510,908	209,388	**223,545**	3,943,841
Financial liabilities				
Financial liabilities through profit & loss	0	-3,393	0	-3,393
Total financial liabilities	**0**	**-3,393**	**0**	**-3,393**
Net financial assets	**3,510,908**	**205,995**	**223,545**	**3,940,448**

31 March 2017	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets through profit & loss	3,322,216	172,746	195,477	3,690,439
Total financial assets	**3,322,216**	**172,746**	**195,477**	**3,690,439**
Financial liabilities				
Financial liabilities through profit & loss	-4,876	0	0	-4,876
Total financial liabilities	**-4,876**	**0**	**0**	**-4,876**
Net financial assets	**3,317,340**	**172,746**	**195,477**	**3,685,563**

Note 18c: Book cost

The book cost of all investments at 31 March 2018 is £3,055million (£2,760million at 31 March 2017).

Note 19: Outstanding commitments

At 31 March 2018 the Fund held part paid investments on which the liability for future calls amounted to £127.0million (£89million as at 31 March 2017).

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

Risk and risk management

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

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

a) **Market risk**

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

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

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

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

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

Other price risk – Sensitivity Analysis
PIRC Ltd has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2017/18 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 2018	Change	Value on increase	Value on decrease
	£000		£000	£000
UK equities	1,023,466	9.35%	1,119,188	927,744
Overseas equities	1,390,269	9.54%	1,522,927	1,257,611
Bonds	601,208	4.38%	627,541	574,875
Cash	80,636	0.03%	83,055	78,217
Other short term investments	60,000	0.03%	60,020	59,980
Property	321,747	3.46%	332,866	310,608
Alternatives	155,782	6.61%	166,079	145,485
Diversified growth fund	394,288	3.74%	409,037	379,539
Other assets	2,625	0.03%	3,585	3,585
Total Investment Assets	4,030,021	6.01%	4,324,298	3,737,644

Asset type	Value at 31 March 2017 £000	Change	Value on increase £000	Value on decrease £000
UK equities	669,225	8.89%	728,704	609,746
Overseas equities	1,618,911	9.28%	1,769,124	1,468,698
Fixed interest bonds	383,930	5.95%	406,770	361,090
Index linked	199,371	8.89%	217,095	181,647
Cash	49,844	0.01%	49,849	49,839
Other short term investments	42,000	0.01%	42,004	41,996
Property	275,367	1.96%	280,764	269,970
Alternatives	145,113	6.96%	155,213	135,013
Diversified growth fund	390,257	3.84%	405,229	375,285
Other assets	3,299	0.01%	3,585	3,585
Total Investment Assets	3,777,317	5.98%	4,058,337	3,496,869

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

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

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2017 £000		As at 31 March 2018 £000
49,844	Cash & cash equivalents	80,636
42,000	Other short term investments	60,000
383,930	Fixed interest securities	396,093
475,774	**Total**	**536,729**

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

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

Asset type	Carrying amount as at 31 March 2018	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	80,636	81	-81
Other short term investments	60,000	60	-60
Fixed interest securities	396,093	396	-396
Total	**536,729**	**537**	**-537**

Asset type	Carrying amount as at 31 March 2017	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	49,844	50	-50
Other short term investments	42,000	42	-42
Fixed interest securities	383,930	384	-384
Total	**475,774**	**476**	**-476**

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

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

Currency risk – sensitivity analysis
PIRC Ltd has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2017/18 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2018 £000	% Change	Value on increase £000	Value on decrease £000
Equities	877,881	4.93%	921,173	834,589
Fixed interest	396,093	4.93%	415,626	376,560
Property and Private Equity	174,923	4.93%	183,549	166,297
Diversified Growth	394,288	4.93%	413,732	374,844
Cash and Other Assets	7,397	4.93%	7,762	7,032
Total	1,850,582	4.93%	1,941,842	1,759,322

For comparison last year figures are included below.

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

b) Credit risk

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

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

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

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

The fund has agreed a total of £60m in short fixed term deposits as part of the treasury management strategy; these include £60 million of fixed term deposits with other Local Authorities.

Fixed Term Deposits	No. of days	Balance at 31 March 2018 £000
Leeds City Council	141	10,000
London Borough of Barking & Dagenham	91	5,000
Eastleigh Borough Council	89	5,000
Eastleigh Borough Council	90	5,000
Plymouth City Council	92	5,000
Leeds City Council	91	10,000
Woking Borough Council	120	5,000
Thurrock Council	120	5,000
Glasgow City Council	94	10,000
Other short term investments		**60,000**

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

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

Balance at 31 March 2017 £000		Balance at 31 March 2018 £000
	Term Deposits	
	Nationwide	0
	Call account	
	Natwest	0
0	Lloyds	20,000
	Money market fund	
490	Goldman Sachs	4,000
25,000	Aberdeen MMF	5,500
	Current account	
586	HSBC	64
26,076	**Internally Managed Cash**	**29,564**
91,422	Externally Managed Cash	51,072
117,498	**Total Cash**	**80,636**

The fund's cash holding under its treasury management arrangements as at 31 March 2018 was £29.6million (£26.0million at 31 March 2017).

c) Liquidity risk

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

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

The fund has immediate access to the internally managed cash holdings and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2016/17 or 2017/18

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

d) Derivative risk

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

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

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

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2017/18 amounted to £62,796k (£67,508k in 2016/17).

2016/2017		2017/2018
£000		£000
44,261	Employers' current service contributions	41,031
22,351	Lump sum payments to recover the deficit in respect of past service	21,287
896	Payments into the fund to recover the additional cost of early retirement liabilities	479
67,508		**62,796**

ii) Surrey Pension Fund paid Surrey County Council £1,847k for services provided in 2017/18 (£1,508k in 2016/17).

2016/2017		2017/2018
£000		£000
258	Treasury management, accounting and managerial services	221
1,250	Pension administration services	1,626
1,508		**1,847**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2018 were £5,218k (£5,621k at 31 March 2017).

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. From 2nd October 2017 The Treasury Team had been separated as a function from the Pensions Team which had an effect on the time Key Management allocated to the Pension Fund.

2016/17 £	Position	2017/18 £	
22,859	Chief Finance Officer	24,109	1
75,795	Head of Pensions	80,681	2
47,139	Senior Specialist Advisor	25,398	2
55,545	Senior Accountant	49,059	3
201,338		**179,247**	

2016/17	Oct 2017 - Onwards
1. 15% of time allocated to pension fund	1. 15% of time allocated to pension fund
2. 70% of time allocated to pension fund	2. 100% of time allocated to pension fund
3. 100% of time allocated to pension fund	3. 100% of time allocated to pension fund

Note 23: Custody

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

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

Private Equity Manager	Custody Provider
BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York Mellon
Livingbridge (Formerly ISIS)	Lloyds Banking Group
SL Capital	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America
Pantheon	State Street Bank & Trust Co. NA New York

Note 24 : Actuarial statement for 2017/18 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), approved March 2017. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £679 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.2%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, the Fund has achieved strong asset returns, particularly during 2016/17. This will have improved the funding position at 31 March 2018.

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

Barry McKay FFA
For and on behalf of Hymans Robertson LLP
10 May 2018

Hymans Robertson LLP

20 Waterloo Street, Glasgow, G2 6DB

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2017/18 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

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

Present value of promised retirement benefits

Year ended	**31/03/2018**	**31/03/2017**
Active members (£m)	2,559	2,335
Deferred members (£m)	1,359	1,370
Pensioners (£m)	1,921	2,005
	5,839	**5,710**

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £112m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2018	31 March 2017
Pension Increase Rate	2.4%	2.4%
Salary Increase Rate	2.7%	2.7%
Discount Rate	2.7%	2.6%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 Years	24.6 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 Years	26.4 Years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

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.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	474
0.5% p.a. increase in the Salary Increase Rate	1%	76
0.5% p.a. decrease in the Real Discount Rate	10%	582

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2018 for accounting purposes’. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston AFA (For and on behalf of Hymans Robertson LLP)

10 May 2018

Note 26: Additional Voluntary Contributions

Market Value 2016/17 £000	Position	Market Value 2017/18 £000
12,401	Prudential	13,621
12,401		**13,621**

Additional Voluntary Contributions, net of returned payments, of £2.8million were paid directly to Prudential during the year (£2.7million during 2016/17).

Note 27: Investment Strategy Statement

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

Note 28: Annual report

The Surrey Pension Fund Annual Report 2017/2018 provides further details on the management, investment performance and governance of the Fund.

Accruals
An accounting concept that recognises income when it is earned and expenditure when it is incurred, and not when cash is transferred. The inclusion of debtors, creditors and depreciation are examples of accruals.

Amortisation
The process of writing down the value of an intangible asset over time in order to spread the cost of the asset over the period of its useful economic life.

Assets held for sale
Properties that are being actively marketed and sale is expected in the next 12 months.

Assets under construction
Assets not yet ready for use. This could be new building works or road construction.

Balances
Balances are maintained for future years' budgets and to provide a cushion against expenditure being higher or income lower than expected. Contributions to balances can either be a planned contribution from the revenue budget or a transfer of any revenue surplus at the year-end. The maintenance of an appropriate level of balances is a fundamental part of prudent financial management.

Business Rates
See Non-Domestic Rates (NDR).

Capital expenditure
Expenditure on the acquisition or enhancement of a non-current asset. The cost of maintaining an asset at its current value is revenue expenditure.

Capital adjustment account
A balance sheet item, unique to local authority accounting, that is central to the capital accounting regime. The balance on the account cannot be used, but reflects the extent to which, to date, capital funding of assets has preceded depreciation of those assets.

Capital financing requirement
This represents the council's underlying need to borrow for capital purposes. The year on year change will be influenced by capital expenditure in each year.

Capital receipts
Proceeds from the sale of non-current assets. The council earmarks capital receipts to finance future capital expenditure, except when they are utilised under the capital receipt flexibilities to fund transformation expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)
The professional accountancy institute that sets the standards for the public sector. CIPFA publishes the accounting codes of practice for local government.

The Code of Practice on Local Authority Accounting (The Code)
The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a true and fair view of the financial position and transactions of a local authority. It is based on International Financial Reporting Standards (IFRS), and has been developed by CIPFA/LASAAC under the oversight of the Financial Reporting Advisory Board.

Community assets
Assets that the local authority intends to hold in perpetuity which have no determinable useful life and which may have restrictions on their disposal. Examples include the countryside estate and historic assets that are not used in service delivery.

Contingent Assets / Liabilities
Possible assets / liabilities, which may arise in the future if certain events, not wholly within the control of the authority, take place. Contingent assets / liabilities are not recognised in the accounts but are disclosed by way of a note if it is probable that an inflow / outflow of economic benefits will occur.

Creditors
Money owed by the council that is due immediately or in the short term. Creditors are an example of the concept of accruals.

Current service cost (pensions)
The increase in the present value of local government and firefighters' pension scheme's liabilities expected to arise from employee service in the current period.

Curtailment costs (pensions)
For a defined benefit scheme (such as LGPS and firefighters') an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Debtors
Money that is due to the council but which has not yet been received. Debtors are an example of the concept of accruals.

Defined benefit scheme (pensions)
A pension or other retirement benefit scheme that defines the employees benefits and is independent of contributions and investment performance. Defined benefit schemes may be funded (local government pension scheme) or un-funded (firefighters' pension scheme).

Depreciation
A charge to the revenue account to reflect the consumption or use of a tangible non-current asset in service delivery. There is a corresponding reduction in the value of the non-current asset.

Discounting
The process of determining the present value of a payment or a stream of payments that is to be received in the future. Given the time value of money, a pound is worth more today than it would be worth tomorrow given its capacity to earn interest. Discounting is the method used to figure out how much these future payments are worth today.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial instruments
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial year
The year of account, which runs from 1 April to 31 March.

Government grants
Financial assistance from central government, or its agents, in the form of cash transfers, often in return for compliance with certain conditions. These grants may be capital or revenue in nature.

Historic cost
The estimated value of an asset on the balance sheet based upon its original purchase cost less depreciation to date.

Impairment loss
The reduction in an asset's value due to physical deterioration or other factors beyond usual wear and tear.

Infrastructure assets
Non-current assets that cannot be taken away or transferred and from which benefit can only be derived through continued use. Examples of infrastructure assets are roads, bridges and footpaths.

Intangible assets
Intangible assets yield benefits to the council for more than one year but are without physical form. For example software licences and the development of website technology. Intangible assets are recorded at cost and amortised over their estimated useful economic life.

Interest cost (pensions)
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment properties
Any property (land or buildings) held solely for rental income or for capital appreciation or both. Investment properties are not used to support the strategy or service obligations of the local authority.

Leasing
This facility is a means to obtain the use of vehicles, plant and computer equipment without physically owning these items. Leases may be either operational, where the asset reverts to the lessor at contract end; or finance leases, where the assets passes to the lessee.

Lessee
A party to a lease agreement who makes payment to use an asset owned by another party.

Lessor
A party to a lease agreement who receives payment, from another party, for the use of an asset which they own.

Material
Information is said to be material if its omission or misstatement could influence the decisions users take on the basis of the financial statements. Materiality therefore relates to the importance or significance of an amount, transaction, or discrepancy. The assessment of what is material is a matter of professional judgment; the size and nature of the item under consideration must be taken into account in making this judgement.

Minimum revenue provision (MRP)
A statutory provision to set aside for the repayment of external debt, equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.

Net current replacement cost
A method of valuation that estimates the cost of replacing or recreating an asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net realisable value
A method of valuation that estimates the open market value of an asset in its existing use (or open market value in the case of non-operational asset), less the expenses required realising the asset.

Non-Domestic Rates (NDR)
The rates paid by businesses. The amount paid is based on the rateable value of the premises they occupy (set by the Inland Revenue) multiplied by a national rate in the pound set by the government. The rates are collected by local authorities and paid over to the government. They are then redistributed to local authorities on the basis of the relevant population. Under the Business Rates Retention Scheme, locally collected business rates are shared between local and central government.

Past service cost (pensions)
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept
An amount levied on another public body in respect of the council tax. The county council collects its council tax share from district councils through a precept, and pays the Environment Agency for land drainage.

Provisions
Amounts set aside for any liabilities or losses that are likely to be incurred, but which are uncertain as to the amounts or the dates on which they will arise.

Prudential Code for Capital Finance in Local Authorities
The Prudential Code is a professional code of practice that supports local authorities in taking capital investment decisions. The code requires local authorities to set their own borrowing limits based upon affordability, sustainability and prudence.

Public Works Loan Board
A government agency providing long term loans to Local Authorities to finance part of their Capital Expenditure.

Reserves
These are amounts set aside for specific purposes. The council has discretion on whether it wishes to set aside these amounts as distinct from sums set aside in provisions. Movements on reserves are therefore charged or credited to the revenue account after the net cost of service provision has been determined. Revenue reserves are classified as earmarked reserves or as unallocated reserves or balances.

Revenue expenditure
Expenditure incurred on day to day running costs and confined to accounts within one financial year.

Revenue Expenditure Funded by Capital under Statute (REFCUS)
REFCUS is capital expenditure which does not give rise to an asset owned by the council. Examples include capital expenditure on foundation and voluntary aided schools.

Revenue Support Grant (RSG)
This grant is non-specific and is based upon the government's assessment of how much a local authority should spend to provide a common level of service.

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

Soft Loans
Loans made by the authority at less than the prevailing market rate of interest.

Useful life
The period over which the council will benefit from the use of a non-current asset.