

Surrey County Council

Statement of Accounts

2019/20



SURREY

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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 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies, and including the Firefighters' Pension Fund Financial Statements comprising the Firefighters' Pension Fund Account and the Net Asset Statement, and related notes. The notes to the financial statements include the notes to the Group Accounts. 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 2019/20.

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 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-

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wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

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 Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Resources 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.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and the net pension liability

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's net pension liability as at 31 March 2020.

As disclosed in note 5 to the financial statements for property, plant and equipment valuations, the valuer has indicated that values are likely to fall but that it is not possible to predict the extent at this stage, given the unprecedented circumstances. Less weight can be attached to previous market evidence to inform valuation opinions of value. This will be kept under review and revised as appropriate.

As disclosed in Note 5 with respect to investment property valuations, the valuer has stated that Covid-19 has potentially had a major impact on the economy, with uncertainty over the impact of the crisis on investment property valuations. They have also stated that there have been major adverse effects on stock markets, growth forecasts and business confidence and that capital and rental values may change rapidly, especially in the retail sector. They have also stated that while

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there have been mitigations from central government empirical evidence of the impact is still relatively scarce concluding that there could be a material uncertainty in their 2019/20 valuations.

As disclosed in Note 5 with respect to the pension liability, due to considerable market volatility as at 31 March 2020 due to Covid-19, there has been additional uncertainty regarding the Fund's investment valuations, specifically relating to private equity and property fund assets. Market conditions would lead the Council's and group's actuaries to believe that this a material uncertainty.

Our opinion is not modified in respect of this matter.

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements, the Firefighters pension fund and, our auditor's report thereon and our auditor's report on the Surrey Pension Fund Accounts 2019/20. 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 audit 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 Edition' 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.

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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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 16, 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 Executive Director of Resources. The Executive Director of Resources 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources 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 Executive Director of Resources 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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.

Independent Auditors Report

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.

Qualified Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in 2019, except for the effects of the matters described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects Surrey County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for qualified conclusion

In June 2015 Ofsted published a report on services for children in need of help and protection, children looked after and care leavers in Surrey, based on their inspection visit in November 2014. The overall judgement was that children's services were inadequate. The inadequate rating has remained in place during 2019/20, and two further monitoring visits from inspectors took place in June and December 2019.

In December 2019, Inspectors concluded that Senior leaders and managers have made substantial progress in improving the response to children who are at risk of significant harm, and children who have subsequently become subject to child protection and child in need plans. The Authority was preparing for a follow up inspection towards the end of 2019/20 however the Covid-19 pandemic has meant that a number of expected inspections did not take place as planned.

Having considered the findings and conclusions of the above inspections, together with the results of our audit work, we have concluded that whilst there have been improvements in the quality of social work, management oversight and supervision, practice is not yet consistently strong for all children. This matter is evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and planning, organising and developing the workforce effectively to deliver strategic priorities.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as

Independent Auditors Report

to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We are required to give an opinion on the consistency of the pension fund financial statements of 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 2020. 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.

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 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

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.

Ciaran McLaughlin

Key Audit Partner

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

London

5 November 2020

Narrative Report to the Statement of Accounts

Executive Director's Narrative Report

Surrey County Council took significant steps forward over the course of the financial year to 31st March 2020 in relation to service delivery, performance, financial management and sustainability. Despite being proud of our achievements, we recognise that there is much still to do. We have strengthened our resilience as an organisation through developing our financial competence and building reserves to tackle the challenges we know the future will bring.

The Narrative report provides context on how Surrey County Council uses its resources to provide services and deliver our Community Vision for Surrey in 2030. The report includes:

- **Context** - describing the county of Surrey and the scale and scope of Surrey County Council
- **Organisational Strategy** – explaining our Community Vision for 2030 and the core elements of our strategy
- **Service Performance** – highlighting achievements in 2019/20 and our plans for the future
- **Financial Performance** – summarising our income and expenditure for the year, the headlines from our Balance Sheet and our capital investment programme
- **Strategic Risks** – explaining our approach to risk management
- **Recent Events** – our response to COVID-19 in 2019/20 and looking ahead into 2020/21
- **Explaining our Accounting Statements** – a section describing the purpose of the main statements within our accounts.
- **Material Items and Group Accounts** – a summary of the material items our in our Statement of Accounts and explaining our Group Accounts

The foundations we have built in 2019/20 leave us in a stronger position to tackle the unique set of challenges brought by COVID-19. The organisation is working tirelessly to ensure that we face those challenges and emerge in a good position to continue our response to the pandemic but also drive forward recovery and continue to deliver our ambitions for the future. These statements primarily look back at the financial year ended 31st March 2020. Although March saw the first few weeks of the COVID-19 crisis, and our balance sheet recognises the initial impact, the full financial consequences will fall in 2020/21 and future years. In the Recent Events section of this narrative report we detail the likely future financial impact of the crisis and how the council is responding.

Leigh Whitehouse, Executive Director – Resources & Section 151 Officer

Surrey County Council

Narrative Report to the Statement of Accounts

ABOUT THE COUNTY

Population: Surrey has a population of 1.19 million and is the twelfth most populous English county. The current population is largely healthy and active and has an upwards trend in life expectancy for men and women. By 2030 the population is expected to be 1.26 million, with more than 22% of residents aged 65 - 47% of whom are anticipated to be living in a residential care home setting.

Education and Skills: There are more than 380 schools in Surrey, collectively serving around 157,000 children and young people of compulsory school age. 94% of Surrey schools are rated good or outstanding.

About 50% of the working age population (16 – 64 year olds) hold a degree-level qualification. Over 50% of people leave for study and do not return for employment, which is significantly higher than the national average.

Health and Wellbeing: There has been an increase in demand for services for vulnerable adults and children. The county is affluent but with pockets of social deprivation that has increased between 2010 and 2015. The 25 most deprived neighbourhoods in Surrey are also within the third most deprived areas in the country. There has been increased food bank usage, and 2 in 5 emergency food supplies have been for children.

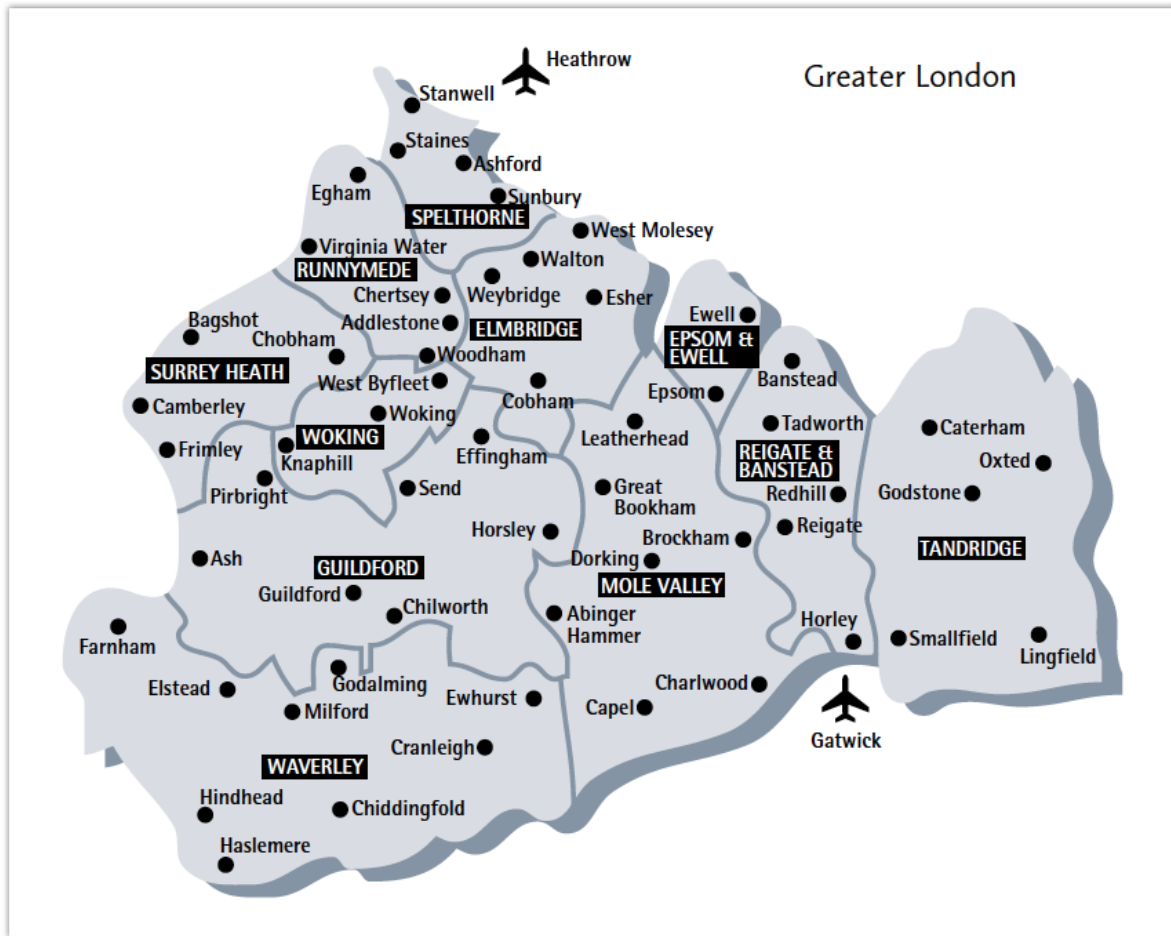
Housing: Housing in Surrey is increasingly expensive, with the average house price £430,000. The national average house price to wages ratio is 7.7 times. Surrey is nearly double (13 times). There is proportionally less affordable housing than other areas in the South East, and consequently a growing need for affordable housing especially for residents on low incomes. There are signs of increasing homelessness and fuel poverty.

Crime: In the recent years, Surrey has had the second highest increase in recorded crime in the South East. There are increases in recorded burglary, criminal damage and drug offences, and significant increases in robbery and violent crime. Domestic abuse is a growing problem (8,459 cases in 2018/19) and domestic abuse factors in a third of child protection plans.

Environment and Infrastructure: The county of Surrey is about 1,663 km² (650 m²). Surrey's 3,452 mile road network is a high priority topic for residents. Surrey has one of the busiest road networks in the country, which carries double the national average of traffic and has the greatest average delay on the roads out of all counties at 46 seconds per vehicle per mile. CO₂ levels across the whole of Surrey's road network have been falling year-on-year since 2005. Over 500,000 tonnes of waste is disposed of each year, with over 54% of it being recycled or reused. Residents have good access to woodland spaces with over a quarter of the population living with 500 metres of accessible woodland.

Economy: A strong economy worth £40 billion, which grew by 23% between 2010 and 2017 - in line with economic growth in the South. Surrey has high and increasing earnings with a high disposable household income of £28,416 per head per year. The county is an attractive and popular place for businesses with the number of business per 10,000 population in Surrey increasing by c.37% between 2010 and 2017. Surrey has had an unemployment rate lower than the average for the South East since 2004.

Narrative Report to the Statement of Accounts



The day-to-day costs (£2,064m annually) of running the council is made up of £741m of staff costs (2018/19 £696m), and £1,323m on non-staff service expenditure (2018/19 £1,370m). This is funded from council tax, business rates, central government funding, and fees and charges.

Our services to the people of Surrey include: education, supporting and protecting vulnerable people through social services, managing the amount of waste Surrey people produce, maintaining and managing roads and public transport networks, libraries, strategic planning, consumer protection, public health; and fire and rescue services. Occasionally, delivery of services involves using facilities beyond our boundaries as a county, for example: care homes, fire stations and primary, secondary and special needs schools.

Population increases are due to birth rates and immigration, improvements in lifestyle, and medication to help people live fuller lives. Since 1889, we have had the responsibility to meet our local people's needs and ensure that council tax and business rate payers get value for money. This is recognised through transparency, information and public accountability.

ORGANISATION STRATEGY 2020-2025

Surrey County Council's Organisation Strategy, agreed by Cabinet in October 2018, defined how it would contribute to the Community Vision for Surrey in 2030. The external environment has been fast moving, very challenging and subject to much uncertainty: from Britain's departure from the EU to (the not unrelated) delays in Whitehall's announcement of financial reforms to Local Government funding such as the Fair Funding Review, coupled with increasing expectations and requirements of our residents. We strive as a Council to be increasingly adaptable and flexible, supported by a workforce which is responsive and agile.

The Medium Term Financial Strategy 2019 – 2024 sets out how we would direct our financial resources to deliver against the Organisation Strategy and the 2030 Vision. A refreshed Organisation Strategy has been produced to take account of the new landscape and to address emerging challenges and opportunities, which includes our prevailing thinking for the Council's next phase of transformation to support its delivery. The report was presented and agreed by Cabinet on 29th October 2019.

Over the last 12 months significant strides have been made towards improving the quality of our performance to secure better outcomes for our residents, supported by robust finances. Whilst we have come a long way, we still have much more to do to achieve the financial resilience and the financial sustainability that we have targeted.

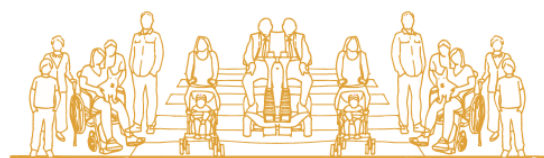
This underlying context has been pivotal to informing our refreshed Organisation Strategy with a number of the core elements unchanged which emphasise:



The strategy outlines how we aim to deliver our ambitious agenda and sets a course for the next phase of our transformation journey, whilst ensuring financial sustainability.

THE COUNCIL'S PERFORMANCE ACHIEVEMENTS 2019/20

We are creating a solid foundation on which to build a prosperous and exciting future for Surrey by ensuring that we as a council are as efficient and effective as we can be and are transforming our services so they can be in the best place to deliver our 2030 ambitions. Here are some examples of our work and highlights that are beginning to make a positive impact on Surrey - the people and the place.



FOR PEOPLE

We are supporting children and young people in Surrey to be safe and feel safe and confident by improving and strengthening our support for those that are vulnerable, at risk or in care. This was confirmed by a positive Ofsted monitoring report in June 2019.

We are developing more education, skills and employment opportunities closer to home for children and young people with special educational needs and disabilities by agreeing plans to create 883 additional specialist school places over the next four years.

We have supported more people to get the right health and social care at the right time and place by cutting waiting times by almost 11% over the past year for older people being discharged from hospital.

We have also agreed plans to deliver 725 specially adapted homes so more older people can live independently. This will mean that by 2028, we aim to have over 1,150 of these properties available.

We are ensuring this council achieves value for money for residents and is sustainable and fit for the future, having delivered £106m in efficiencies in 2018/19 and £72m in 2019/20 with no call on our limited reserves.



FOR PLACE

We are creating cleaner, greener communities in Surrey and aim to exceed our current ranking as the 3rd best council in the UK for recycling. We have kept all of our community recycling facilities open to help residents contribute.

We are supporting more residents to feel safe in their communities, having carried out nearly 5,000 Safe and Well Visits to reduce the risk of fire in the homes of Surrey's more vulnerable residents.

We have also saved them around £776,000 by tackling unfair trading practices, scams, rogue traders and serious organised crime across the county.

We continue to work on making journeys easier, more predictable and safer in Surrey having carried out more than 50,000 road repairs over the past year and supporting residents to make over 7.5 million bus journeys in 2018/19.

We are helping businesses in Surrey thrive by securing hundreds of millions of pounds from government and other stakeholders for infrastructure across the county, including £95 million for Woking town centre.

Narrative Report to the Statement of Accounts

We are supporting more residents have a place to call home by making over 14.6 hectares of land on our estate – equivalent to just over 17 football pitches - available for building new homes.

We are supporting our communities to have the infrastructure they need by connecting properties across the county to faster broadband.

We received £7k from London Marathon Charitable Trust towards an all weather pitch at a Surrey school.



We are making swift and effective progress, enabling us to deliver great quality services, support and value for money for Surrey residents now and well into the future. But we know there is more to be done if we are to achieve our ambitions. In the coming weeks and months we will be bringing forward initiatives, setting out plans and agreeing budgets to support them.

We will:

- commit hundreds of millions of pounds to protecting homes from flooding as we start the Surrey Flood alleviation scheme next year
- invest even more in our 3,000 miles of roads and pavements to ensure people can get around smoothly and safely
- help tackle the climate emergency and protect our environment for future generations, becoming a carbon-neutral council as soon as possible
- plant at least one tree for every one of our 1.2 million residents
- boost our local economy by setting up a £100m Your Fund Surrey to improve our high streets
- provide surplus space in Surrey County Council buildings for free use by voluntary organisations
- consider conversion of any surplus council owned land to public allotments to produce food for foodbanks

We are creating a solid foundation on which to build a prosperous and exciting future for Surrey and the county council by ensuring that we are as efficient and effective as possible and transform our services so they can be in the best place to deliver our 2030 ambitions.

Narrative Report to the Statement of Accounts

FINANCIAL PERFORMANCE

CORE FUNDING

In common with the rest of local government, the Council has seen a steady reduction in its core funding over the last ten years. The Government's aim is to phase out non-specific grant funding altogether, instead allowing local authorities to retain a higher proportion of business rates collected locally.

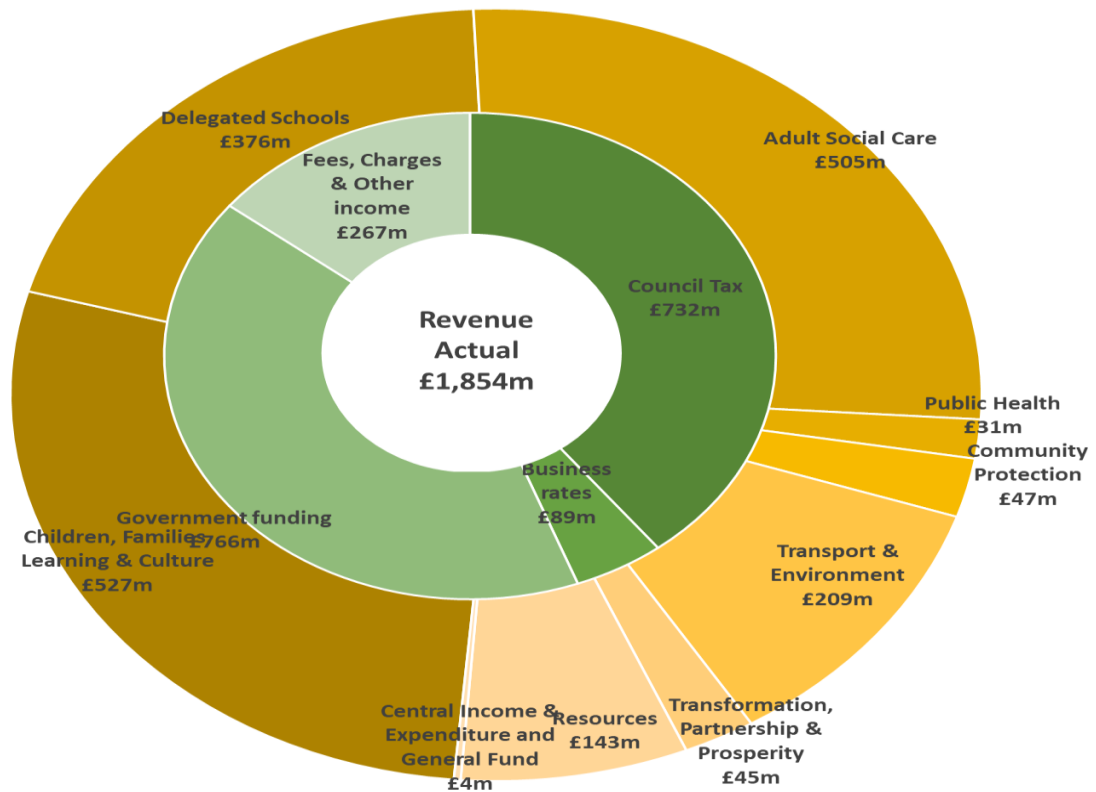
ADDRESSING FUTURE CHALLENGES

The Medium Term Financial Strategy has recently been updated, indicating that in addition to reductions in government funding the Council also expects to see increasing demand for services over the next ten years. Population growth will put pressure on both adult social care and services for children. Anticipated changes to the Better Care Fund and New Homes Bonus will also affect the Council's finances together with more general economic changes brought about by Brexit and COVID-19. To balance the budget there will be a continuing need for service transformation, efficiencies and other savings initiatives for the foreseeable future.

2019/20 COUNCIL TAX AND REVENUE SPENDING

To achieve a balanced budget for the year a programme of efficiencies including transformation activities totalling £82m was established. The Council achieved £72m (c88%) of the £82m target. As in previous years, these efficiencies have come from measures which avoid service reductions such as income generation, improved efficiency and procurement activities.

The below chart highlights the Revenue Income in green against expenditure in yellow.



Narrative Report to the Statement of Accounts

The final outturn for the year is a small surplus of £0.2m. We have contributed £2.8m to General Fund Reserves (including the £0.2m surplus). This is shown in Central Income and Expenditure.

There are accounting adjustments for capital, pensions and reserves that lead to a deficit of £173m (deficit £82m 2018/19) in the Comprehensive Income and Expenditure Statement.

BALANCE SHEET

The Council holds £2,200m of long-term assets at 31 March 2020 (£2,226m as at 31 March 2019), which is primarily made up of the property, plant and equipment held by the Council. Details on these assets can be found in notes 13 and 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. The Local Government Pension Scheme liability is estimated to be £1,096m at the balance sheet date (£1,192m at 31 March 2019). The firefighters pension liability is also included within the Council's accounts and is estimated to be £546m, a decrease of £60m on the previous year. 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 borrowing 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 and is considered a prudent strategy in an economic climate when interest rates achievable on holding large cash balances continue at historic lows. In September, when rates were at an all-time low rate, we agreed to borrow an extra £45m from Public Works Loan Board. As a result of this strategy, long term borrowing is now £442m (2018/19 £397m). Short term borrowing, mainly from other Local Authorities, has decreased to £240m (from £279m at 31 March 2019).

In addition to these material balances, the Council holds £22m of provisions at 31 March 2020 (£47m at 31 March 2019). 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.

Narrative Report to the Statement of Accounts

Balance Sheet

As at 31 March 2019

| | | | | | |
|----------------------------------------|-------------------------------|------------------------------|--------------------------------------------|----------------------------------------|--------------------------------------------|
| Total Assets £2,492m | | | | | |
| Long Term Assets £2,225m | | | | Current Assets £267m | |
| Property, Plant & Equipment £1,751m | Other Long term Assets £8m | Investment Property £138m | Long Term Debtors and Investments £329m | Debtors & Payments in Advance £209m | Cash & cash equivalents and others £57m |

Offset by:

| | | | | | |
|----------------------------------|--------------------|------------------------------------------|-----------------------------------------------------|------------------------------------|-------------------------------------------------------------|
| Total Liabilities £2,895m | | | | | |
| Current Liabilities £528m | | | Long Term Liabilities £2,366m | | |
| Short term borrowing £279m | Creditors £226m | Other Liabilities and Provisions £23m | Long term Borrowing (loans) and provisions £439m | Pension Fund Liabilities £1798m | Other long term liabilities (Lease liabilities etc) £94m |

Makes:

| | |
|-----------------------------------------|--------------------------------------------|
| Total net liabilities £402m | |
| Surrey County Council Assets £1,396m | Surrey Pension Fund Liabilities £1,798m |

Funded by:

| | | | | | |
|-------------------------------|---------------------------|---------------------------|--------------------------|-----------------------------|---------------------------|
| Total Reserves (£402m) | | | | | |
| Useable Reserves £370m | | | | Unuseable Reserves (£773m) | |
| General Fund £21m | Revenue Reserves £163m | Capital Reserves £162m | Schools Reserves £24m | Pension Reserve (£1798m) | Other Reserves £1,025m |

Balance Sheet

As at 31 March 2020

| | | | | | |
|----------------------------------------|-------------------------------|------------------------------|--------------------------------------------|----------------------------------------|--------------------------------------------|
| Total Assets £2,396m | | | | | |
| Long Term Assets £2,200m | | | | Current Assets £196m | |
| Property, Plant & Equipment £1,729m | Other Long term Assets £9m | Investment Property £134m | Long Term Debtors and Investments £328m | Debtors & Payments in Advance £138m | Cash & cash equivalents and others £58m |

Offset by:

| | | | | | |
|----------------------------------|--------------------|------------------------------------------|-----------------------------------------------------|------------------------------------|-------------------------------------------------------------|
| Total Liabilities £2,673m | | | | | |
| Current Liabilities £474m | | | Long Term Liabilities £2,199m | | |
| Short term borrowing £240m | Creditors £217m | Other Liabilities and Provisions £18m | Long term Borrowing (loans) and provisions £463m | Pension Fund Liabilities £1642m | Other long term liabilities (Lease liabilities etc) £94m |

| | |
|-----------------------------------------|--------------------------------------------|
| Total net liabilities £278m | |
| Surrey County Council Assets £1,364m | Surrey Pension Fund Liabilities £1,642m |

| | | | | | |
|-------------------------------|---------------------------|---------------------------|-------------------------|-----------------------------|-------------------------|
| Total Reserves (£278m) | | | | | |
| Useable Reserves £405m | | | | Unuseable Reserves (£683m) | |
| General Fund £24m | Revenue Reserves £246m | Capital Reserves £143m | Schools Reserves £8m | Pension Reserve (£1642m) | Other Reserves £959m |

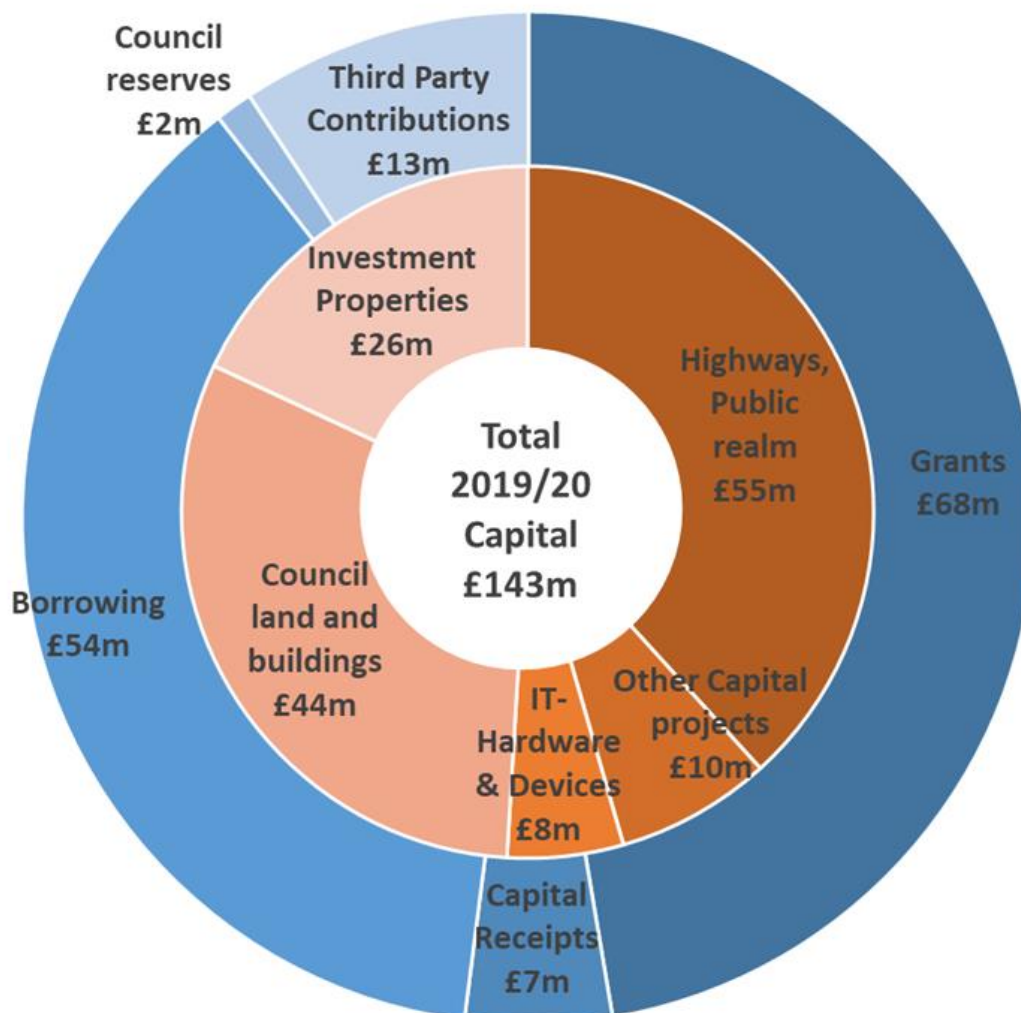
Narrative Report to the Statement of Accounts

CAPITAL

The Council set a capital budget for 2019/20 of £129.2m in February 2019. The capital position was reprofiled twice during the year (in M2 and M7) to accurately reflect the delivery of the programme. As a result, the current 2019/20 capital budget was revised to £126.7m. Capital Programme spend for the year against this budget is £117.2m, which has resulted in £9.5m (7.5%) slippage of the programme.

The Council entered into a Sale & Leaseback arrangement with Surrey and Borders National Health Trust in March 2020, requiring a capital investment from the Council of £25.4m (£24.9m in 2019/20 with fees to be confirmed) in return for an initial annual rental income at a cost neutral position. There was also £0.9m further spend on the investment property portfolio. Further details can be found within the Cabinet outturn report for 2019/20 on the Council's website.

The below chart highlights the capital funding (blue segments) against expenditure (brown segments).



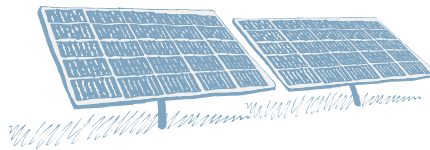


The Council has an ambitious five year capital investment programme totalling £650m making Surrey a place fit for the future.



Highways - Further **£92M** of spend to improve and maintain our highway network which includes 3000 miles of road, over 3000 miles of pavements; from a deteriorating to steady state.

Greener Futures – Various projects including Solar Farms; EV charging point pilot; ULEV purchases and electrification of various transport services, including. Total spend **c£84M**.



Improved Access to the Countryside – Maintenance and improvements to the rights of way network and visitor improvements totalling **£3M**.



Extra Care - up to 165 units across first three planned extra care sites, with an estimated pre-planning land value of £5.5M. SCC capex of **£1.8M**. Total investment of **£7.3M**. Future phases to deliver up to 725 units.



SEND - Up to **£31M** on specialist provision and a new SEND school. Further phases in future years.

River Thames Flood Alleviation Scheme - **£237M** and **Wider Surrey Flood Alleviation Scheme** – **£33M** to protect thousands of homes and businesses from the risk of flooding.



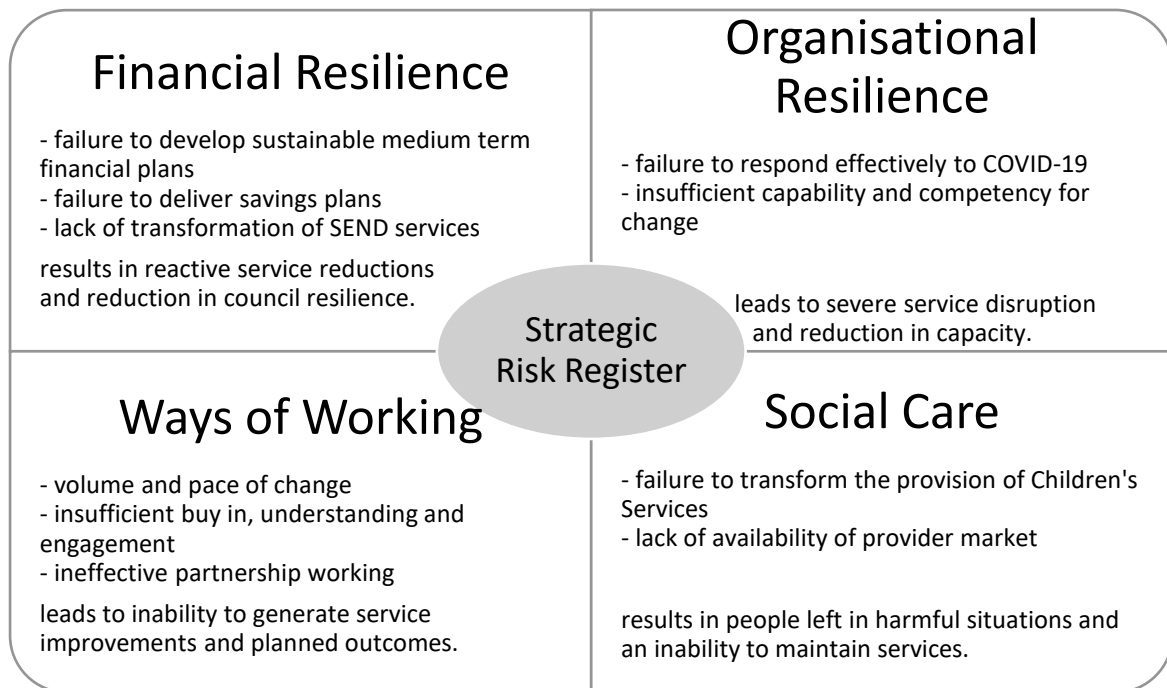
Community Investment Fund – **£100M** fund to regenerate high streets and visible investment in communities over the medium term.



Schools Basic Need - SCC will invest a further **£70M** to provide school places.

TOP STRATEGIC RISKS FOR UPCOMING YEAR & GOVERNANCE

A risk management strategy is in place to identify and manage risk. The Council’s strategic risks are contained in the strategic risk register and are summarised below. Further details can be found in the risk management reports to Audit & Governance Committee. The strategic risk register will continue to be refined and developed during 2020/21.



RECENT EVENTS - POST BALANCE SHEET EVENTS – COVID-19

Surrey County Council has a vitally important role in helping to lead the local response to COVID-19 via the Surrey Local Resilience Forum (LRF) which has the primary objective to save lives, protect the NHS, to ensure our residents are protected wherever possible and that crucial public services continue to operate in these unprecedented times. As the national and local situation developed rapidly, we supported our decisions and response with the latest Public Health information about COVID-19, and updated Cabinet on the strategic and sensitive issues arising from the extensive response work and initial recovery planning, going on across Surrey. Since a major incident was declared by the LRF on 19 March, the council has taken a number of steps to ensure it is protecting residents and staff, and using its resources as effectively as possible to combat COVID-19

Response in 2019/20

Having undertaken a comprehensive business continuity planning process, the council was able to suspend certain non-essential services and re-deploy staff into areas and activities that have been critical to our emergency response – that includes over 100 staff working as part of and supporting the LRF

The council’s Community Helpline was set up to help residents access advice, guidance and support – and has now received over 4,000 calls

Narrative Report to the Statement of Accounts

Response subsequently



- Food deliveries from Spectrum Centre – over 1,600 food boxes have gone out to date
- Parking permits critical workers – parking concessions on-street and in LA-owned car parks
- Support for schools and early years settings helped them stay open over Easter, giving over 2,000 children access to places
- Testing for keyworkers and care homes ramped up
- Online mental health and emotional wellbeing hub launched for Surrey residents
- 39,327 shielded residents (3.3% of population)
- Headley Court repurposed as temporary community hospital
- Effective governance - Cabinet meetings, weekly group leader calls, Council meeting virtually in May



Recognising the potential financial impact of COVID-19 on providers, the council has put in place a number of support measures designed to protect them and of course the essential services they provide.

Financial support includes

- 10% goodwill **grant payments to ASC providers** £9m (April–June 2020)
- Surrey organisations able to access small grants via the **Community Foundation** (in addition to the Hardship Fund)
- Officers identifying **non-care suppliers** at risk and coordinating financial support

Partners have an active role in planning and managing our response, **Surrey Community Action** are part of the Local Resilience Forum - Community Settings Cell, and are also on weekly calls with the Integrated Care System. **Surrey Care Association** now attending the LRF Community Care Settings Cell.

RECENT EVENTS - POST BALANCE SHEET EVENTS – COVID-19 - FINANCIAL IMPLICATIONS

When announcing the initial support of £1.6bn to local authorities, the Government stated that the allocation would form part of the first phase of the response. The Government committed to review the adequacy of the funding. A further £1.6bn funding was provided subsequently, and there is an expectation that the government will shortly provide further information on a comprehensive support package for local government. This is not however expected to seek to fund all aspects of the crisis, so there remains some uncertainty about the extent of the funding that will be provided.

The Council has received £47m of COVID-19 related funding (£25m received in 2019/20). £0.9m was utilised for 2019/20 CV19 costs with the balance carried forward to 2020/21. At Month 2 (May 2020), the Council is forecasting £73.2m gross pressure including forecasted costs, loss of income and non-delivery of efficiency proposals for 2020/21. After taking into consideration the grant funding, there is a deficit of £27.1m. However this position is constantly being refined as information emerges. Further details are published in the Cabinet Committee papers.

At the current time, there remains uncertainty about the financial impact of the COVID-19 crisis on the Council's finances, both in terms of the additional expenditure that will be incurred and the

Narrative Report to the Statement of Accounts

income that will be forgone, and in relation to the extent to which government will provide additional funding to cover this. However, based on our current estimates of these variables, we expect that we will be able to contain the financial impact of the crisis as it manifests during 2020/21 without significant change to our financial plans.

The level of uncertainty about the impact and the funding position for future years is even less clear, but our relative financial strength should ensure that solutions that protect the whole sector are sufficient to maintain our financial sustainability too. It would appear inevitable though that our medium term financial outlook is significantly more challenging than might have been the case prior to the emergence of the COVID-19 public health crisis.

EXPLANATION OF ACCOUNTING STATEMENTS

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2020. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which in turn is underpinned by International Financial Reporting Standards.

The Core Statements are:

The **Comprehensive Income and Expenditure Statement** – this records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area. The bottom half of the statement deals with corporate transactions and funding.

The **Movement in Reserves Statement** is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "useable", which can be invested in capital projects or service improvements, and "unusable" which must be set aside for specific legal or accounting purposes.

The **Balance Sheet** is a "snapshot" of the Council's assets, liabilities, cash balances and reserves at the year-end date.

The **Cash Flow Statement** shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

The Group Accounts include:

The assets and liabilities of companies and similar entities, which the Council either controls or significantly influences.

The Supplementary Financial Statements are:

The **Annual Governance Statement**, which sets out the governance structures of the Council and its key internal controls (this will be included in the final audited version of the accounts).

The **Pension Fund Account**, which reports the contributions received, payments to pensioners and the value of net assets invested in the Local Government Pension Scheme.

The **Notes to these financial statements** provide further detail about the Council's accounting policies and individual transactions.

Narrative Report to the Statement of Accounts

A Glossary of key terms can be found at the end of this publication.

MATERIAL ITEMS & GROUP ACCOUNTS

Details of specific material items of income and expenditure include:

- Expenditure on the Council's Private Finance Initiative Schemes (note 36),
- 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 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:

- Hendeca Group Ltd (formerly 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 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, 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.

Statement of Responsibilities

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:
- 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 Executive Director of Resources 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 17 to 113 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 2020; that the firefighter pension fund accounting statements on pages 126 to 128 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2020; that the statement of accounts on pages 129 to 171 presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2020 and its income and expenditure for the year then ended.



Leigh Whitehouse

Executive Director of Resources (S151 Officer)

20 November 2020


David Harmer

Chairman of Audit & Governance Committee

20 November 2020

Comprehensive Income and Expenditure Statement

Restated year ended 31 March 2019 (see Note 42)

Year ended 31 March 2020

| Gross Expenditure £000 | Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Income £000 | Net Expenditure £000 |
|---------------------------|--------------------|-------------------------|-----------------------------------------------------------|---------------------------|--------------------|-------------------------|
| 555,906 | (274,799) | 281,107 | Children, Families, Learning & Culture | 526,871 | (252,612) | 274,259 |
| 331,814 | (331,672) | 142 | Delegated Schools | 376,005 | (361,295) | 14,710 |
| 487,263 | (123,448) | 363,815 | Adult Social Care | 504,750 | (129,539) | 375,211 |
| 30,487 | (30,430) | 57 | Public Health | 30,795 | (809) | 29,986 |
| 59,289 | (2,715) | 56,574 | Community Protection | 46,565 | (6,283) | 40,282 |
| 164,506 | (21,204) | 143,302 | Transport & Environment | 209,041 | (22,968) | 186,073 |
| 123,236 | (12,729) | 110,507 | Resources | 145,778 | (18,508) | 127,270 |
| 27,041 | (1,492) | 25,549 | Transformation, Partnership & Prosperity | 45,270 | (14,863) | 30,407 |
| 8,041 | 3,650 | 11,691 | Central Income & Expenditure | 1,474 | (1,123) | 351 |
| 1,787,583 | (794,839) | 992,744 | Cost of Services – continuing operations | 1,886,549 | (808,000) | 1,078,549 |
| 35,829 | (25,711) | 10,118 | Other Operating Income & Expenditure (note 10) | 21,809 | (23,526) | (1,717) |
| 242,545 | (91,382) | 151,163 | Financing & Investment Income & Expenditure (note 11) | 156,108 | (72,709) | 83,399 |
| | (891,657) | (891,657) | Local Taxation (Note 12) | | (821,853) | (821,853) |
| | (180,143) | (180,143) | General grants & contributions (note 12 and note 31) | | (165,134) | (165,134) |
| | (1,071,800) | (1,071,800) | Taxation, general grants & contributions | | (986,987) | (986,987) |
| 2,065,957 | (1,983,732) | 82,225 | (Surplus) or Deficit on Provision of Services | 2,064,466 | (1,891,222) | 173,244 |
| | | (64,655) | (Surplus) or deficit on revaluation of non-current assets | | | (48,285) |
| | | 120,173 | Remeasurement of the net defined benefit liability | | | (249,916) |
| | | 55,518 | Other Comprehensive Income & Expenditure | | | (298,201) |
| | | 137,743 | Total Comprehensive Income & Expenditure | | | (124,957) |

Movement in Reserves Statement

| <u>2019/20</u> | General Fund and Earmarked Reserves* £000 | Capital Receipts Reserve £000 | Capital Grants & Contributions & Contributions Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Council Reserves £000 |
|---------------------------------------------------------------------------------|-------------------------------------------------------|----------------------------------------|---------------------------------------------------------------------------|-------------------------------------|------------------------------|--------------------------------------|
| Balance at 31 March 2019 | (212,973) | (46,858) | (110,610) | (370,441) | 772,933 | 402,492 |
| (Surplus) or deficit on provision of services (accounting basis) | 173,244 | | | 173,244 | | 173,244 |
| Other comprehensive income & expenditure | | | | | (298,201) | (298,201) |
| Total comprehensive income & expenditure | 173,244 | | | 173,244 | (298,201) | (124,957) |
| Adjustments between accounting basis & funding basis under regulations (note 8) | (227,627) | 1,888 | 17,532 | (208,207) | 208,207 | |
| Increase/decrease in year | (54,383) | 1,888 | 17,532 | (34,963) | (89,994) | (124,957) |
| Balance at 31 March 2020 | (267,356) | (44,970) | (93,078) | (405,404) | 682,939 | 277,535 |
| <u>2018/19</u> | | | | | | |
| Restated Balance at 31 March 2018 | (161,878) | (92,504) | (77,137) | (331,519) | 596,268 | 264,749 |
| (Surplus) or deficit on provision of services (accounting basis) | 82,225 | | | 82,225 | | 82,225 |
| Other comprehensive income & expenditure | | | | | 55,518 | 55,518 |
| Total comprehensive income & expenditure | 82,225 | | | 82,225 | 55,518 | 137,743 |
| Adjustments between accounting basis & funding basis under regulations (note 8) | (133,320) | 45,646 | (33,473) | (121,147) | 121,147 | |
| Increase/decrease in year | (51,095) | 45,646 | (33,473) | (38,922) | 176,665 | 137,743 |
| Balance at 31 March 2019 | (212,973) | (46,858) | (110,610) | (370,441) | 772,933 | 402,492 |

* See note 9 earmarked reserves and note 22 usable reserves

Balance Sheet

| As at 31.03.2019 £000 | | Note: | As at 31.03.2020 £000 |
|-----------------------------|------------------------------------|-------|-----------------------------|
| 1,750,724 | Property, plant & equipment | 13 | 1,729,439 |
| 1,024 | Heritage assets | | 1,024 |
| 138,225 | Investment property | 14 | 133,789 |
| 6,727 | Intangible assets | | 7,278 |
| 93,087 | Long term investments | 16 | 92,949 |
| 235,949 | Long term debtors | 16 | 235,563 |
| 2,225,736 | Long term assets | | 2,200,042 |
| | Short Term: | | |
| 268 | Intangible assets | | |
| 400 | Assets held for sale | 19 | 2,515 |
| 1,165 | Inventories | | 1,296 |
| 209,234 | Short term debtors | 17 | 137,856 |
| 55,471 | Cash & cash equivalents | 18 | 54,189 |
| 266,538 | Current Assets | | 195,856 |
| | Short Term: | | |
| (279,026) | Borrowing | 16 | (239,698) |
| (226,373) | Creditors | 20 | (216,584) |
| (5,974) | Provisions | 21 | (735) |
| (11) | Revenue grants receipts in advance | | (176) |
| (105) | Capital grants receipts in advance | | (34) |
| (16,938) | Other current liabilities | 35 | (17,084) |
| (528,427) | Current liabilities | | (474,311) |
| (40,862) | Provisions | 21 | (20,777) |
| (397,786) | Long term borrowing | 16 | (442,263) |
| (1,927,691) | Other long term liabilities | 35 | (1,736,082) |
| (2,366,339) | Long term liabilities | | (2,199,122) |
| (402,492) | Net Assets/(Liabilities) | | (277,535) |
| (370,441) | Usable reserves | 9,22 | (405,404) |
| 772,933 | Unusable reserves | 23 | 682,939 |
| 402,492 | Total Reserves | | 277,535 |

Cash Flow Statement

| 2018/19 £000 | | Note | 2019/20 £000 |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------|------|------------------|
| 82,225 | Net (surplus) / deficit on the provision of services | | 173,244 |
| (247,354) | Adjustments to net (surplus) / deficit on the provision of services for non-cash movements | 40 | (280,726) |
| (28,936) | Adjustments for items included in the net (surplus) / deficit on the provision of services that are investing and financing activities | | (29,485) |
| (194,065) | Net cash inflow from operating activities | | (136,967) |
| 149,876 | Purchase of property, plant & equipment, and investment property | 41 | 143,067 |
| (9,021) | Proceeds from the sale of property, plant & equipment | | (14,704) |
| 23,255 | Payments for short-term and long-term investments | | (13) |
| | Receipts of short-term and long-term investments | | |
| 74,085 | Other receipts & expenditure from investing activities | | (3,326) |
| 238,195 | Net cash outflow from investing activities | | 125,024 |
| 17,938 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | | 18,374 |
| 750,502 | Payments for short-term and long-term borrowing | | 954,961 |
| (816,817) | Receipts of short-term and long-term borrowing | | (960,110) |
| (48,377) | Net cash inflow from financing activities | | 13,225 |
| (4,247) | Net increase (-) / decrease in cash & cash equivalents | | 1,282 |
| (51,224) | Cash & cash equivalents at the beginning of the reporting period | | (55,471) |
| (55,471) | Cash & cash equivalents at the end of the reporting period | 18 | (54,189) |

The cash flows from operating activities in 2019/20 include interest received of £15.3m (2018/19, £13.0m) and interest paid of £32.7m (2018/19, £31.7 m).

Notes to the Financial Statements

Note 1: Expenditure and Funding Analysis

| 2019/20 | As reported for resource management in outturn report | Adjustments to arrive at the net amount chargeable to the General Fund*** | Net Expenditure Chargeable to the General Fund | Adjustments between the funding and accounting basis | Net Expenditure in the I&E Account |
|------------------------------------------|-------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Children, Families, Learning and Culture | 244,728 | (528) | 244,200 | 30,059 | 274,259 |
| Delegated Schools* | 0 | 3,094 | 3,094 | 11,616 | 14,710 |
| Public Health | 29,965 | 0 | 29,965 | 21 | 29,986 |
| Adult Social Care | 362,617 | 2,412 | 365,029 | 10,182 | 375,211 |
| Community Protection | 33,668 | 385 | 34,053 | 6,229 | 40,282 |
| Transport & Environment | 129,186 | (32,001) | 97,185 | 88,888 | 186,073 |
| Resources | 70,202 | 501 | 70,703 | 56,567 | 127,270 |
| Transformation, Partnership & Prosperity | 15,286 | 382 | 15,668 | 14,739 | 30,407 |
| Central Income & Expenditure ** | (44,175) | 67,201 | 23,026 | (22,675) | 351 |
| | 841,477 | 41,446 | 882,923 | 195,626 | 1,078,549 |
| Other Income and Expenditure | (844,330) | (92,976) | (937,306) | 32,001 | (905,305) |
| Surplus (-) or deficit | (2,853) | (51,530) | (54,383) | 227,627 | 173,244 |
| | | | | | |
| 2018/19 | | | | | |
| | £000 | £000 | £000 | £000 | £000 |
| Children, Families, Learning and Culture | 245,127 | 2,697 | 247,824 | 33,283 | 281,107 |
| Delegated Schools* | | (8,942) | (8,942) | 9,084 | 142 |
| Public Health | 75 | (41) | 34 | 23 | 57 |
| Adult Social Care | 356,281 | (243) | 356,038 | 7,777 | 363,815 |
| Community Protection | 33,556 | 1,012 | 34,568 | 22,006 | 56,574 |
| Transport & Environment | 132,150 | (20,442) | 111,708 | 31,593 | 143,301 |
| Resources | 70,931 | (2,296) | 68,635 | 41,872 | 110,507 |
| Transformation, Partnership & Prosperity | 19,370 | 4,746 | 24,116 | 1,433 | 25,549 |
| Central Income & Expenditure ** | 40,515 | (16,444) | 24,071 | (12,379) | 11,692 |
| | 898,005 | (39,953) | 858,052 | 134,692 | 992,744 |
| Other Income and Expenditure | (898,600) | (10,547) | (909,147) | (1,372) | (910,519) |
| Surplus (-) or deficit | (595) | (50,500) | (51,095) | 133,320 | 82,225 |

Notes to the Financial Statements

General fund balance (including earmarked) reserves reconciliation

| 2018/19 £000 | | 2019/20 £000 |
|------------------|------------------------------------------------------------------------|------------------|
| (160,508) | Opening general fund balance (including earmarked reserves) | (212,973) |
| (1,370) | Adjustment to opening balance for IFRS9 | |
| <u>(161,878)</u> | Revised Opening Balance | <u>(212,973)</u> |
| <u>(51,095)</u> | (Surplus)/Deficit on general fund | <u>(54,383)</u> |
| <u>(212,973)</u> | Closing general fund balance (including earmarked reserves) | <u>(267,356)</u> |

*Delegated schools budget 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.

***This amount is the movement in the general fund not reported as part of the management accounts. This will generally be due to contributions and drawdowns in earmarked reserves

The objective of the expenditure and funding analysis is to demonstrate to council tax payers how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. The expenditure and funding analysis also shows how this expenditure is allocated for decision-making purposes between the council's departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the comprehensive income and expenditure statement.

Notes to the Financial Statements

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 |
|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------|----------------------------|-------------------|
| 2019/20 | £000 | £000 | £000 | £000 |
| Children, Families, Learning and Culture | 12,276 | 18,970 | (1,187) | 30,059 |
| Delegated Schools* | 295 | 11,321 | | 11,616 |
| Public Health * | | 20 | 1 | 21 |
| Adult Social Care | (2,271) | 12,405 | 48 | 10,182 |
| Community Protection | 1,372 | 4,845 | 12 | 6,229 |
| Transport & Environment | 84,773 | 4,133 | (18) | 88,888 |
| Resources | 47,349 | 9,236 | (18) | 56,567 |
| Transformation, Partnership & Prosperity | 12,692 | 2,024 | 23 | 14,739 |
| Central Income & Expenditure ** | (7,853) | (14,822) | | (22,675) |
| Net Cost of Service | 148,633 | 48,132 | (1,139) | 195,626 |
| Other Income and Expenditure | (40,063) | 45,969 | 26,095 | 32,001 |
| Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit | 108,570 | 94,101 | 24,956 | 227,627 |
| 2018/19 | £000 | £000 | £000 | £000 |
| Children, Families, Learning and Culture | 17,594 | 16,724 | (1,035) | 33,283 |
| Delegated Schools | 494 | 8,590 | | 9,084 |
| Public Health | | 22 | 1 | 23 |
| Adult Social Care | (1,386) | 9,161 | 2 | 7,777 |
| Community Protection | 1,325 | 20,647 | 34 | 22,006 |
| Transport & Environment | 27,789 | 3,791 | 13 | 31,593 |
| Resources | 33,734 | 8,134 | 4 | 41,872 |
| Transformation, Partnership & Prosperity | (17) | 1,451 | (1) | 1,433 |
| Central Income & Expenditure | (836) | (11,565) | 22 | (12,379) |
| Net Cost of Service | 78,697 | 56,955 | (960) | 134,692 |
| Other Income and Expenditure | (13,891) | 45,309 | (32,790) | (1,372) |
| Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit | 64,806 | 102,264 | (33,750) | 133,320 |

Notes to the Financial Statements

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 i.e. 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:

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.

Notes to the Financial Statements

Note 1b: Customer income - segmental analysis

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

| 2018/19 £000 | Service | 2019/20 £000 |
|------------------|------------------------------------------|------------------|
| (42,063) | Children, Families, Learning and Culture | (40,581) |
| (20,849) | Delegated Schools | (21,363) |
| (62,632) | Adult Social Care | (69,038) |
| (1,671) | Community Protection | (2,144) |
| (12,570) | Transport & Environment | (13,912) |
| (7,696) | Resources | (4,688) |
| (167) | Transformation, Partnership & Prosperity | (1,055) |
| (75) | Central Income & Expenditure | (168) |
| (147,723) | Total | (152,949) |

Note 2: Income and expenditure analysed by nature

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

| 2018/19 £000 | Expenditure | 2019/20 £000 |
|--------------------|-------------------------------------------------------------|--------------------|
| 515,896 | Employee benefits expenses | 556,467 |
| 180,192 | Staff expenditure at voluntary aided and foundation schools | 184,611 |
| 75,741 | Depreciation, amortisation and impairment | 79,890 |
| | Loss in fair value of investment properties | 4,007 |
| 107,507 | Derecognition of non-current assets | 70,232 |
| 1,061,434 | Other service expenses | 1,044,669 |
| 124,088 | Interest payments | 123,482 |
| 1,099 | Precepts and levies | 1,108 |
| 2,065,957 | Total expenditure | 2,064,466 |
| | Income | |
| (770,751) | Government grant and contributions | (737,916) |
| (219,715) | Fees, charges and other service income | (266,898) |
| 9,354 | (Gain) or loss on disposal of non-current assets | (348) |
| (19,581) | Gains in fair value of investment properties | |
| (891,657) | Income from council tax and business rates | (821,853) |
| (91,382) | Interest and investment income | (64,207) |
| (1,983,732) | Total income | (1,891,222) |
| 82,225 | Deficit on the provision of services | 173,244 |

Notes to the Financial Statements

Note 3. Accounting policies

i. General principles

The statement of accounts summarises the council's transactions for the 2019/20 financial year and its position at the year ending 31 March 2020. 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 2019/20 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

The Council accounts for revenue recognition in accordance with IFRS 15 Revenue Recognition from Contracts with Customers and IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers).

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.

Notes to the Financial Statements

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 (i.e. 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

Notes to the Financial Statements

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

Notes to the Financial Statements

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 2.4%.

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

Notes to the Financial Statements

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 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, and it makes up part of the council's daily cash management. 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

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

Notes to the Financial Statements

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 (CIES) 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- **Level 1 inputs** – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- **Level 2 inputs** – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- **Level 3 inputs** – unobservable inputs for the asset.

Any gains and losses that arise on de-recognition of the asset are debited or credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Notes to the Financial Statements

Expected Credit Losses

The Council recognises expected credit losses (impairments) on all of its financial assets held at amortised cost or FVOCI either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. The expected credit loss model applies to financial assets measured at amortised cost and FVOCI, trade receivables, lease debtors, third party loans and financial guarantees.

A simplified approach is applied to trade receivables and lease debtors whereby consideration of changes in credit risk since initial recognition are not required and losses are automatically recognised on a lifetime basis. A collective assessment is made for groups of instruments where reasonable and supportable information is not available for individual instruments without undue cost or effort. The aim will be to approximate the result of recognising lifetime expected credit losses if significant increases in credit risk since recognition had been measurable for the individual instruments.

Loans have been grouped into three types for assessing loss allowances:

Group 1 – loans made to individual organisations. Loss allowances for these loans can be assessed on an individual basis.

Group 2 – loans supported by government funding. As the loan repayments are recycled and the contract allows for a level of default then no additional impairment loss is required.

Group 3 - car loans to employees. Loss allowances are based on a collective assessment.

Impairment losses are debited to the Financing and Investment Income and Expenditure line in the CIES. For assets carried at amortised cost, the credit entry is made against the carrying amount in the Balance Sheet. For assets carried at FVOCI, the credit entry is recognised in Other Comprehensive Income against the Financial Instruments Revaluation Reserve. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

Impairment losses are not applicable to FVPL assets as the future contractual cash flows are of lesser significance and instead current market prices are considered to be an appropriate reflection of credit risk, with all movements in fair value, including those relating to credit risk, impacting on the carrying amount and being posted to the Surplus or Deficit on the Provision of Services as they arise.

Impairment losses on loans supporting capital purposes, lease debtors and share capital are not a proper charge to the County Fund balance and any gains or losses can be reversed out through the Movement in Reserves Statement to the Capital Adjustment Account.

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.

Notes to the Financial Statements

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.

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.

Notes to the Financial Statements

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 Hendeca Ltd (formerly 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 2019/20 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. The investment properties held by subsidiaries are held at fair value (see section xv). The council's investment in the subsidiaries are held as cost on the council's balance sheet.

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 2019/20 Surrey County Council, East Sussex County Council and Brighton & Hove City Council contributed to the Joint Operating budget in proportion to their service delivery requirements, which were 55%, 24% and 21% 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

Notes to the Financial Statements

accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The council does not currently have any material finance leases. However from April 2021 under IFRS16, all leases will be treated as if they are finance leases and will be on the balance sheet. See Note 3a Accounting standards issued but not yet adopted for further details.

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;

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- **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 two PFI contracts and one similar long-term contract, namely:

- 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;

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- 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 is usually between 3 and 20 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 up to 7 years for minor works and up to 40 years for bridge strengthening.

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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.

Notes to the Financial Statements

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, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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 general fund 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

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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 (i.e. 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 standards issued but not adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the UK.

- **IFRS 16 Leases:** This standard will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021. It is too early to give an accurate estimate but this is likely to have a material impact on the council's balance sheet.
- **IAS28 Investments in Associates and Joint Ventures:** Clarification that IFRS9 applies to long term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The Council currently has no joint ventures or associates, but any in the future will be evaluated under IFRS9.
- **IAS19 Employee Benefits:** Amendments on the treatment of curtailment or settlements for defined pension obligation schemes. The effect of these amendments will depend on future actuarial assessments so it is not possible to determine if there will be a material impact on the Council's accounts.

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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 | <p>There is a high degree of uncertainty about future levels of funding for local government. The Fair Funding Review will no longer take place in 2020/21 with no timeline for when it will commence. 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.</p> |
| Grant conditions | <p>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.</p> |
| Carrying value of assets not revalued in 2019/20 | <p>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.</p> <p>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 depreciation to the asset over the relevant period. This means that the values are unlikely to be materially different at the balance sheet date. All valuations have been made in light of the impact of COVID-19 and is the best estimate of the valuers at the time of valuation.</p> |
| Schools accounting | <p>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.</p> <p>The school as an entity means the management of the school i.e. the governing body, including the head teacher, and the resources it controls rather than the physical fabric of the buildings and grounds. Whether the school as an entity</p> |

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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. This PFI contract ended in 2019.
- In 2002 the council entered into a further long-term contract for the provision of 7 residential and day care homes with Care UK.
- In 1999 the council entered into a 25-year contract for waste disposal with Surrey Waste Management.
- In 2010 the council entered into a long term contract with Skanska John Laing for street lighting services, the contracts includes the replacement or refurbishment of all street lights in Surrey and continued maintenance of the lights for the duration of the contract.

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

The waste disposal PFI includes investment in a number of waste disposal assets. These have all been recognised on the council's balance sheet including an asset under construction of £29.0m for the Eco Park as at 31 March 2020 (£87.4m as at 31 March 2019). The amount has been adjusted due to a change in our assessment of the probability of realising economic benefits from the asset.

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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:

- Hendeca (formerly 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.

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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 disclosed in Note 39, and any material items are disclosed in note 6.

The items in the council's Balance Sheet at 31 March 2020 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 | <p>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.</p> <p>With respect to the impact of COVID-19, our valuers have indicated that values are likely to fall but that it is not possible to predict the extent at this stage, given the unprecedented circumstances. They have stated that they can attach less weight to previous market evidence to inform valuation opinions This will be kept under review and revised as appropriate.</p> | <p>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.</p> <p>A reduction in value could be increase revaluation losses and lees than estimated sale proceeds from disposals</p> |
| Council Tax and Business Rates Baseline | <p>There is a high degree of uncertainty around the council tax and business rates base. The onset of the COVID-19 pandemic has seen a number of households fall into council tax support, which will lower the council tax base and thus the income from council tax.</p> | <p>The requirement for business premises may reduce, which will also have an impact on the amount of business rates collectable. This is likely to impact the collection fund in future years. It is unclear at this stage if the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision</p> |

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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 actuaries have also taken into consideration the estimated effects of COVID-19 in 2019/20 return on asset valuation.

With the considerable market volatility leading into 31 March 2020 due to COVID-19, there has been additional uncertainty regarding the Fund's investment valuations, specifically private equity and property. Market conditions would lead our actuaries to believe that this a material uncertainty. See the Surrey Pension Fund accounts Note 5 for further details.

Debtors

At 31 March 2020, the council had a balance of £138m 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 £25m for doubtful debts was sufficient.

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 £274m for the LGPS and £51m 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 £142m for the LGPS and £16m for the firefighters' pension fund.

A reduction in the value of the assets would increase the net pension liability on the Council's balance sheet.

Debtors are monitored regularly and should general debtors rise in 2020/21 the council may consider raising its provision for bad and doubtful debt. This provision is reviewed quarterly.

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| | | |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fair value measurements | <p>When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (i.e. 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.</p> <p>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).</p> <p>With the effects of COVID-19 potentially having a major impact on the economy, there is uncertainty over the impact the crisis will have on investment property valuations. There have been major adverse effects on stock markets, growth forecasts and business confidence. Capital and rental values may change rapidly, especially in the retail sector. While there have been mitigations from central government and empirical evidence of the impact is still relatively scarce, the valuers have indicated there could be a material uncertainty in their 19/20 valuations.</p> | <p>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.</p> <p>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</p> <p>With our valuers less confident of the accuracy of their opinions there is a greater risk that the proceeds of any sale of assets would be less than estimated</p> |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Note 6: Events after the balance sheet date

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.

The UK government imposed coronavirus (covid-19) lockdown measures in England on 26 March 2020 and subsequently revised and extended them. As a result, many workers were furloughed and almost all schools, businesses, venues, facilities and amenities were closed. Although March saw the first few weeks of the covid-19 crisis, the full financial consequences will fall in 2020/21 and future years and therefore is considered as a non-adjusting event with conditions arising after the reporting date

The financial impact on COVID-19 in 19/20 was not material on reserves, and was reflected in the year end valuations of our assets. The events after the reporting period do not indicate that the Council would be unable to continue as a going concern.

Notes to the Financial Statements

Note 7: 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 £27.9m related to the derecognition of academy schools (£107.5m in 2018/19). 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 2019/20, 11 schools transferred to academy status (22 in 2018/19).

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 2019/20 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 be 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 until 2016/17 were 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.

From 2016/17, under the Flexible Use of Capital Receipts strategy, local authorities were given the power to use capital receipts from the disposal of property, plant and equipment assets, to spend on the revenue costs of reform projects. Any expenditure must be on projects that are designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs.

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.

Notes to the Financial Statements

| 2019/20 | General Fund and Earmarked Reserves £000 | Capital Receipts Reserve £000 | Capital grant & contributions unapplied reserve £000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-------------------------------------|---------------------------------------------------------------|
| Adjustments to the Revenue Resources | | | |
| Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | |
| Pension costs (transferred to Pension Reserve) | (94,101) | | |
| Council tax and business rates (transfers to Collection Fund) | (26,095) | | |
| Holiday pay (transferred to the Accumulated Absences Reserve) | 1,139 | | |
| 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 | (75,069) | | |
| Revaluation gain on property, plant & equipment | (4,229) | | |
| Other movements in valuation on property, plant and equipment | | | |
| Movement on fair value on investment property | (4,007) | | |
| Amortisation of intangible assets | (1,080) | | |
| IFRS9 Capital Impairments | 30 | | |
| Disposal of academies | (27,944) | | |
| Net gain/(loss) on disposal of investment property | 1,050 | | |
| Net gain/(loss) on disposal of financial assets | 1,536 | | |
| Revenue expenditure funded from capital under statute | (29,485) | | |
| Deferred Income in respect of PFI schemes | 998 | | |
| Reversal of donated asset adjustment | 77 | | |
| Net book value of disposals and derecognitions | (41,939) | | |
| Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account | 63,544 | | (63,544) |
| Total Adjustments to the Revenue Resources | (235,575) | | (63,544) |
| Adjustments between Revenue & Capital Resources | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | | (17,540) | |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | 19,030 | | |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 1,692 | | |
| Total Adjustments between Revenue & Capital Resources | 20,722 | (17,540) | |
| Adjustments to Capital Resources | | | |
| Application of capital grants to finance capital expenditure | | | 81,076 |
| Application of capital receipts to reduce capital financing requirement | | 6,654 | |
| Use of Capital Receipts to fund Revenue Expenditure | (12,774) | 12,774 | |
| Total Adjustments to capital resources | (12,774) | 19,428 | 81,076 |
| Total Adjustments | (227,627) | 1,888 | 17,532 |

Notes to the Financial Statements

2018/19

| | General Fund and Earmarked Reserves £000 | Capital Receipts Reserve £000 | Capital grant & contributions unapplied reserve £000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-------------------------------------|---------------------------------------------------------------|
| Adjustments to the Revenue Resources | | | |
| Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | |
| Pension costs (transferred to Pension Reserve) | (102,264) | | |
| Council tax and business rates (transfers to Collection Fund) | 32,792 | | |
| Holiday pay (transferred to the Accumulated Absences Reserve) | 958 | | |
| 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 | (74,491) | | |
| Revaluation gain on property, plant & equipment | 51 | | |
| Other movements in valuation on property, plant and equipment | | | |
| Movement on fair value on investment property | 19,581 | | |
| Amortisation of intangible assets | (1,200) | | |
| IFRS9 Capital Impairments | (293) | | |
| Disposal of academies | (107,507) | | |
| Revenue expenditure funded from capital under statute | (28,936) | | |
| Deferred Income in respect of PFI schemes | 220 | | |
| Reversal of donated asset adjustment | 67 | | |
| Net book value of disposals | (9,354) | | |
| Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account | 130,752 | | (130,752) |
| Total Adjustments to the Revenue Resources | (139,624) | | (130,752) |
| Adjustments between Revenue & Capital Resources | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | | (9,021) | |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | 19,913 | | |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 714 | | |
| Total Adjustments between Revenue & Capital Resources | 20,627 | (9,021) | |
| Adjustments to Capital Resources | | | |
| Application of capital grants to finance capital expenditure | | | 97,279 |
| Application of capital receipts to reduce capital financing requirement | | 40,344 | |
| Use of Capital Receipts to fund Revenue Expenditure | (14,323) | 14,323 | |
| Total Adjustments to capital resources | (14,323) | 54,667 | 97,279 |
| Total Adjustments | (133,320) | 45,646 | (33,473) |

Notes to the Financial Statements

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 2019/20.

| | Balance at 31/03/18 | Transfers In | Transfers Out | Balance at 31/03/19 | Transfers In | Transfers Out | Balance at 31/03/20 |
|-----------------------------------------------|------------------------|-----------------|------------------|------------------------|-----------------|------------------|------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Investment Renewals | 5,044 | 319 | (134) | 5,229 | | (71) | 5,158 |
| Equipment Replacement | 2,247 | 761 | (65) | 2,943 | 1,671 | (734) | 3,880 |
| Budget Equalisation | 22,576 | 9,781 | (356) | 32,001 | 16,856 | (4,451) | 44,406 |
| Streetlighting PFI Fund | 3,735 | | (637) | 3,098 | | (636) | 2,462 |
| Insurance | 9,185 | 1,229 | | 10,414 | 321 | (15) | 10,720 |
| Eco Park Sinking Fund | 6,697 | 17,717 | (8,000) | 16,414 | 19,312 | (8,000) | 27,726 |
| Child Protection | 120 | | (120) | 0 | | | |
| Capital Investment | 4,807 | 68 | | 4,875 | 88 | | 4,963 |
| Interest Rate | 1,000 | | | 1,000 | | | 1,000 |
| Economic Prosperity | 11,744 | | | 11,744 | | | 11,744 |
| Revolving Investment & Infrastructure Fund | 11,139 | | | 11,139 | | | 11,139 |
| Pension Stabilisation | 39 | | (39) | | | | |
| Business Rate Appeals | 3,612 | 28,575 | (3,586) | 28,601 | | | 28,601 |
| Transformation | | | | | 2,000 | (244) | 1,756 |
| COVID-19 Emergency Fund | | | | | 25,163 | (929) | 24,234 |
| CFLC Inspection and System Improvements | | | | | 1,250 | | 1,250 |
| Total General Fund Reserves | 81,945 | 58,450 | (12,937) | 127,458 | 66,661 | (15,080) | 179,039 |
| Schools Balances | 41,986 | 5,399 | (4,153) | 43,232 | 3,967 | (6,401) | 40,798 |
| Transfer of Schools | | | | | | | |
| Balances to Academies | | 2,991 | (2,991) | | 1011 | (1011) | |
| DSG High Needs Deficit | | | (18,675) | (18,675) | 247 | (30,204) | (48,632) |
| SEND High Needs Block | | 18,675 | | 18,675 | 30,204 | (247) | 48,632 |
| Total School Reserves | 41,986 | 27,065 | (25,819) | 43,232 | 35,429 | (37,863) | 40,798 |
| Revenue Grants Unapplied | 15,249 | 16,067 | (10,361) | 20,955 | 4,410 | (2,002) | 23,363 |
| Total Earmarked Reserves | 139,180 | 101,582 | (49,117) | 191,645 | 106,500 | (54,945) | 243,200 |

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.

Budget equalisation reserve: The budget equalisation reserve was set up to support future years' revenue budgets from unapplied income and budget carry forwards. The 2019/20 movement includes

Notes to the Financial Statements

£3.0m service budget carry forwards into 2020/21, £2.4m to support various projects and pressures and a further £2.5m which has been agreed to support the 2020/21 budget. Also £2m was moved from this reserve to the transformation reserve (see below)

Street Lighting PFI reserve: 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. 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.

Eco park sinking fund: To fund the future of the council's waste disposal project from surpluses in the initial years. This has increased in 2019/20 due to the delay in the PFI scheme leading to a budget underspending.

Capital Investment 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 Prosperity reserve: This reserve will be used to fund projects that will increase economic development in the county. This reserves includes a balance that was previously held separately in a reserve called Economic Downturn reserve.

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.

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. As a pilot authority for the 100% Business Rates Retention Scheme the Council received additional benefits from the collecting authorities releasing provisions for appeals.

Transformation Reserve: This reserve is to provide a source of funding for the council to invest in the continuing transformation of its services

COVID-19 Emergency Funding reserve: Funding received to support the authority to fund the loss of income and extra costs for 2020/21 arising from COVID-19.

CFLC Inspection and System Improvements reserve: This reserve will be used to fund additional costs in preparation for the OFSTED re-inspection as well as reviewing and renewal of the monitoring and recording case system for children social care services.

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

SEND High Needs Block reserve: Expenditure on High Needs Block should be covered by DSG (Dedicated School Grant). Until this funding is confirmed and received from the Department for Education, the Council has created an earmarked reserve, funded from the revenue budget, to mitigate this risk. A corresponding credit entry has been made under the school reserves line.

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.

Notes to the Financial Statements

Note 10: Other operating income and expenditure

| Net Expenditure | | Gross Expenditure | Income | Net Expenditure |
|--------------------|--------------------------------------------------|----------------------|-----------------|-----------------------|
| 2018/19 | | 2019/20 | 2019/20 | 2019/20 |
| £000 | | £000 | £000 | £000 |
| 1,099 | Land Drainage Precept | 1,108 | | 1,108 |
| (335) | Contributions from Trading Services | 20,701 | (23,178) | (2,477) |
| 9,354 | (Gain) or Loss on disposal of non-current assets | | (348) | (348) |
| <u>10,118</u> | | <u>21,809</u> | <u>(23,526)</u> | <u>(1,717)</u> |

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.

| Net Expenditure | | Gross Expenditure | Income | Net Expenditure |
|--------------------|-------------------------------------------------------------------------------------|----------------------|-----------------|----------------------|
| 2018/19 | | 2019/20 | 2019/20 | 2019/20 |
| £000 | | | | |
| 31,626 | Interest payable and similar charges | 32,696 | | 32,696 |
| 43,228 | Net interest on the net defined benefit liability (Note 38) | 90,786 | (47,023) | 43,763 |
| (16,485) | Interest receivable and similar income | | (15,603) | (15,603) |
| 1,893 | Net (gains)/losses on financial assets at fair value through profit and loss | | (1,581) | (1,581) |
| (16,606) | Income & expenditure in relation to investment properties (Note 14) | 4,682 | (8,502) | (3,820) |
| 107,507 | Disposal charge for the derecognition of schools that transfer to Academy status | 27,944 | | 27,944 |
| <u>151,163</u> | | <u>156,108</u> | <u>(72,709)</u> | <u>83,399</u> |

Notes to the Financial Statements

Note 12: Council tax and general grants & contributions

| 2018/19 | | 2019/20 |
|--------------------|-------------------------------------|-------------------------|
| £000 | | £000 |
| | Local taxation: | |
| (704,417) | - Council tax income | (733,068) |
| (187,240) | - Business rate income | (88,785) |
| | Grants and contributions: | |
| (49,391) | - Non ring-fenced government grants | (101,590) |
| <u>(130,752)</u> | - Capital grants and contributions | <u>(63,544)</u> |
| <u>(1,071,800)</u> | | <u>(986,987)</u> |

Notes to the Financial Statements

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 |
|-------------------------------------------------------------------------------------------|--------------------|------------------------------|-----------------------|------------------|----------------|---------------------------|----------------------------------|
| Cost | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2019 | 1,204,101 | 72,060 | 1,020,910 | 6,981 | 53,024 | 130,044 | 2,487,120 |
| Additions* | 49,425 | 9,993 | 48,529 | 278 | 23 | (12,739) | 95,509 |
| Donations | | 77 | | | | | 77 |
| Revaluations increases recognised in the Revaluation Reserve | 47,979 | | | | 960 | | 48,939 |
| Revaluations decreases recognised in the Revaluation Reserve | (23,804) | | | | (2,071) | | (25,875) |
| Revaluation increases (reversal of previous losses) recognised in the deficit on the CIES | 8,410 | | | | 30 | | 8,440 |
| Revaluation decreases recognised in the deficit on CIES | (11,377) | | | | (6,027) | | (17,404) |
| Transfers between asset classes | 38,955 | 18 | 37 | | (1,171) | (38,514) | (675) |
| Derecognition & Disposals | (806) | (8,608) | | | (11,691) | (42,288) | (63,393) |
| Derecognition - Academies | (29,448) | (567) | | | (21) | | (30,036) |
| Assets reclassified | (2,354) | | | | 11 | | (2,343) |
| At 31 March 2020 | 1,281,081 | 72,973 | 1,069,476 | 7,259 | 33,067 | 36,503 | 2,500,359 |
| Accumulated Depreciation and Impairment | | | | | | | |
| at 1 April 2019 | (59,802) | (45,553) | (630,559) | | (482) | | (736,396) |
| Depreciation charge | (26,947) | (5,619) | (42,504) | | | | (75,070) |
| Impairment | | (143) | | | | | (143) |
| Depreciation written out to the Revaluation Reserve | 25,081 | | | | 140 | | 25,221 |
| Revaluation losses recognised in the CIES | 2,566 | | | | 146 | | 2,712 |
| Revaluation increases (reversal of previous losses) recognised in the CIES | 2,404 | | | | | | 2,404 |
| Transfers between asset classes | | | | | | | |
| Derecognition - Disposals | 63 | 8,004 | | | 192 | | 8,259 |
| Derecognition - Academies | 1,688 | 405 | | | | | 2,093 |
| At 31 March 2020 | (54,947) | (42,906) | (673,063) | | (4) | | (770,920) |
| Net Book Value | | | | | | | |
| at 31 March 2019 | 1,144,299 | 26,507 | 390,351 | 6,981 | 52,542 | 130,044 | 1,750,724 |
| at 31 March 2020 | 1,226,134 | 30,067 | 396,413 | 7,259 | 33,063 | 36,503 | 1,729,439 |

Notes to the Financial Statements

| | Land and Buildings | Vehicle, Plant and Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property Plant & Equipment |
|-------------------------------------------------------------------------------------------------|-----------------------|---------------------------------|--------------------------|---------------------|----------------|------------------------------|----------------------------------------|
| Cost (revalued) | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2018 | 1,221,463 | 75,070 | 951,159 | 6,688 | 39,510 | 190,272 | 2,484,162 |
| Additions* | 15,217 | 3,844 | 52,969 | 293 | 1,608 | 40,587 | 114,518 |
| Donations | | 67 | | | | | 67 |
| Revaluations increases recognised in the Revaluation Reserve | 41,508 | 55 | | | 3,169 | | 44,732 |
| Revaluations decreases recognised in the Revaluation Reserve | (4,443) | | | | (2,633) | | (7,076) |
| Revaluation increases (reversal of previous losses) recognised in the deficit on the CIES | 2,009 | | | | | | 2,009 |
| Revaluation decreases recognised in the deficit on CIES | (1,929) | (349) | | | (1,100) | | (3,378) |
| Transfers between asset classes | 58,680 | 622 | 16,782 | | 2,984 | (100,815) | (21,747) |
| Derecognition - Disposals | (14,493) | (7,249) | | | | | (21,742) |
| Derecognition - Academies Assets reclassified from Assets Held for Sale | (113,911) | | | | | | (113,911) |
| | | | | | 9,486 | | 9,486 |
| At 31 March 2019 | 1,204,101 | 72,060 | 1,020,910 | 6,981 | 53,024 | 130,044 | 2,487,120 |
| Accumulated Depreciation and Impairment | | | | | | | |
| at 1 April 2018 | (63,938) | (47,297) | (590,212) | | (196) | | (701,643) |
| Depreciation charge | (28,669) | (5,474) | (40,347) | | | | (74,490) |
| Depreciation written out to the Revaluation Reserve | 23,955 | | | | 377 | | 24,332 |
| Revaluation losses recognised in the Surplus/Deficit on CIES | 415 | | | | | | 415 |
| Revaluation increases (reversal of previous losses) recognised in the deficit on the CIES | 1,005 | | | | | | 1,005 |
| Assets reclassified - Held for Sale | | | | | (286) | | (286) |
| Transfers between asset classes | 377 | | | | (377) | | 0 |
| Derecognition - Disposals | 649 | 7,218 | | | | | 7,867 |
| Derecognition - academies | 6,404 | | | | | | 6,404 |
| At 31 March 2019 | (59,802) | (45,553) | (630,559) | | (482) | | (736,396) |
| Net Book Value | | | | | | | |
| at 31 March 2018 | 1,157,525 | 27,773 | 360,947 | 6,688 | 39,314 | 190,272 | 1,782,519 |
| at 31 March 2019 | 1,144,299 | 26,507 | 390,351 | 6,981 | 52,542 | 130,044 | 1,750,724 |

Notes to the Financial Statements

* These amounts include assets acquired under PFI schemes (see note 36), but excludes £29.4m revenue expenditure funded from capital under statute (£28.9m in 2018/19).

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 current 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. Valuations were carried out in light of COVID-19 and is the best estimate of the assets' values at 31 March 2020.

| | Land and Buildings £'000 |
|-----------------------------------------------------|-----------------------------------------|
| Carried at historical cost | 239 |
| Carried at current value not valued in last 5 years | 10,526 |
| Carried at current value. Last revalued as at: | |
| 31 March 2016 | 244,588 |
| 31 March 2017 | 162,957 |
| 31 March 2018 | 253,866 |
| 31 March 2019 | 269,160 |
| 31 March 2020 | 284,798 |
| Total | <u>1,226,134</u> |

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

Revaluation changes

During 2019/20 the council has recognised a net revaluation gain of £47.0m in total across all PPE classes. The result was a revaluation loss of £1.3m charged to the Comprehensive Income and Expenditure Statement, and a £48.3m gain offset from the balance in the revaluation reserve in relation to these assets. The majority of land and building assets are re-valued based on existing use value, as part of the five year rolling programme by external valuers. Schools buildings and fire stations are re-valued at direct replacement cost.

Capital commitments

At 31 March 2020, the council has entered into a number of contracts for the acquisition/enhancement of Property, Plant & Equipment in 2020/21 and future years. The majority of these contracts are Schools Basic Need capital projects - total cost £20.9m (£21.6m as at 31 March 2019).

Additionally, ongoing capital contracts are in place for provision of rolling maintenance programmes across Property and Highways with a value that varies according to agreed works.

Notes to the Financial Statements

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 2020, 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):

| 2018/19 | | 2019/20 |
|---------|----------------------------------------------------------------------|--------------|
| £000 | | £000 |
| 5,642 | Rental income from investment property | 7,452 |
| (8,617) | Direct operating expenses arising from investment property | (675) |
| (2,975) | Net gain/(loss) | 6,777 |
| | Gain on sale of investment property | 1,050 |
| 19,581 | Net gain/(loss) on fair value adjustments | (4,007) |
| 16,606 | Income & expenditure in relation to investment properties | 3,820 |

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

| 2018/19 | | 2019/20 | Offices | Retail | Other | Fair Value Hierarchy |
|---------|----------------------------------------------|----------------|---------|--------|-------|----------------------|
| £000 | | £000 | £000 | £000 | £000 | |
| 74,800 | Balance at start of the year | 138,225 | 132,700 | 4,375 | 1,150 | Level 2 |
| 22,097 | Additions | 882 | 882 | | | |
| 21,747 | Reclassification | 189 | 112 | | 77 | |
| | Disposals | (1,500) | (1,500) | | | |
| 19,581 | Net gain/(loss) from fair value adjustments* | (4,007) | (3,682) | (325) | | |
| 138,225 | Balance at end of the year | 133,789 | 128,512 | 4,050 | 1,227 | Level 2 |

*the valuation of Investment Properties is based on prevailing market conditions and existing lease agreements as at 31 March 2020.

The fair value of the council's investment properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy. The fair value calculation takes into account the prevailing market conditions and lease agreements in place as at 31 March 2020, with consideration given to the estimated effects of COVID-19.

The revaluation gain or loss does not impact upon the general fund of the council – there are no adverse implications for the tax payer of any loss since financial adjustments of this nature are excluded from the calculation of the revenue requirements of the council by statute. Any gain or loss is unrealised and it would only become a realised gain or 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

Notes to the Financial Statements

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 i.e. the governing body including the head teacher 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 2019/20, 11 schools had transferred to academy status (6 Community Schools, 4 Voluntary Aided 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.

Notes to the Financial Statements

Note 16: Financial instruments

Categories of Financial Instruments

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

| Financial Assets | 1 April 2019 (Restated) £000 | 31 March 2020 £000 |
|------------------------------------------|---------------------------------------|-----------------------|
| Fair value through profit or loss | | |
| Long Term Investments | | |
| Cash | 30,720 | 32,200 |
| Total | 30,720 | 32,200 |
| Amortised Cost | | |
| Long Term Investments | 93,087 | 92,949 |
| Long Term Debtors | 235,949 | 235,563 |
| Short Term Investments | | |
| Short Term Debtors | 125,785 | 94,093 |
| Cash | 24,751 | 21,989 |
| Total | 479,572 | 444,594 |
| Total Financial Assets | 510,292 | 476,794 |
| Non-Financial Assets | 1,981,982 | 1,919,104 |
| Total | 2,492,274 | 2,395,898 |

| Financial Liabilities | 1 April 2019 £000 | 31 March 2020 £000 |
|--------------------------------------|----------------------|-----------------------|
| Amortised Cost | | |
| Long Term Borrowings | 397,786 | 442,263 |
| Short Term Borrowings | 279,026 | 239,698 |
| Short Term Creditors | 155,234 | 142,127 |
| PFI, Lease | 132,764 | 98,366 |
| Other 3 rd Party Balances | 2,222 | 1,970 |
| Total Financial Liabilities | 967,032 | 924,424 |
| Non-Financial Liabilities | 1,927,734 | 1,749,009 |
| Total | 2,894,766 | 2,673,433 |

Financial Instruments Designated at Fair Value through Profit or Loss

The balance of financial assets at 31 March 2020 was £477m, a decrease of £33m from the opening balance at 1 April 2019.

There were no financial liabilities designated at fair value through profit or loss.

Notes to the Financial Statements

Investments in Equity Instruments Designated at Fair Value through Other Comprehensive Income

No financial assets or liabilities were classed as fair value through other comprehensive income.

Reclassifications

No financial assets or liabilities were re-classified during the year.

Income, Expense, Gains and Losses

| | 2018/19 | 2019/20 | | |
|-----------------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------------------------------|
| | Surplus or Deficit on the Provision of Services £000 | Other Comprehens -ive Income and Expenditure £000 | Surplus or Deficit on the Provision of Services £000 | Other Comprehens -ive Income and Expenditure £000 |
| Net gains/(losses) on: | | | | |
| Financial assets measured at fair value through profit or loss – fair value | (225) | | 1,536 | |
| Financial assets measured at fair value through profit or loss – dividend | (230) | | (15) | |
| Total net gains /(losses) | (455) | | 1,521 | |
| Interest revenue: | | | | |
| Financial assets measured at amortised cost | (14,528) | | (15,335) | |
| Interest expense: | | | | |
| Financial assets measured at amortised cost | 31,626 | | 32,626 | |

Fair Value

Basis for recurring fair value measurements:

- Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs – unobservable inputs for the asset or liability.

Notes to the Financial Statements

Fair Value of Financial Assets

Some of the authority's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

| Recurring fair value measurements | Input level in fair value hierarchy | Valuation technique used to measure fair value | As at 31/3/19 £000 | As at 31/3/20 £000 |
|------------------------------------------|-------------------------------------|-----------------------------------------------------------------|-----------------------|-----------------------|
| Fair Value through Profit or Loss | | | | |
| Cash (Money Market Funds) | Level 1 | Unadjusted quoted prices in active markets for identical shares | 30,720 | 32,200 |

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between levels 1 and 2 during the year.

Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

Reconciliation of Fair Value Measurements for Financial Assets Carried at Fair Value Categorised within Level 3 of the Fair Value Hierarchy for Financial Assets

There were no instruments, measured at fair value, that were at level 3 in the hierarchy.

Fair Values of Financial Assets and Financial Liabilities that are not measured at fair value but for which fair value disclosures are required

Except for the financial assets carried at fair value, all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures.
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;

Notes to the Financial Statements

- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

| Financial Liabilities | 31 March 2019 | | 31 March 2020 | |
|--------------------------------------|------------------------|-------------------|------------------------|-------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £000 | £000 | £000 | £000 |
| Long Term Borrowings - PWLB | 387,247 | 546,439 | 426,246 | 603,008 |
| Long Term Borrowings - Other | 10,539 | 16,400 | 16,017 | 22,360 |
| Short Term Borrowings | 279,026 | 279,026 | 239,698 | 239,698 |
| Short Term Creditors | 155,234 | 155,234 | 142,127 | 142,127 |
| PFI, Lease | 132,764 | 200,002 | 98,366 | 167,525 |
| Other 3 rd Party Balances | 2,222 | 2,222 | 1,970 | 1,970 |
| Total | 967,032 | 1,199,323 | 924,424 | 1,176,688 |

The fair value of borrowings is higher than the carrying amount because the portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss, based on economic conditions at 31 March 2020, arising from a commitment to pay interest to lenders above current market rates.

| Financial Assets | 31 March 2019 | | 31 March 2020 | |
|-------------------------|------------------------|-------------------|------------------------|-------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £000 | £000 | £000 | £000 |
| Long Term Investments | 93,087 | 93,087 | 92,949 | 92,949 |
| Long Term Debtors | 235,949 | 235,949 | 235,563 | 235,563 |
| Short Term Debtors | 125,785 | 125,785 | 94,093 | 94,093 |
| Cash | 24,751 | 24,751 | 21,989 | 21,989 |
| Total | 479,572 | 479,572 | 444,594 | 444,594 |

Short term debtors and creditors are carried at cost as this is a fair approximation of their value. Long term debtors are mainly made up of loans to the Council's investment property vehicle, Halsey Garton Property Ltd.

Notes to the Financial Statements

Fair value hierarchy of financial assets and financial liabilities that are not measured at fair value

31 March 2020

| Recurring fair value measurements using: | Quoted prices in active markets for identical assets (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|------------------------------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|------------------|
| | £000 | £000 | £000 | £000 |
| Financial liabilities | | | | |
| Long Term Borrowings | | 625,368 | | 625,368 |
| Short Term Borrowings | | 239,698 | | 239,698 |
| Short Term Creditors | | 142,127 | | 142,127 |
| PFI, Lease | | | 167,525 | 167,525 |
| Other 3 rd Party Balances | | 1,970 | | 1,970 |
| Total | | 1,009,163 | 167,525 | 1,176,688 |
| Financial assets | | | | |
| Long Term Debtors | | 235,563 | | 235,563 |
| Long Term Investments | | | 92,949 | 92,949 |
| Short Term Debtors | | 94,093 | | 94,093 |
| Cash | | 21,989 | | 21,989 |
| Total | | 351,645 | 92,949 | 444,594 |

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using a discounted cash flow analysis, with the most significant inputs being the discount rate.

The fair value for financial liabilities and financial assets that are not measured at 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.

Financial Assets

- average rate of interest at 31 March 2020 of 0.69% for loans receivable, based on new lending rates for equivalent loans at that date;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial Liabilities

- no early repayment is recognised;
- average rate of interest rates at 31 March 2020 of 0.88% for loans payable based on new lending rates for equivalent.

Notes to the Financial Statements

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 or stock market movements.

Overall procedures for managing risk

The Council's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services 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/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to the maturity structure of its debt;
 - Its management of interest rate exposure;
 - Its 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.

These are required to be reported and approved at or before the Council's 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 after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by the Audit and Governance Committee on 7 February 2019 and is available on the Council website.

The key issues within the strategy were:

- The Authorised Limit for 2019/20 was set at £1,696m. This is the maximum limit of external borrowings or other long-term liabilities;
- The Operational Boundary was set at £1,108m. This is the expected level of debt and other long-term liabilities during the year;

Notes to the Financial Statements

- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 32% based on the Council's net debt;
- The maximum and minimum exposures to the maturity structure of debt.

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides 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.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. This risk is minimised through the Annual Investment Strategy, which is available on the authority's website.

Credit Risk Management Practices

The Council's credit risk management practices are set out in the Annual Investment Strategy. With particular regard to determining whether the credit risk of financial instruments has increased significantly since initial recognition.

The Annual Investment Strategy 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 & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The credit criteria in respect of financial assets held by the Council are detailed below:

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2019/20 was approved by the Audit and Governance Committee on 7 February 2019 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The majority of the Council's long term debtors and investments are with the subsidiary company Halsey Garton, which is an investment property vehicle. While there are inherent market risks of changes in value of investment property, the council has full control of the company so the risk of default is deemed to be negligible. The investment portfolio is spread between a variety of locations and uses, reducing the risk of a loss of value in one area.

A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise.

Notes to the Financial Statements

Amounts Arising from Expected Credit Losses (ECL)

The changes in loss allowance during 2019/20 are as follows:

| | 12 Month ECL | Lifetime ECL | Lifetime ECL – Simplified Approach | Total |
|-------------------------------|-----------------|--------------|------------------------------------------|--------|
| | £000 | £000 | £000 | £000 |
| Opening balance 1 April 2019 | 1,663 | | 9,431 | 11,094 |
| Change in credit loss | (30) | | 413 | 383 |
| Closing balance 31 March 2020 | 1,633 | | 9,844 | 11,477 |

12 Month ECL includes some third party loans. Lifetime ECL simplified includes debtor system invoices (previously presented as provision for bad debt).

Collateral – During the reporting period the council held no collateral as security.

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 CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. 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.

The maturity analysis of financial assets, including sums due from customers, is as follows:

| | 31 March 2019 | 31 March 2020 |
|----------------------------|------------------|------------------|
| | £000 | £000 |
| Less than one year | 181,256 | 148,282 |
| Between one and five years | | |
| More than five years | 329,036 | 328,512 |
| Total | 510,292 | 476,794 |

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 to the Council 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 treasury 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

Notes to the Financial Statements

risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

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

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy):

| | Approved Minimum Limit | Approved Maximum Limit | 31 March 2019 | 31 March 2020 |
|----------------------------|---------------------------|---------------------------|------------------|------------------|
| | % | % | % | % |
| Less than one year | 0% | 60% | 41% | 35% |
| Between one and two years | 0% | 50% | | |
| Between two and five years | 0% | 50% | | 1% |
| Between five and ten years | 0% | 75% | | 8% |
| More than ten years | 25% | 100% | 59% | 56% |

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:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure.

Notes to the Financial Statements

The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

Price risk

The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Note 17: Short term debtors

| 31/03/2019 | | 31/03/2020 |
|----------------|-----------------------------|----------------|
| £000 | | £000 |
| 6,171 | HMRC Debtors | 4,386 |
| 21,828 | Accounts Receivable Debtors | 17,914 |
| 104,032 | Collection Fund Debtors | 35,340 |
| 18,006 | Adult Social Care Debtors | 20,772 |
| 19,092 | Payments in Advance | 12,237 |
| 40,105 | Other Debtors | 47,207 |
| <u>209,234</u> | Total | <u>137,856</u> |

Note 18: Cash and cash equivalents

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

| 31/03/19 | | 31/03/20 |
|---------------|----------------------------------------|---------------|
| £000 | | £000 |
| 24,751 | General account | 21,989 |
| 30,720 | Money market funds | 32,200 |
| <u>55,471</u> | Total cash and cash equivalents | <u>54,189</u> |

Notes to the Financial Statements

Note 19: Assets held for sale

| Assets held for sale (current) 31/03/2019 £000 | Assets held for sale (current) 31/03/2020 £000 |
|------------------------------------------------------------|------------------------------------------------------------|
| 10,100 | 400 |
| | Assets newly classified as held for sale: |
| | - Property, plant and equipment |
| (9,200) | 2,354 |
| | Assets de-classifieds as held for sale |
| | Revaluation gain |
| | 800 |
| | Revaluation loss |
| | (1,039) |
| (500) | Assets sold* |
| 400 | 2,515 |
| | Balance outstanding at 31 March |

* Of the total assets sold in 2018/19, all relates to land and property included in the opening balance.

Note 20: Creditors

| 31/03/19 £000 | 31/03/20 £000 |
|------------------|------------------|
| (16,537) | (19,032) |
| (38,900) | (29,557) |
| (23,041) | (17,726) |
| (40,450) | (52,033) |
| (107,445) | (98,236) |
| (226,373) | (216,584) |
| | Total |

Notes to the Financial Statements

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 2019 | 27,763 | 5,162 | 3,500 | 3,000 | 5,913 | 1,498 | 46,836 |
| Additional provisions made in 2019/20 | | | | | 675 | | 675 |
| Amounts used in 2019/20 | | | | | (5,913) | (3) | (5,916) |
| Unused amounts reversed in 2019/20 | (19,883) | | | | | (200) | (20,083) |
| Balance at 31 March 2020 | 7,880 | 5,162 | 3,500 | 3,000 | 675 | 1,295 | 21,512 |
| Current Provisions | | | | | 675 | 60 | 735 |
| Non-Current Provisions | 7,880 | 5,162 | 3,500 | 3,000 | | 1,235 | 20,777 |
| | 7,880 | 5,162 | 3,500 | 3,000 | 675 | 1,295 | 21,512 |

| | 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 2018 | 8,559 | 5,462 | 3,500 | 0 | 2,451 | 1,872 | 21,844 |
| Additional provisions made in 2018/19 | 19,204 | | | 3,000 | 5,914 | 79 | 28,197 |
| Amounts used in 2018/19 | | (300) | | | (2,452) | | (2,752) |
| Unused amounts reversed in 2018/19 | | | | | | (453) | (453) |
| Balance at 31 March 2019 | 27,763 | 5,162 | 3,500 | 3,000 | 5,913 | 1,498 | 46,836 |
| Current Provisions | | | | | 5,913 | 61 | 5,974 |
| Non-Current Provisions | 27,763 | 5,162 | 3,500 | 3,000 | | 1,437 | 40,862 |
| | 27,763 | 5,162 | 3,500 | 3,000 | 5,913 | 1,498 | 46,836 |

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 2020. 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.

Notes to the Financial Statements

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

Historically retained (on-call) firefighters were precluded from membership of the Fire Pension Scheme. Since 6th April 2006 they have been entitled to join the modified 2006 Fire pension scheme. An exercise is currently underway to identify those staff who are eligible to join the scheme. Should those identified decide to take up that option, then the County Council will be required to make back-dated pension contributions.

Redundancy costs

As at 31 March 2020 there is a provision of £0.7m to cover the cost of redundancies agreed during 2019/20 but for which the expenditure will not be incurred until 2020/21.

Other provisions

A number of other smaller provisions have been identified.

Notes to the Financial Statements

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 2019 | Transfers In | Transfers Out | Balance at 31 March 2020 |
|-------------------------------|----------------------------|----------------|------------------|-----------------------------|
| | £000 | £000 | £000 | £000 |
| Revenue | | | | |
| General Fund Balance | 21,328 | 2,828 | | 24,156 |
| Earmarked Reserves | 191,645 | 104,500 | (52,945) | 243,200 |
| Total revenue reserves | 212,973 | 107,328 | (52,945) | 267,356 |
| Capital | | | | |
| Capital Grant Unapplied | 110,610 | 63,544 | (81,076) | 93,078 |
| Capital Receipts Reserve | 46,858 | 17,540 | (19,428) | 44,970 |
| Total capital reserves | 157,468 | 81,084 | (100,504) | 138,048 |
| Total usable reserves | 370,441 | 188,412 | (153,449) | 405,404 |

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.

| 31/03/19 | | 31/03/20 |
|----------------|------------------------------------------|----------------|
| £000 | | £000 |
| (563,317) | Revaluation Reserve | (579,445) |
| (436,655) | Capital Adjustment Account | (379,662) |
| 19 | Financial Instruments Adjustment Account | 19 |
| 1,798,283 | Pensions Reserve | 1,642,468 |
| (32,015) | Collection Fund Adjustment Account | (5,920) |
| 6,618 | Accumulated Absences Account | 5,479 |
| 772,933 | | 682,939 |

Notes to the Financial Statements

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.

| 31/03/19 | | 31/03/20 | |
|------------------|---------------------------------------------------------------------------------------------------------------------------|----------|------------------|
| £000 | | £000 | £000 |
| (550,175) | Balance at 1 April | | (563,317) |
| (67,095) | Upward revaluation of assets | (49,256) | |
| 5,107 | Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services | 971 | |
| | Asset reclassification | _____ | |
| | Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the Provision of Services | | (48,285) |
| 9,134 | Difference between fair value depreciation and historical cost depreciation | 9,079 | |
| 39,712 | Accumulated gains on assets sold or scrapped | 23,078 | |
| | Amount written off to the Capital Adjustment Account | | 32,157 |
| (563,317) | Balance at 31 March | | (579,445) |

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.

Notes to the Financial Statements

| 31/03/19 | | 31/03/20 | 31/03/20 |
|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------------|
| £000 | | £000 | £000 |
| (439,773) | Balance at 1 April | | (436,655) |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| | Charges for depreciation and impairment of non-current assets | 75,069 | |
| 74,491 | | | |
| 293 | Impairment or fair value adjustments under IFRS 9 | (30) | |
| (51) | Revaluation losses/(gains) on Property, Plant and Equipment | 4,229 | |
| (2,670) | Other movements in valuation on Property, Plant and Equipment | | |
| | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | 4,007 | |
| (19,581) | | | |
| | Disposal of financial assets | 250 | |
| 1,200 | Amortisation of intangible assets | 1,080 | |
| 28,936 | Revenue expenditure funded from capital under statute | 29,485 | |
| (220) | Deferred Income | (998) | |
| (67) | Donated Assets credited to the Comprehensive Income and Expenditure Statement | (77) | |
| 86,170 | Amounts of non-current assets written off on disposal or derecognition as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 61,509 | |
| 168,501 | | | 174,524 |
| (9,134) | Adjusting amounts written out of the Revaluation Reserve | | (9,079) |
| 159,367 | Net written out amount of the cost of non-current assets consumed in the year | | 165,445 |
| | Capital financing applied in the year: | | |
| (40,345) | Use of the Capital Receipts Reserve to finance capital expenditure | (6,654) | |
| (12,123) | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (13,068) | |
| (85,155) | Application of grants to capital financing from the Capital Grants Unapplied Account | (68,008) | |
| (19,913) | Statutory provision for the financing of capital investment charged against the General Fund | (19,030) | |
| (713) | Capital expenditure charged against the General Fund | (1,692) | |
| (436,655) | Balance at 31 March | | (379,662) |

Notes to the Financial Statements

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 2020 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 2019/20.

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.

| 31/03/19 | | 31/03/20 |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| £000 | | £000 |
| 1,575,845 | Balance at 1 April | 1,798,283 |
| 120,173 | Actuarial (gains)/losses on pensions assets and liabilities | (249,916) |
| | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & | |
| 181,062 | Expenditure Account | 181,070 |
| | Employer's pensions contributions and direct payments to pensioners payable in the year | |
| (78,797) | | (86,969) |
| <u>1,798,283</u> | Balance at 31 March | <u>1,642,468</u> |

Notes to the Financial Statements

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.

| 31/03/19 | | 31/03/20 |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| £000 | | £000 |
| 777 | Balance at 1 April | (32,015) |
| | 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 | |
| <u>(32,792)</u> | | <u>26,095</u> |
| <u>(32,015)</u> | Balance at 31 March | <u>(5,920)</u> |

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.

| 31/03/19 | | 31/03/20 | 31/03/20 |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------------|
| £000 | | £000 | £000 |
| 7,575 | Balance at 1 April | | 6,618 |
| | Settlement or cancellation of accrual made at the end of the preceding year | | |
| (7,575) | | (6,618) | |
| <u>6,618</u> | Amounts accrued at the end of the current year | <u>5,479</u> | |
| | 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 | | |
| <u>(957)</u> | | | <u>(1,139)</u> |
| <u>6,618</u> | Balance at 31 March | | <u>5,479</u> |

Notes to the Financial Statements

Note 24: 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 2019/20. The council recognises its share of income, expenditure, assets and liabilities in its accounts.

| | 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 |
|----------------------------------------|---------------------------|----------------------|------------------------------|------------------|-------------------|-------------------------------------------|-------------------------------------|-----------------|
| 2019/20 | | | | | | | | |
| Funding provided to the pooled budget | | | | | | | | |
| - Surrey County Council | (163) | (81) | (56) | (72) | (30) | (9) | (7) | (418) |
| - North West Surrey CCG | (21,647) | | | | | | | (21,647) |
| - Surrey Downs CCG | | (18,101) | | | | | | (18,101) |
| - Guildford & Waverley CCG | | | (12,609) | | | | | (12,609) |
| - East Surrey CCG | | | | (11,237) | | | | (11,237) |
| - Surrey Heath CCG | | | | | (5,863) | | | (5,863) |
| - North East Hampshire & Farnham CCG | | | | | | (2,745) | | (2,745) |
| - East Berkshire CCG | | | | | | | (726) | (726) |
| | (21,810) | (18,182) | (12,665) | (11,309) | (5,893) | (2,754) | (733) | (73,346) |
| Expenditure met from the pooled budget | 22,193 | 18,095 | 12,662 | 11,268 | 6,039 | 2,745 | 670 | 73,672 |
| (Surplus) or deficit | 383 | (87) | (3) | (41) | 146 | (9) | (63) | 326 |
| SCC Share | 191 | (44) | (2) | (21) | 73 | (5) | (31) | 161 |

Notes to the Financial Statements

2018/19

| | 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 | (20,458) | | | | | | | (20,458) |
| - Surrey Downs CCG | | (17,010) | | | | | | (17,010) |
| - Guildford & Waverley CCG | | | (11,920) | | | | | (11,920) |
| - East Surrey CCG | | | | (10,532) | | | | (10,532) |
| - Surrey Heath CCG | | | | | (5,597) | | | (5,597) |
| - North East Hampshire & Farnham CCG | | | | | | (2,579) | | (2,579) |
| - Windsor, Ascot & Maidenhead CCG | | | | | | | (684) | (684) |
| | (20,621) | (17,091) | (11,976) | (10,604) | (5,627) | (2,588) | (691) | (69,198) |
| Expenditure met from the pooled budget | 20,764 | 16,970 | 11,522 | 10,668 | 5,634 | 2,484 | 592 | 68,634 |
| Surplus or deficit (-) | 143 | (121) | (454) | 64 | 7 | (104) | (99) | (564) |
| SCC Share | 72 | (61) | (227) | 32 | 3 | (52) | (49) | (282) |

Orbis Joint Operating Budget

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. 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 in 2019/20 incorporated 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 2019/20 Surrey, East Sussex and Brighton & Hove Councils operated a joint operating budget to fund business services.

Notes to the Financial Statements

| 2018/19 | | 2019/20 |
|----------|----------------------------------------|----------|
| £000 | | £000 |
| | Funding provided to the pooled budget | |
| (32,931) | - Surrey County Council | (33,430) |
| (14,112) | - East Sussex County Council | (13,644) |
| (12,776) | - Brighton and Hove City Council | (13,277) |
| (59,819) | | (60,351) |
| 59,819 | Expenditure met from the pooled budget | 60,351 |
| | 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;

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

Note 25: Member allowances

| 2018/19 | | 2019/20 |
|---------|--------------------|---------|
| £000 | | £000 |
| 1,659 | Member Allowances* | 1,681 |
| 60 | Member Expenses | 54 |
| 1,719 | | 1,735 |

*Includes the employer’s contributions for national insurance £119k (2018/19, £118k).

Note 26: 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 subcommittee) 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 paid in 2019/20. Compensation for loss of office is included even though this is excluded from the general definition of remuneration. Costs for interim senior officers are also included in the salary column, these include the fees payable to employment agencies

Notes to the Financial Statements

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 allowance | Compensation for Loss of Earnings | Total remuneration excluding pension contributions | Pension contributions | Total remuneration including pension contributions |
|------------------------------------------------------------------------------------------|-------|------------------|-------------------|-----------------------------------|----------------------------------------------------|-----------------------|----------------------------------------------------|
| | | £ | £ | | £ | £ | £ |
| Chief Executive – Joanna Killian | 19/20 | 220,728 | | | 220,728 | | 220,728 |
| | 18/19 | 219,409 | | | 219,409 | (2,363) | 217,046 |
| Executive Director for Children, Families Lifelong Learning and Culture - Dave Hill | 19/20 | 190,000 | | | 190,000 | | 190,000 |
| | 18/19 | 174,694 | | | 174,694 | 23,511 | 198,205 |
| Executive Director for Public Health (1) | 19/20 | 36,230 | | 78,514 | 114,744 | 4,839 | 119,583 |
| | 18/19 | 134,595 | | | 134,595 | 19,355 | 153,950 |
| Executive Director, Adults Social Care (2) – Simon White * | 19/20 | 289,660 | 722 | | 290,382 | | 290,382 |
| | 18/19 | 163,374 | 119 | | 163,493 | | 163,493 |
| Executive Director for Highways, Transport and Environment (3) | 19/20 | 44,176 | | 60,000 | 104,176 | 5,443 | 109,619 |
| | 18/19 | 105,057 | | | 105,057 | 15,548 | 120,605 |
| Executive Director for Community Protection, Transport and Environment (3 and 4) | 19/20 | 82,034 | | | 82,034 | | 82,034 |
| | 18/19 | | | | | | |
| Executive Director for Corporate Resources (5) – Leigh Whitehouse * | 19/20 | 237,150 | 121 | | 237,271 | 20,535 | 257,806 |
| | 18/19 | 168,900 | 143 | | 169,043 | | 169,043 |
| Executive Director for Transformation, Partnerships and Prosperity (6)– Michael Coughlin | 19/20 | 175,000 | | | 175,000 | 25,900 | 200,900 |
| | 18/19 | 130,780 | | | 130,780 | 19,355 | 150,135 |
| Director for Community Protection and Emergencies (7) | 19/20 | 126,299 | | | 126,299 | 18,675 | 144,974 |
| | 18/19 | 121,573 | | | 121,573 | 12,480 | 134,053 |
| Total 2019/20 | | 1,401,277 | 843 | 138,514 | 1,540,634 | 75,392 | 1,616,026 |
| Total 2018/19(8) | | 1,218,382 | 262 | | 1,218,644 | 87,886 | 1,306,530 |

*Salary includes agency fees

Notes to the Financial Statements

Notes to Senior Officer's Remuneration table:

1. The Executive Director of Public Health left June 2019. Public Health is now under the Executive Director for Adult Social Care.
2. The Executive Director of Adult Social Care post is filled on an interim basis. The amount in the salary column is the cost of this post including agency fees.
3. The Executive Director for Highways, Transport and Environment left in July 2019. This post was replaced by the Executive Director for Community Protection, Transport and Environment and was filled on an interim basis from August 2019 until March 2020. The current Executive Director started March 2020 on a permanent basis.
4. The amount shown in the salary column is the cost of this post including agency fees for the interim director.
5. This post (formerly Executive Director for Finance) is the Director of Finance for the Orbis partnership and therefore their salary is paid from the Orbis joint operating budget. This means it is ultimately paid 55% by Surrey County Council, 24% by East Sussex County Council and 21% by Brighton and Hove Council. The full salary is shown in the table for the purposes of this note.

The current Executive Director was in place as interim until June 2019. He is now employed on a permanent basis. The amount shown in the salary column includes £98,400 paid for the interim cost of this post, including agency fees.
6. This is post was created 24 April 2018. 10% of the cost of this post is paid for from the Orbis joint operating budget and is split as per note 5. The full salary is shown in the table for the purposes of this note.
7. This post was previously disclosed as Chief Fire Officer. This new post still incorporates the statutory post of Chief Fire Officer.
8. This line includes the 2018/19 costs for the posts in the table. The total senior officer remuneration for 2018/19, including those who left in 2018/19 was £1,721,535.

Notes to the Financial Statements

Note 27: Officers' remuneration

| 2018/19 | | | | 2019/20 | | |
|--------------------------|--------------------|------------------|-------------------|------------------------|--------------------|------------------|
| Non school numbers | Schools numbers | Total numbers | Remuneration (£) | Non-schools numbers | Schools numbers | Total numbers |
| 176 | 89 | 265 | 50,000 - 54,999 | 194 | 103 | 297 |
| 131 | 69 | 200 | 55,000 - 59,999 | 94 | 56 | 150 |
| 75 | 49 | 124 | 60,000 - 64,999 | 99 | 53 | 152 |
| 40 | 21 | 61 | 65,000 - 69,999 | 51 | 29 | 80 |
| 22 | 39 | 61 | 70,000 - 74,999 | 21 | 29 | 50 |
| 14 | 8 | 22 | 75,000 - 79,999 | 19 | 12 | 31 |
| 17 | 7 | 24 | 80,000 - 84,999 | 13 | 6 | 19 |
| 6 | 4 | 10 | 85,000 - 89,999 | 8 | 12 | 20 |
| 6 | 3 | 9 | 90,000 - 94,999 | 5 | 2 | 7 |
| 2 | 1 | 3 | 95,000 - 99,999 | 3 | 3 | 6 |
| 5 | 2 | 7 | 100,000 - 104,999 | 3 | | 3 |
| 1 | | 1 | 105,000 - 109,999 | 1 | 1 | 2 |
| 2 | | 2 | 110,000 - 114,999 | 7 | | 7 |
| | | | 115,000 - 119,999 | 2 | | 2 |
| 3 | | 3 | 120,000 - 124,999 | 1 | | 1 |
| 1 | | 1 | 125,000 - 129,999 | 2 | | 2 |
| 2 | | 2 | 130,000 - 134,999 | 1 | | 1 |
| | | | 135,000 - 139,999 | | | |
| 1 | | 1 | 140,000 - 144,999 | | | |
| | | | 145,000 - 149,999 | | | |
| | | | 150,000 - 154,999 | | | |
| 1 | | 1 | 155,000 - 159,999 | | | |
| 1 | | 1 | 160,000 - 164,999 | | | |
| | | | 165,000 - 169,999 | | | |
| | | | 180,000 - 184,999 | | | |
| | | | 220,000 - 224,999 | | | |
| | | | 235,000 - 239,999 | | | |
| 506 | 292 | 798 | | 524 | 306 | 830 |

The table above includes 107 staff (100 in 2018/19) whose salary costs are paid from the Orbis joint operating budget and are therefore split 55% Surrey County Council, 24% East Sussex County Council and 21% Brighton and Hove City Council.

There are an additional 32 staff (32 in 2018/19) at East Sussex County Council and 27 staff (21 in 2018/19) at Brighton and Hove City Council that earned over £50,000 in 2019/20. They are not included in the above table, and were paid from the Orbis joint operating budget and are therefore also split 55% Surrey County Council, 24% East Sussex County Council and 21% Brighton and Hove City Council.

Notes to the Financial Statements

Note 28: 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:

| 2018/19 | | | | | 2019/20 | | | | |
|-----------------------------------|-----------------------------------|--------------------------------------------|------------------------------------------|-----------------------------------------------------|----------|-----------------------------------|-----------------------------------|--------------------------------------------|-------------------------------------------|
| 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 (£) | | | | |
| 24 | 7 | 31 | 210 | 0-20,000 | | 85 | 76 | 161 | 1,151 |
| 3 | 3 | 6 | 153 | 20,001-40,000 | | 15 | 13 | 28 | 818 |
| 2 | 4 | 6 | 288 | 40,001-60,000 | | 7 | 11 | 18 | 896 |
| 1 | 0 | 1 | 61 | 60,001-80,000 | | 4 | 2 | 6 | 427 |
| 0 | 0 | 0 | 0 | 80,001-100,000 | | 1 | 4 | 5 | 433 |
| 3 | 2 | 5 | 633 | 100,001-150,000 | | | 3 | 3 | 369 |
| 0 | 0 | 0 | 0 | 150,001 – 200,000 | | | | | |
| 1 | 0 | 1 | 215 | 200,001 – 250,000 | | | | | |
| 34 | 16 | 50 | 1,560 | Total cost included in bandings | | 112 | 109 | 221 | 4,094 |
| 36 | 252 | 288 | 6,290 | ADD: Amounts provided for in CIES not yet paid** | | 10 | 17 | 27 | 763 |
| 70 | 268 | 338 | 7,850 | Total cost included in CIES | | 122 | 126 | 248 | 4,857 |

* 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 2019/20 but for which no payment had yet been made.

Notes to the Accounts

Note 29: External audit costs

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

| <u>2018/19</u> £000 | | <u>2019/20</u> £000 |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------|------------------------|
| | Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year | |
| 126 | Grant Thornton | 140 |
| 8 | Fees payable to the external auditors for the certification of grant claims and returns for the year | 4 |
| 0 | CFO Insights Subscription Fee | 13 |
| <u>158</u> | Total | <u>204</u> |

Note 30: Dedicated Schools Grant

The council's expenditure on schools in 2019/20 was funded primarily by grant monies provided by the Education and Skills Funding Agency (ESFA), 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 and Early Years Finance (England) (no.2) Regulations 2018. The school budget includes elements for a range of educational services provided on an authority-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.

In total at the end of 2019/20 there is a cumulative £31.5m deficit on the DSG. This is the net amount from an overspend on the High Needs Block of £48.6m, less unspent balances on the other blocks of £17.1m. The High Needs Block overspend is matched by an ear marked reserve of the same value (see Note 9).

Notes to the Accounts

Details of the deployment of DSG receivable for 2019/20 are shown on the table below:

| | 2018/19 | | Central | ISB* | 2019/20 |
|------|------------------|-------------------------------------------------------------|------------------|------------------|------------------|
| Ref: | £000s | | £000s | £000s | £000s |
| A | 837,579 | Final DSG before academy recoupment (ESFA gross allocation) | | | 857,159 |
| A1 | (15,520) | Less deducted by ESFA for high needs place funding | | | (16,136) |
| B | (334,236) | Academy figure recouped | | | (363,748) |
| C | 487,823 | Total DSG after academy recoupment | | | 477,275 |
| D | 4,043 | Brought forward from prior year | | | (5,971) |
| D1 | (1,972) | Early years adjustment in respect of prior year | | | 961 |
| D2 | | Other prior year adjustments | | | 28 |
| | <u>489,894</u> | | | | <u>472,293</u> |
| E | 2,845 | Less Carry forward agreed in advance | | | (35,061) |
| | <u>487,049</u> | | | | <u>507,354</u> |
| F | 487,049 | Agreed initial budgeted distribution | 162,895 | 344,459 | 507,354 |
| G | | In year adjustments | (24) | 24 | |
| H | 487,049 | Final distribution | 162,871 | 344,483 | 507,354 |
| I | (142,332) | Actual central expenditure | (162,040) | | (162,040) |
| J | (355,674) | Actual Individual Schools Budget (ISB) | | (341,771) | (341,771) |
| K | 2,142 | Local authority contribution | | | |
| | <u>(495,864)</u> | Total funded by DSG | <u>(162,040)</u> | <u>(341,771)</u> | <u>(503,811)</u> |
| L | (8,815) | DSG spent less budgeted distribution | (831) | (2,712) | (3,543) |
| M | (5,970) | Total amount carried forward | | | <u>(31,518)</u> |
| | | Split of Deficit: | | | |
| | (18,675) | Overspend on high needs block | | | (48,633) |
| | 12,705 | Combined underspend on other blocks | | | 17,115 |
| | <u>(5,970)</u> | | | | <u>(31,518)</u> |

*Individual Schools Budget

NOTES

A Final DSG figure before deducting academy recoupment and funding for high needs places directly funded by the ESFA, and before the January 2020 early years block adjustment (which will be made in summer 2020) The early years block adjustment is estimated to be an increase in grant of £913,000

Notes to the Accounts

- 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 for which funding is paid directly to the academy by the ESFA, plus funding for post 16 places in maintained special schools and SEN units and resources in maintained mainstream schools, which is paid separately to the authority as sixth form grant
- B Figure recouped from the authority in 2019/20 by the Dept for Education (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 2018/19 as agreed with the Department
- D1 Additional grant received from DfE in July 2019 because the number of 2, 3 and 4 year olds taking up the early years free entitlement in Jan 2019 was higher than in Jan 2018 (In 2018/19 the corresponding adjustment was a deduction)
- D2 Refund of place funding deducted by DfE in 2018/19 in respect of a college merger
- E (Surplus)/deficit which the authority decided after consultation with the Schools Forum to carry forward to 2020/21 (or later year) rather than allocating in 2019/20
- F Initial budgeted distribution of DSG, adjusted for carry forward, as agreed with the Schools Forum
- G In year adjustments comprise adjustments to budgets for permanently excluded pupils, and reductions in de-delegated budgets for central services as more schools convert to academies
- H Budgeted distribution of DSG as at the end of the financial year.
- I Actual amount of central expenditure items in 2019/20
- 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 2019/20 (none in 2019/20) Under the 2019/20 DSG conditions of grant, any overspend on the Schools Budget must be carried forward and met from DSG in future years, unless the Secretary of State allows all or part of the overspend to be funded from other sources. Authorities with a DSG deficit are expected to develop a recovery plan to repay those deficits over a number of years
- L Variation against 2019/20 budgets:
For central expenditure, the difference between final budgeted distribution of DSG and actual expenditure , plus any local authority contribution
For ISB, the difference between amount allocated to individual providers and funding budgeted for that purpose
- M Sum carried forward to 2020/21 (a negative figure=a deficit) This is the total underspend against the final 2019/20 budget (L) plus the amount by which the initial budget exceeded available DSG funding (E). The overspend is made up of a cumulative overspend of £48.6m on the high needs block (provision for pupils with special educational needs and disabilities), offset by underspends of £17.1m on mainstream school and early years provision.

Notes to the Accounts

Note 31: 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:

| 2018/19 | | 2019/20 |
|--------------|------------------------------------------------------------------------------|--------------|
| £000 | | £000 |
| | General grants & contributions | |
| 7,998 | Private Finance Initiative Grant | 9,355 |
| 20,457 | Business Rate Grants | 11,148 |
| 6,757 | Public Health* | 35,575 |
| 2,890 | New Homes Bonus | 2,689 |
| 8,471 | Dedicated Schools Grant (non ring-fenced) | 8,214 |
| | COVID-19 Emergency Funding | 25,163 |
| | Social Care Support Grant | 6,825 |
| 2,818 | Other Revenue Grants | 2,621 |
| | Education Funding Agency (Schools Basic Need & Schools Condition Allocation) | 21,415 |
| 63,703 | Highways Maintenance & Integrated Transport Grant | 21,034 |
| 31,327 | Capital developer contributions | 9,695 |
| 12,716 | Local Growth Deal | 5,268 |
| 13,548 | Capital contributions from schools | 4,264 |
| 4,562 | Other Capital grants & Contributions | 1,868 |
| <u>4,896</u> | | <u>1,868</u> |
| 180,143 | | 165,134 |

*Public Health grant was previously shown as split between general and service grants, but from 19/20 it is now shown as a general grant.

Grants credited to services are analysed in the following table:

| 2018/19 | | 2019/20 |
|----------------|------------------------------------|----------------|
| £000 | | £000 |
| 489,535 | Dedicated Schools Grant | 495,597 |
| 29,783 | Public Health Grant | |
| 10,603 | Young People Learning Agency | 9,563 |
| 14,380 | Pupil Premium | 13,443 |
| 1,630 | Teachers Pay and Pensions Grants | 10,367 |
| 9,404 | Universal Infant Free School Meals | 8,643 |
| 35,273 | Other revenue grants | 35,169 |
| <u>590,608</u> | Total | <u>572,782</u> |

Notes to the Accounts

Note 32: 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 2019/20 is shown in Note 25.

In addition, a survey of the related party interests of members in office during the 2019/20 financial year and their immediate family members was carried out in preparing this statement of accounts. There were responses from 80 of 81 members. The council had transactions with 33 bodies that members declared an interest in, with a total value of £9.0m. Of this, payments of £3.9m were to Kings International College, in which 1 member declared an interest, £2.8m were to Young Epilepsy in which 1 member declared an interest.

Senior Officers are deemed to include all officers earning over £69,855. The council had transactions with 7 other bodies in which an interest was declared totalling £3.4m.

Entities controlled or significantly influenced by the council

The council wholly owns the following companies

- Hendeca Group Limited (formerly 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 trading.

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

Group accounts for 2019/20 have been prepared and are presented in these accounts to show the combined financial performance and position of the county council, Hendeca Ltd, Surrey Choices Ltd, and Halsey Garton Property Ltd.

During 2019/20 the council received £14.3m in interest payments from Halsey Garton Property Ltd (£12.2m 2018/19) and £0.3m in recharges from the company for services provided in year (£0.5m 2018/19). At 31 March 2020 the company owed SCC £234m in long term loans, as well as £0.09m in short term payables.

Notes to the Accounts

The council purchased £12.4m of Adult Social Care services from Surrey Choices Ltd (£12.4m 2019/20). It received £2.8m in recharges from the company for services provided in year (£2.5m in 2018/19). At 31 March 2020 the company owed SCC £2.8m in long term loans, as well as £0.55m in short term payables.

The council received £0.4m in recharges from Hendeca for services provided in year (£0.4m in 2018/19). At 31 March 2020 the company owed SCC £0.09m in short term payables.

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 24.

Surrey Pension Fund

The fee payable by the Surrey Pension Fund to the county council for services provided in 2019/20 was £2.8m (£2.1m in 2018/19). This is split into the fee for providing pension administration services £2.4m (£1.8m in 2018/19) and £0.4m (£0.3m in 2018/19) for treasury management, accounting and managerial services.

During 2019/20 the council paid employer pension contributions of £74.5m (£64.0m in 2018/19).

Net amounts owed by the council to the fund as at 31 March 2020 were £3.1m (£4.6m at 31 March 2019).

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 2019/20 Surrey, East Sussex, and Brighton & Hove operated a joint operating budget to fund business services at each council. (See note 24 for more information).

Notes to the Accounts

Note 33: 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:

| 2018/19 | | 2019/20 |
|------------------|-------------------------------------------------------------------------------------------|-------------------------|
| £000 | | £000 |
| | Capital Financing | |
| 1,151,877 | Opening Capital Financing Requirement | 1,234,634 |
| | Capital investment: | |
| 111,847 | Property, Plant and Equipment | 95,509 |
| 22,097 | Investment Properties | 882 |
| 48 | Intangible Assets | 1,167 |
| 28,936 | Revenue Expenditure Funded from Capital Under Statute | 29,485 |
| 78,300 | Long Term Debtor | |
| | Sources of Finance | |
| (11,491) | Capital receipts | (6,654) |
| (97,279) | Government grants and other contributions | (81,076) |
| | Sums set aside from revenue | |
| (714) | Direct revenue contributions | (1,692) |
| (28,854) | Application of capital receipts to prior year capital expenditure | |
| (19,913) | Minimum Revenue Provision | (19,030) |
| (220) | PFI Deferred Income | (998) |
| <u>1,234,634</u> | Closing Capital Financing Requirement | <u>1,252,227</u> |
| | Explanation of movements in year | |
| 118,692 | Increase in underlying need to borrowing (unsupported by government financial assistance) | 53,645 |
| (28,854) | Application of capital receipts | |
| (19,913) | Minimum Revenue Provision | (19,030) |
| 13,052 | Assets acquired under finance leases | (16,024) |
| (220) | PFI Deferred Income | (998) |
| <u>82,757</u> | Increase / (decrease) in Capital Financing Requirement | <u>17,593</u> |

Notes to the Accounts

Note 34: Leases

Council as lessee

Operating leases:

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

| 31 March 2019 | | 31 March 2020 |
|------------------|---------------------------------------------------------|------------------|
| £000 | | £000 |
| | Operating lease liabilities - land and buildings | |
| 2,366 | Not later than one year | 2,644 |
| 8,411 | Later than one year but not later than five years | 9,373 |
| 9,401 | Later than five years | 12,419 |
| 20,178 | | 24,436 |

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

| 2018/19 | Amounts charged to the Comprehensive Income and Expenditure Statement during the year | 2019/20 |
|---------|------------------------------------------------------------------------------------------|--------------|
| £000 | Operating leases - land and buildings | £000 |
| 3,168 | Minimum lease payments for the year | 3,921 |

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;
- economic development to provide suitable affordable accommodation for local businesses.

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

| 31 March 2019 | | 31 March 2020 |
|------------------|---------------------------------------------------|------------------|
| £000 | | £000 |
| | Lease liabilities - land and buildings: | |
| 9,162 | Not later than one year | 8,532 |
| 25,610 | Later than one year but not later than five years | 22,428 |
| 64,776 | Later than five year | 63,410 |
| 99,548 | | 94,370 |

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.

Notes to the Accounts

Note 35: Other short-term and long-term liabilities

| 31 March 2019 Other liabilities | | | | 31 March 2020 Other liabilities | | |
|------------------------------------|------------------|------------------|-----------------------------------------|------------------------------------|------------------|------------------|
| Short term | Long-term | Total | | Short term | Long-term | Total |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| 16,938 | 115,826 | 132,764 | PFI finance lease liabilities (Note 36) | 17,084 | 81,282 | 98,366 |
| | 11,360 | 11,360 | Deferred income liabilities (Note 36) | | 10,362 | 10,362 |
| | 1,798,283 | 1,798,283 | Pension liabilities (Note 38) | | 1,642,468 | 1,642,468 |
| | 2,222 | 2,222 | Balances held for third parties | | 1,970 | 1,970 |
| 16,938 | 1,927,691 | 1,944,629 | | 17,084 | 1,736,082 | 1,753,166 |

Note 36: Private finance initiatives and similar contracts

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

In 1998 the council entered into a long-term contract with Anchor Trust for the purchase of residential and day care for the elderly in 17 homes previously operated by the council. Whilst the council is committed to purchasing the majority of beds in the homes the contractor is able to manage the remaining capacity for their own benefit. The council is committed to purchasing 71% of the beds available and day care facilities irrespective of whether these are used for the county's clients. Of the 17 homes nine return to council management after 21 years, which happened in 2019/20. There is therefore no further Unitary Charges for Anchor Care Trust. 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.

Notes to the Accounts

Property plant and equipment

The assets used to provide services in relation to these arrangements are recognised on the Balance Sheet along with their corresponding liability. 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:

| 2018/19 | | | | 2019/20 | | |
|--------------------------|-------------------------|----------------------------------|----------------------------------------------------------------------------------|--------------------------|-------------------------|----------------------------------|
| Land & Buildings £000 | Infra-structure £000 | Asset Under Construction £000 | | Land & Buildings £000 | Infra-structure £000 | Asset Under Construction £000 |
| 100,928 | 76,653 | 74,299 | Gross cost at 1 April | 100,928 | 76,653 | 87,351 |
| | | 13,052 | Additions | | | (16,024) |
| 100,928 | 76,653 | 87,351 | Gross Cost at 31 March | 100,928 | 76,653 | 71,327 |
| | | | Accumulated Depreciation and Impairment at 1 April | (31,800) | (16,383) | |
| (29,752) | (14,467) | | Depreciation charge for the year | (2,013) | (1,917) | |
| (2,048) | (1,916) | | Impairment losses recognised in the Surplus/Deficit on the Provision of Services | | | |
| (31,800) | (16,383) | | Accumulated Depreciation and Impairment at 31 March | (33,813) | (18,300) | |
| 71,176 | 62,185 | 74,299 | Net book Value at 1 April | 69,128 | 60,270 | 87,351 |
| 69,128 | 60,270 | 87,351 | Net book Value at 31 March | 67,115 | 58,353 | 71,327 |

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.

Notes to the Accounts

Payments remaining to be made under the PFI contract at 31 March 2020 (excluding any estimation of inflation and availability/performance deductions) are as follows:

| Payable in 2019/20 | | Payable in 2020/21 £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 | | | | | | | |
| 50,480 | - Waste | 53,346 | 198,377 | | | | 251,723 |
| 7,731 | - Care UK | 7,731 | 30,924 | 15,462 | | | 54,117 |
| 2,900 | - Street Lighting | 2,905 | 11,723 | 15,121 | 16,623 | | 46,372 |
| <u>61,111</u> | | <u>63,982</u> | <u>241,024</u> | <u>30,583</u> | <u>16,623</u> | | <u>352,212</u> |
| Reimbursement of Capital Expenditure | | | | | | | |
| 14,688 | - Waste | 14,688 | 59,691 | | | | 74,379 |
| 107 | - Care UK | 114 | 528 | 315 | | | 957 |
| 2,143 | - Street Lighting | 2,282 | 10,764 | 18,343 | 25,969 | | 57,358 |
| <u>16,938</u> | | <u>17,084</u> | <u>70,983</u> | <u>18,658</u> | <u>25,969</u> | | <u>132,694</u> |
| Interest | | | | | | | |
| 7,118 | - Waste | 5,787 | 8,905 | | | | 14,692 |
| 65 | - Care UK | 58 | 159 | 29 | | | 246 |
| 6,257 | - Street Lighting | 6,114 | 22,713 | 23,036 | 13,909 | | 65,772 |
| <u>13,440</u> | | <u>11,959</u> | <u>31,777</u> | <u>23,065</u> | <u>13,909</u> | | <u>80,710</u> |
| <u>91,489</u> | Total | <u>93,025</u> | <u>343,784</u> | <u>72,306</u> | <u>56,501</u> | | <u>565,616</u> |

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

| 2018/19 | | | 2019/20 | |
|---------------------------------------|-----------------------------------------|------------------------------------------|---------------------------------------|-----------------------------------------|
| Finance Lease Liability £000 | Deferred Income Liability £000 | | Finance Lease Liability £000 | Deferred Income Liability £000 |
| (137,649) | (11,580) | Balance outstanding at 1 April | (132,764) | (11,360) |
| 17,937 | | Payments during the year | 18,374 | |
| (13,052) | | Capital expenditure incurred in the year | 16,024 | |
| | 220 | Amortisation of deferred income | | 998 |
| <u>(132,764)</u> | <u>(11,360)</u> | Balance outstanding at 31 March | <u>(98,366)</u> | <u>(10,362)</u> |

Notes to the Accounts

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

| 31 March 2019 £000 | | 31 March 2020 £000 |
|--------------------------|------------------------------------------|--------------------------|
| 64 | not later than one year | 63 |
| | later than one year but not later than 5 | |
| 246 | years | 242 |
| 467 | later than 5 years | 408 |
| <u>777</u> | | <u>713</u> |

Note 37: 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 2019/20, the council paid £43.3m to teachers' pensions in respect of retirement benefits. The employer's contribution rate was 16.48% until the 31 August. On 1 September this increased to 23.68%. The figures for 2018/19 were £38m and 16.48%. 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 health 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 2019/20 the council paid £533k to NHS pensions representing 16.88% of pensionable pay (2018/19, £676k, 14.38%). This will increase to 20.6% in 20/21 following the latest 4 year revaluation.

Note 38: Defined benefit pension schemes

Participation in pension schemes

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

Surrey County Council contributes to two defined benefit schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Surrey County Council, is a funded defined benefit 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 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. 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:

Notes to the Accounts

| | Local Government Pension Scheme | | Firefighters' Pension Scheme | |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------------------|---------------------------------|-------------------------|
| | 2018/19 £000 | 2019/20 £000 | 2018/19 £000 | 2019/20 £000 |
| <u>Comprehensive Income & Expenditure Statement</u> | | | | |
| <i>Cost of Services:</i> | | | | |
| - current service cost | 108,056 | 124,340 | 8,600 | 9,600 |
| - past service cost | 11,318 | 2,927 | 21500 | 100 |
| - (gain)/loss on settlements | (7,113) | (1,654) | | |
| <i>Financing & Investment Income & Expenditure</i> | | | | |
| - net interest on the net defined benefit liability | 25,928 | 29,363 | 17,300 | 14,400 |
| <hr/> | | | | |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 138,189 | 154,976 | 47,400 | 24,100 |
| <hr/> | | | | |
| Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement | | | | |
| Remeasurement of the net defined benefit liability comprising: | | | | |
| - return on plan assets (excluding the amount included in the net interest expense) | 59,951 | (258,153) | | |
| - actuarial gains and losses arising on changes in demographic assumptions | 0 | 72,532 | (46,200) | 18,600 |
| - actuarial gains and losses arising on changes in financial assumptions | (238,981) | 247,548 | 45,600 | 52,100 |
| - other experience | (743) | 121,689 | (59,000) | (4,400) |
| <hr/> | | | | |
| Total remeasurement of the net defined benefit liability | (179,773) | 183,616 | (59,600) | 66,300 |
| <hr/> | | | | |
| Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement | (41,584) | 338,592 | (12,200) | 90,400 |
| <hr/> | | | | |
| <u>Movement in Reserves Statement</u> | | | | |
| - reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code | (138,189) | (154,976) | (47,400) | (24,100) |
| Actual amount charged against the General Fund Balance for pensions in the year: | | | | |
| - employers' contributions to the scheme/ retirement benefits paid direct to pensioners | 64,997 | 66,875 | 13,800 | 18,100 |

Notes to the Accounts

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 | |
|--------------------------------------------------------------|---------------------------------|--------------------|------------------------------|------------------|
| | 2018/19 £000 | 2019/20 £000 | 2018/19 £000 | 2019/20 £000 |
| Present value of the defined benefit obligation | (3,148,375) | (2,841,800) | (605,800) | (545,500) |
| Fair value of plan assets | 1,955,892 | 1,744,832 | | |
| Net liability arising from defined benefit obligation | (1,192,483) | (1,096,968) | (605,800) | (545,500) |

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 | |
|----------------------------------------------------------------------------|-------------------------------------------------------|--------------------|------------------------------------------------------|------------------|
| | 2018/19 £000 | 2019/20 £000 | 2018/19 £000 | 2019/20 £000 |
| Opening Balance at 1 April | (2,786,837) | (3,148,375) | (630,459) | (605,800) |
| Current service cost | (108,056) | (124,340) | (8,600) | (9,600) |
| Interest cost | (75,602) | (76,386) | (17,300) | (14,400) |
| Contributions by scheme participants | (20,028) | (17,895) | (2,200) | |
| Remeasurements: | | | | |
| - Actuarial gains and losses arising on changes in demographic assumptions | | 72,532 | 46,200 | 18,600 |
| - Actuarial gains and losses arising on changes in financial assumptions | (238,981) | 247,548 | (45,600) | 52,100 |
| - Other experience | (743) | 121,689 | 59,000 | (4,400) |
| Pensions and lump sum expenditure | | | 16,000 | 18,100 |
| Benefits paid | 70,422 | 83,148 | | |
| Past service costs (including curtailments) | (11,318) | (2,927) | (21,500) | (100) |
| Settlements | 16,897 | 3,206 | | |
| Employer contributions adjustment* | 5,871 | | (1,341) | |
| Closing balance at 31 March | (3,148,375) | (2,841,800) | (605,800) | (545,500) |

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.

Notes to the Accounts

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

| | Local Government Pension Scheme | | Firefighters' pension scheme | |
|-------------------------------------------------------------|------------------------------------|------------------|---------------------------------|-----------------|
| | 2018/19 £000 | 2019/20 £000 | 2018/19 £000 | 2019/20 £000 |
| Opening fair value of scheme assets at 1 April | 1,841,448 | 1,955,892 | | |
| Interest income | 49,674 | 47,023 | | |
| Remeasurement: | | | | |
| Return on assets excluding amounts included in net interest | 59,951 | (258,153) | | |
| Employer Contributions | 64,997 | 66,875 | | |
| Employer contributions adjustment* | | | | |
| Contributions by scheme participants | 20,028 | 17,895 | | |
| Benefits paid | (70,422) | (83,148) | | |
| Settlements | (9,784) | (1,552) | | |
| Closing fair value of scheme assets at 31 March | 1,955,892 | 1,744,832 | | |

* 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 £1,642m 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 2019.

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.

Notes to the Accounts

The principal assumptions used by the actuary have been:

| | Local Government Pension Scheme | | Firefighters' Pension Scheme | |
|-----------------------------------------------------------------|---------------------------------|------------|------------------------------|------------|
| | 2018/19 | 2019/20 | 2018/19 | 2019/20 |
| Mortality assumptions: | | | | |
| - longevity at 65 for current pensioners (60 for firefighters): | | | | |
| - Men | 22.5 years | 22.1 years | 27.3 years | 26.4 years |
| - Women | 24.6 years | 24.3 years | 29.4 years | 28.5 years |
| - longevity at 65 for future pensioners (60 for firefighters): | | | | |
| - Men | 24.1 years | 22.9 years | 28.4 years | 27.5 years |
| - Women | 26.4 years | 25.7 years | 30.6 years | 29.7 years |
| Rate of inflation | 3.5% | 2.9% | 3.5% | 2.8% |
| Rate of increase in salaries | 2.8% | 2.8% | 3.5% | 2.8% |
| Rate of increase in pensions | 2.5% | 1.9% | 2.5% | 1.9% |
| Rate for discounting scheme liabilities | 2.4% | 2.3% | 2.4% | 2.3% |

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 | Approximate % increase to employer liability | Approximate monetary amount |
| | | £000 | | £000 |
| 0.5% decrease in real discount rate | 10% | 274,340 | 9% | 51,147 |
| 1 year increase in member life expectancy* | 5% | 142,090 | 3% | 16,219 |
| 0.5% increase in the salary increase rate | 1% | 21,448 | 1% | 6,305 |
| 0.5% increase in the pension increase rate | 9% | 250,955 | 8% | 41,441 |

*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).

Notes to the Accounts

Investment assets

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

| 31 March 2019 | | | 31 March 2020 | | |
|--------------------------------------------|-------------|-------------------------|-----------------------------------------------|-------------|--|
| Quoted prices in active markets £000 | | | Quoted prices in active markets £000 | | |
| Quoted prices in active markets | | | | | |
| Equity securities | | | | | |
| 52,962 | 3% | Consumer | 49,788 | 3% | |
| 33,985 | 2% | Manufacturing | 37,162 | 2% | |
| 30,140 | 2% | Energy & utilities | 13,506 | 1% | |
| 30,341 | 2% | Financial institutions | 29,384 | 2% | |
| 25,915 | 1% | Health & care | 30,050 | 2% | |
| 57,910 | 3% | Information technology | 56,952 | 3% | |
| 5,164 | 0% | Other | 991 | 0% | |
| 236,417 | | | 217,833 | | |
| Debt securities | | | | | |
| | 0% | UK government | 98,657 | 6% | |
| | 0% | Other | | | |
| | | | 98,657 | | |
| Real estate | | | | | |
| 92,770 | 5% | UK property | 87,330 | 5% | |
| 33,935 | 2% | Overseas property | 38,340 | 2% | |
| 126,705 | | | 125,670 | | |
| Investment funds & unit trusts | | | | | |
| 1,072,104 | 54% | Equities | 918,116 | 52% | |
| 326,712 | 16% | Bonds | 203,085 | 12% | |
| | | Other | | | |
| 1,398,816 | | | 1,121,201 | | |
| Derivatives | | | | | |
| | | Interest rate | | | |
| 11,415 | 1% | Foreign exchange | (17,537) | -1% | |
| 11,415 | | | (17,537) | | |
| 66,603 | 3% | Cash & cash equivalents | 59,415 | 3% | |
| 1,839,956 | 94% | | 1,605,239 | 92% | |
| Sub-total | | | | | |
| Quoted prices in non-active markets | | | | | |
| 115,936 | 6% | Private Equity | 139,593 | 8% | |
| 1,955,892 | 100% | Total | 1,744,832 | 100% | |

Notes to the Accounts

Asset and liability matching strategy

The LGPS assets are administered by Surrey County Council through 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 2019 and the next review will take place during 2021/22 with a valuation date of 31 March 2022.

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 £51.99m to the LGPS in 2020/21.

Note 39: Contingent assets and 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.

Contingent Liabilities

The council embarked upon a PFI for waste disposal in 1999. By the end of 2019/20 £137.3m has been received in PFI credits in relation to the waste contract. 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

Notes to the Accounts

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 £3.6m to £4.3m. 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.

Contingent Asset

Royal Mail: The council forms part of a class action against Royal Mail, relating to the charging of VAT on services for which it has not been able to recover as normal. The case has been ongoing for over 4 years and continues. The outcome and any potential financial settlement are uncertain. The council has no liability in relation to any potential costs if the claim is lost, as it has entered into an insurance arrangement with a large number of other claimants.

Note 40: Cash flow statement- adjustments for non-cash movements

| 2018/19 | | 2019/20 |
|-----------|---------------------------------------------------------------------------------------------------------------------------|-----------|
| £000 | | £000 |
| (182,302) | Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement | (181,070) |
| 80,038 | Employer's pensions contributions and direct payments to pensioners payable in the year | 86,969 |
| 220 | Deferred Income in respect of PFI schemes | 998 |
| (74,491) | Charges for depreciation & impairment of non-current assets | (75,069) |
| (1,200) | Amortisation of intangible assets | (1,080) |
| 51 | Revaluation (losses)/gains on property, plant & equipment | (4,229) |
| 19,581 | Change in fair value of investment properties | (4,007) |
| (1,663) | IFRS9 Capital Impairments | 30 |
| (107,507) | Disposals of academies | (27,944) |
| (24,992) | Contributions to provisions | 25,324 |
| (9,354) | Net gain/(loss) on sale disposal of property, plant & equipment | (41,939) |
| | Net gain/(loss) on sale disposal of investment property | 1,050 |
| | Net gain/(loss) on disposal of financial assets | 1,536 |
| (19,571) | Movement in creditors | 8,484 |
| 167 | Movement in third party balances | 252 |
| 198 | Movement in inventories | 131 |
| 72,446 | Movement in debtors | (71,378) |
| 958 | Movement in accumulated absences | 1,139 |
| 67 | Donated asset adjustment | 77 |
| (247,354) | | (280,726) |

Notes to the Accounts

Note 41: Cash flow statement - purchase of property, plant & equipment

| 2018/19 | | 2019/20 |
|-----------------------|-------------------------------------------------------|-----------------------|
| £000 | | £000 |
| 98,795 | Enhancement/Purchase of Property, Plant & Equipment | 111,533 |
| 22,097 | Enhancement/Purchase of Investment Property | 882 |
| 48 | Enhancement/Purchase of Intangible Assets | 1,167 |
| 28,936 | Revenue Expenditure Funded from Capital Under Statute | 29,485 |
| <u>149,876</u> | | <u>143,067</u> |

Note 41a: Reconciliation of liabilities arising from Financing Activities

| | Balance at 1 April 2019 | Financing Cash Flows | Non Cash Changes | Balance at 31 March 2020 |
|---------------------------------------------------|----------------------------|-------------------------|---------------------|-----------------------------------|
| Long Term Borrowings | (397,786) | (44,477) | | (442,263) |
| Short Term Borrowings | (279,026) | 39,328 | | (239,698) |
| PFI Liabilities | (132,764) | 18,374 | 16,024 | (98,366) |
| Net cash outflow from financing activities | (809,576) | 13,225 | 16,024 | (780,327) |

| | Balance at 1 April 2018 | Financing Cash Flows | Non Cash Changes | Balance at 31 March 2019 |
|---------------------------------------------------|----------------------------|-------------------------|---------------------|-----------------------------------|
| Long Term Borrowings | (397,786) | | | (397,786) |
| Short Term Borrowings | (212,711) | (66,315) | | (279,026) |
| PFI Liabilities | (137,649) | 17,937 | (13,052) | (132,764) |
| Net cash outflow from financing activities | (748,146) | (48,378) | (13,052) | (809,576) |

Notes to the Accounts

Note 42: Prior period adjustments

This note summarises the adjustments made to the 2018/19 comparators in these accounts from the figures in the 2018/19 Statement of Accounts for:

- a) The comprehensive income and expenditure statement changes in structure for Highways, Transport and Environment, Resources, and Transformation, Partnership and Prosperity departments. It also reflects the summarising by department on the statement.

2018/19 Original format (subtotals from CIES):

| | Expenditure | Income | Net Expenditure |
|---------------------------------------------------|------------------|------------------|--------------------|
| | £000 | £000 | £000 |
| Delegated Schools | 331,814 | (331,672) | 142 |
| Children, Families, Lifelong Learning and Culture | 555,906 | (274,799) | 281,107 |
| Health, Wellbeing & Adult Social Care | 517,750 | (153,878) | 363,872 |
| Highways, Transport & Environment | 224,633 | (23,960) | 200,673 |
| Customer, Digital & Transformation | 125,980 | (11,303) | 114,677 |
| Finance, Law & Governance | 12,619 | (2,868) | 9,751 |
| Central Income & Expenditure | 18,881 | 3,641 | 22,522 |
| Cost of Services - Continuing Operations | 1,787,583 | (794,839) | 992,744 |

Restated in revised 2019/20 management structure:

| | Expenditure | Income | Net Expenditure |
|-------------------------------------------------|------------------|------------------|--------------------|
| | £000 | £000 | £000 |
| Children, Families, Learning & Culture | 555,906 | (274,799) | 281,107 |
| Delegated Schools | 331,814 | (331,672) | 142 |
| Adult Social Care | 487,263 | (123,448) | 363,815 |
| Public Health | 30,487 | (30,430) | 57 |
| Community Protection | 59,289 | (2,715) | 56,574 |
| Transport & Environment | 164,506 | (21,205) | 143,301 |
| Resources | 123,236 | (12,729) | 110,507 |
| Transformation, Partnership & Prosperity | 27,041 | (1,492) | 25,549 |
| Central Income & Expenditure | 8,041 | 3,651 | 11,692 |
| Cost of Services - Continuing Operations | 1,787,583 | (794,839) | 992,744 |

These changes are also reflected in Note 1 and Note 1a, Expenditure Funding Analysis, and in the Group Accounts.

Group Accounts

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, Hendeca Ltd (formerly 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 trading as at 31 March 2020. 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 in the narrative report*), 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 2019

Year ended 31 March 2020

| Gross Expenditure £000 | Income £000 | Net Expenditure £000 | Gross Expenditure | Gross Expenditure £000 | Income £000 | Net Expenditure £000 |
|---------------------------|--------------------|-------------------------|-----------------------------------------------------------|---------------------------|--------------------|-------------------------|
| 555,906 | (274,799) | 281,107 | Children, Families, Learning & Culture | 526,871 | (252,612) | 274,259 |
| 331,814 | (331,672) | 142 | Delegated Schools | 376,005 | (361,295) | 14,710 |
| 484,890 | (125,047) | 359,843 | Adult Social Care | 503,217 | (131,577) | 371,640 |
| 30,487 | (30,430) | 57 | Public Health | 30,795 | (809) | 29,986 |
| 59,304 | (3,840) | 55,464 | Community Protection | 46,908 | (7,209) | 39,699 |
| 164,506 | (19,764) | 144,742 | Transport & Environment | 209,041 | (21,553) | 187,488 |
| 124,155 | (11,328) | 112,827 | Resources | 146,907 | (17,937) | 128,970 |
| 27,041 | (1,489) | 25,552 | Transformation, Partnership & Prosperity | 45,270 | (14,825) | 30,445 |
| 8,041 | 3,650 | 11,691 | Central Income & Expenditure | 1,474 | (1,123) | 351 |
| 1,786,144 | (794,719) | 991,425 | Total services' revenue expenditure | 1,886,488 | (808,940) | 1,077,548 |
| 35,829 | (25,711) | 10,118 | Other Operating Income & Expenditure | 21,809 | (23,526) | (1,717) |
| 261,549 | (95,452) | 166,097 | Financing & Investment Income & Expenditure | 191,257 | (75,901) | 115,356 |
| | (891,657) | (891,657) | Local Taxation | | (821,853) | (821,853) |
| | (180,143) | (180,143) | General grants & contributions | | (165,134) | (165,134) |
| 2,083,522 | (1,987,682) | 95,840 | Deficit on Provision of Services | 2,099,554 | (1,895,354) | 204,200 |
| | | 708 | Tax expense of subsidiaries | | | 1,137 |
| | | 96,548 | Group deficit | | | 205,337 |
| | | (64,655) | (Surplus) or deficit on revaluation of non-current assets | | | (48,285) |
| | | 120,173 | Remeasurement of the net defined benefit liability | | | (249,703) |
| | | 55,518 | Other Comprehensive Income & Expenditure | | | (297,988) |
| | | 152,066 | Total Comprehensive Income & Expenditure | | | (92,651) |

Group Movement in Reserves Statement

| <u>2019/20</u> | 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 | SCC Share of Subsidiary Reserves £000 | Total Group Reserves £000 |
|------------------------------------------------------------------------|------------------------------------------------------|----------------------------------------|----------------------------------------------------------------|-------------------------------------|------------------------------|-----------------------------------|------------------------------------------------|---------------------------------|
| Balance at 31 March 2019 | (212,973) | (46,858) | (110,610) | (370,441) | 772,933 | 402,492 | 29,183 | 431,675 |
| Adjustment to Opening Balance | | | | | | | 851 | 851 |
| Revised Opening Balance | (212,973) | (46,858) | (110,610) | (370,441) | 772,933 | 402,492 | 30,034 | 432,526 |
| (Surplus) or deficit on provision of services | 173,244 | | | 173,244 | | 173,244 | 32,093 | 205,337 |
| Other comprehensive income & expenditure | | | | | (298,201) | (298,201) | 213 | (297,988) |
| Total comprehensive income & expenditure | 173,244 | | | 173,244 | (298,201) | (124,957) | 32,306 | (92,651) |
| Adjustments between accounting basis & funding basis under regulations | (227,627) | 1,888 | 17,532 | (208,207) | 208,207 | | | |
| Increase/decrease in year | (54,383) | 1,888 | 17,532 | (34,963) | (89,994) | (124,957) | 32,306 | (92,651) |
| Balance at 31 March 2020 | (267,356) | (44,970) | (93,078) | (405,404) | 682,939 | 277,535 | 62,340 | 339,875 |
| <u>2018/19</u> | 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 | SCC Share of Subsidiary Reserves £000 | Total Group Reserves £000 |
| Balance at 31 March 2018 | (161,878) | (92,504) | (77,137) | (331,519) | 596,268 | 264,749 | 12,367 | 277,116 |
| (Surplus) or deficit on provision of services | 82,225 | | | 82,225 | | 82,225 | 16,816 | 99,041 |
| Other comprehensive income & expenditure | | | | | 55,518 | 55,518 | | 55,518 |
| Total comprehensive income & expenditure | 82,225 | 0 | 0 | 82,225 | 55,518 | 137,743 | 16,816 | 154,559 |
| Adjustments between accounting basis & funding basis under regulations | (133,320) | 45,646 | (33,473) | (121,147) | 121,147 | | | |
| Increase/decrease in year | (51,095) | 45,646 | (33,473) | (38,922) | 176,665 | 137,743 | 16,816 | 154,559 |
| Balance at 31 March 2019 | (212,973) | (46,858) | (110,610) | (370,441) | 772,933 | 402,492 | 29,183 | 431,675 |

Group Balance Sheet

| As at 31.03.2019 | £000 | Note: | As at 31.03.2020 | £000 |
|---------------------|------------------------------------|-------|---------------------|------|
| 1,750,856 | Property, plant & equipment | | 1,729,569 | |
| 1,024 | Heritage assets | | 1,024 | |
| 440,225 | Investment property | 5 | 401,739 | |
| 6,727 | Intangible assets | | 7,278 | |
| 401 | Long term investments | 6 | 263 | |
| 683 | Long term debtors | 6 | 301 | |
| 2,199,916 | Long term assets | | 2,140,174 | |
| | Short Term: | | | |
| 268 | Intangible assets | | 2,515 | |
| 400 | Assets held for sale | | 1,296 | |
| 1,165 | Inventories | | 138,348 | |
| 208,782 | Short term debtors | | 60,721 | |
| 61,480 | Cash & cash equivalents | | | |
| 272,095 | Current Assets | | 202,880 | |
| | Short Term: | | | |
| (279,026) | Borrowing | | (239,698) | |
| (233,331) | Creditors | | (222,937) | |
| (5,974) | Provisions | | (735) | |
| (11) | Revenue grants receipts in advance | | (176) | |
| (105) | Capital grants receipts in advance | | (34) | |
| (16,938) | Other current liabilities | | (17,084) | |
| (535,385) | Current liabilities | | (480,664) | |
| | Short Term: | | | |
| (40,862) | Provisions | | (20,777) | |
| (397,786) | Long term borrowing | | (442,266) | |
| (1,929,653) | Other long term liabilities | | (1,739,222) | |
| (2,368,301) | Long term liabilities | | (2,202,265) | |
| (431,675) | Net assets/liabilities(-) | | (339,875) | |
| | Usable reserves | | (343,064) | |
| 772,933 | Unusable reserves | | 682,939 | |
| 431,675 | Total Reserves | | 339,875 | |

Group Cash Flow Statement

| 2018/19 £000 | | 2019/20 £000 |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 96,548 | Net surplus (-) / deficit on the provision of services | 205,337 |
| (109,584) | Adjustments to net surplus / deficit on the provision of services for non-cash movements | (313,426) |
| (28,936) | Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities | (29,485) |
| (41,972) | Net cash inflows from operating activities | (137,574) |
| 74,871 | Purchase of property, plant & equipment, and investment property | 143,154 |
| (9,021) | Proceeds from the sale of property, plant & equipment | (14,704) |
| 5,014 | Payments for short-term and long-term investments | (16) |
| 0 | Receipts of short-term and long-term investments | |
| 14,026 | Other receipts & expenditure from investing activities | (3,326) |
| 84,890 | Net cash outflows from investing activities | 125,108 |
| 17,938 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | 18,374 |
| 750,502 | Payments for short-term and long-term borrowing | 954,961 |
| (816,817) | Receipts of short-term and long-term borrowing | (960,110) |
| (48,377) | Net cash inflows from financing activities | 13,225 |
| (5,459) | Net increase (-) / decrease in cash & cash equivalents | 759 |
| (56,021) | Cash & cash equivalents at the beginning of the reporting period | (61,480) |
| (61,480) | Cash & cash equivalents at the end of the reporting period | (60,721) |

The cash flows from operating activities in 2019/20 include interest received of £15.3m (2018/19, £13.0m) and interest paid of £32.7m (2018/19, £31.7 m).

Notes to the Group Accounts

Note 1: General

The Group Accounts should be read in conjunction with the Surrey County Council single entity accounts. 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 Hendeca (formerly SE Business Services Ltd), Surrey Choices Ltd and Halsey Garton Property Ltd which are consolidated into these accounts. The paragraphs at the end of this section provide information on the nature of risks associated with each company.

- Hendeca Group 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 31/03/2020 only the holding company and Halsey Garton Property Investments Ltd were 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. 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 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. 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:

Hendeca Group 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.

Notes to the Group Accounts

Note 3: Accounting policies

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

Note 4: Material Items of income & expenditure

During 2019/20 there was no material items of Income and Expenditure other than those disclosed in Surrey County Council's accounts.

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 2020, 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:

| 2018/19 | | 2019/20 |
|---------------|----------------------------------------------------------------------|-----------------|
| £000 | | £000 |
| 20,986 | Rental income from investment property | 25,142 |
| (9,709) | Direct operating expenses arising from investment property | (1,599) |
| <u>11,277</u> | Net gain | <u>23,543</u> |
| | Gain on sale of investment property | 1,050 |
| 1,858 | Net (loss)/gain on fair value adjustments | (38,057) |
| <u>13,135</u> | Income & expenditure in relation to investment properties | <u>(13,464)</u> |

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

| 2018/19 | | 2019/20 | Office | Indust- rial | Retail | Other | Fair Value Hierarchy |
|----------------|--------------------------------------|----------------|----------------|-----------------|----------------|---------------|-------------------------|
| £000 | | £000 | £000 | £000 | £000 | £000 | |
| 319,425 | Balance 01/04/2018 | 440,225 | 166,900 | 56,350 | 182,175 | 34,800 | Level 2 |
| 97,195 | Purchases | 882 | 882 | | | | |
| 21,748 | Reclassifications | 189 | 112 | | | 77 | |
| | Disposal | (1,500) | (1,500) | | | | |
| | Net loss from fair value adjustments | (38,057) | (4,182) | 1,450 | (29,775) | (5,550) | |
| <u>1,857</u> | | | | | | | |
| <u>440,225</u> | Balance at 31/03/19 | <u>401,739</u> | <u>162,212</u> | <u>57,800</u> | <u>152,400</u> | <u>29,327</u> | Level 2 |

Notes to the Group Accounts

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 of the Surrey accounts for more information).

Note 6: Financial instruments

Categories of Financial Instruments

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

| Financial Assets | 1 April 2019 | 31 March 2020 |
|------------------------------------------|---------------------|----------------------|
| Fair value through profit or loss | | |
| Long Term Investments | | |
| Cash | 30,720 | 32,200 |
| Total | 30,720 | 32,200 |
| | £000 | £000 |
| Amortised Cost | | |
| Long Term Investments | 401 | 263 |
| Long Term Debtors | 575 | 301 |
| Short Term Debtors | 125,333 | 94,585 |
| Cash | 30,760 | 28,521 |
| Total | 157,069 | 123,670 |
| Total Financial Assets | 187,789 | 155,870 |
| Non-Financial Assets | 2,284,222 | 2,187,184 |
| Total | 2,472,011 | 2,343,054 |

Note 7: External audit costs

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

| 2018/19 | | 2019/20 |
|----------------|---------------------------------------------------------------------------------------------------------------------------------|----------------|
| £000 | | £000 |
| | Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year | |
| 126 | Grant Thornton | 140 |
| 24 | UHY Hacker Young | 47 |
| | Fees payable to the external auditors for the certification of | |
| 8 | grant claims and returns for the year | 4 |
| 0 | CFO Insights Subscription Fee | 13 |
| 158 | Total | 204 |

ANNUAL GOVERNANCE STATEMENT 2019/20

Surrey County Council (the council) has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, that there is a sound system of governance and appropriate controls and that public money is safeguarded, managed and accounted for. Despite having achieved a significant amount over the last 18-24 months, especially with regards to stabilising the finances for the medium-term, we recognise we are still on a journey of change and transformation. There is still much more to do.

Since March 2020, the COVID-19 pandemic has had a significant impact on all council services, partners and operations. This has cut across all aspects of council governance described in this Annual Governance Statement (the Statement), therefore significant changes to a number of key governance systems were introduced in March 2020 to accommodate this new environment.

The first section of this Statement sets out the council’s governance arrangements during 2019/20 and the second section details the changes implemented in response to the pandemic and the associated emerging risks for 2020/21.









2019/20 Context

We have made significant steps forward in stabilising our finances and simultaneously improving service performance over the last 18 months. The benefits are now emerging, having built greater resilience into our 2020/21 budget and medium-term financial position. Our clear strategic focus has helped us take decisions to transform the organisation at scale and pace to secure better outcomes for residents and develop a council that is fit for the future.

The current context of an uncertain and rapidly changing environment has informed the refreshed Organisational Strategy for 2020 – 2025. The Organisational Strategy puts us in a strong position to look ahead to the next five years and positions us well to deliver our ambitious agenda through the next phase of our transformation journey.

OUR FOCUS FOR THE NEXT 5 YEARS 2020 - 2025






We are changing and improving what the Council does and how it delivers services to reflect the ways in which our residents and communities now live their lives. We are now a year into our transformation to become a leading council. We are ambitious about our future and here we outline where our focus lies in the years ahead.


| | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Tackling inequality Working with residents in every area of Surrey to identify and address causes of inequality, especially in life expectancy for everyone.</p>  | <p>Supporting independence Helping residents help themselves and each other within their community.</p>  | <p>More joined up health and social care Integrating health and council services so they're more effective, efficient and seamless for residents.</p>  | <p>Creating a greener future Tackling the causes of climate change and become a carbon-neutral county as soon as possible.</p>  |
| <p>Embracing Surrey's diversity Recognising the benefits of a diverse workforce and population to ensure Surrey is a place full of opportunity.</p>  | <p>Partnership Working with residents, businesses, partners and communities to collectively meet challenges and grasp opportunities.</p>  | <p>Supporting the local economy Investing in the infrastructure Surrey needs to build a strong and resilient economy.</p>  | <p>Digital revolution Making the most of new technology to innovate and improve services, and the way we work, to help Surrey and residents thrive.</p>  |

THE PRINCIPLES GUIDING OUR WORK:

- 1** Focus on ensuring no one is left behind
- 2** Take a fresh approach to working in partnership
- 3** Support people to help themselves and each other
- 4** Involve and engage residents earlier and more often in designing and delivering services, and responding to challenges

OUR VALUES:
we care about -

-  our residents
-  being excellent
-  being open
-  working together
-  respecting others



SURREY COUNTY COUNCIL

Annual Governance Statement

The Council's Transformation Programme

Over the last year we have made good progress in delivering the far reaching and ambitious transformation programme, agreed by County Council and launched in November 2018, alongside a refresh of our organisational priorities. The transformation programme was developed to address immediate financial and performance challenges and to commence the fundamental reform of the organisation to ensure we deliver the best possible outcomes for our residents. At the end of 2019/20, the programme achieved £39m (75%) of the £52m efficiency target which formed part of the total £82m required to balance the budget. The programme has been co-ordinated and tracked through the Transformation Support Unit and the relevant Select Committees have reviewed specific projects in order to help shape the transformational agenda and scrutinise progress.

Different approaches have now been applied in key service areas and we are seeing the positive impact this can have for residents. For example, the new strength-based practice approach in Adult Social Care and the Effective Family Resilience Model in Children's Services.

In October 2019, the Cabinet agreed a refreshed transformation programme, alongside a revised Organisational Strategy and the 2019/20 Budget and Medium-Term Financial Strategy. The refocused transformation programme has moved towards a focus on outcomes, designed around residents' needs. It also deepens our joint work with the health system through collaborative work with Surrey Heartlands, delivering a single set of shared transformation goals which are aligned to the Health and Wellbeing Strategy.

Systems and Process Transformation

The Digital Business & Insights (DB&I) Programme has been put in place to deliver a more modern, intuitive, and efficient back office. This will enable the council to achieve its ambitions to drive service transformation, improve management decision making, deliver sharper insight, and move to a more flexible and mobile workforce. The programme is now at an advanced stage of the procurement process, which has moved at pace during 2019/20.

The Executive Director of Resources (Section 151 and Senior Responsible Officer for the Programme) chairs the Strategic Programme Board comprising corporate directors, directorate leadership and programme delivery leads, which sponsors the transformation, makes strategic decisions, allocates resources and ensures the effective management of escalated issues and risks. A three-tier governance framework will be in place for the implementation stage. This will ensure that programme business is conducted effectively at the appropriate level in the framework and involve the right stakeholders. This will facilitate timely decision making and efficient and productive delivery. Transformation programmes of this calibre have supported the organisation in achieving its ambition of financial sustainability over the medium-term.

Financial Management Transformation – Revenue and Capital

This financial year has seen an ambitious step change in the financial management and resilience of the council. Although we began the year in a significant projected overspend (£10.3m), we are proud to say that we have ended the year with a small surplus. This is due to the tireless work of our services in continuing to deliver transformation activity to ensure we have a grip on our finances, whilst also supporting our residents' needs.

This time last year, the budget set for 2019/20 was focused on achieving two important benchmarks: that it was realistic and achievable, and that it avoided the use of general fund reserves to make it balance. This followed an in-year recovery plan that avoided the planned use of reserves during

Annual Governance Statement

2018/19 and ended a three-year period of using reserves and one-off funding in order to balance the budget.

We have successfully achieved a balanced budget for 2019/20 without the use of reserves and the 2020/21 Budget has been set without such a requirement. The COVID-19 pandemic has recently added financial pressure to the council in delivering its services and we are constantly refining our costs, income loss and risk projections. In 2019/20 we received £25.2m from Central Government as a contribution to the cost of the pandemic and have also received an additional £21.8m (a total of £47m). A proportion of this has been allocated to costs and income loss (£0.9m) experienced in 2019/20 and the balance has been carried forward to 2020/21.

Over the last 12 months significant strides have been made towards improving the quality of our performance to secure better outcomes for our residents, supported by robust finances. The Budget for 2020/21 builds on this foundation and moves us closer towards the overall objective of financial sustainability.

The council's External Auditors' 2018/19 report on value for money, published in September 2019, gave a qualified conclusion: *'Because of the significance of the matters we identified in our work, we were not satisfied that the council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.'* This was due to issues in Children's Services regarding performance management and development of the workforce, and the council's continuing financial challenges and monitoring of savings targets.

The Finance Improvement Programme was established in September 2018 and phase 1 has tackled all aspects of improving financial management:

- Critically evaluating the skills and behaviours needed of a modern finance function (for both the Finance team and the business)
- Implementing a Business Partner culture
- Designing and appointing a new Finance Leadership Team
- Restructuring the department from top to bottom and recruiting people with the desired behaviours
- Co-designing a Partnership Agreement with services
- Making improvements to processes and
- Designing a Finance Academy to support the Finance team and services, as well as elected members.

The Programme's success has been validated by the fact that the Finance team have been shortlisted for the Public Finance Team of the Year award 2020. Phase 1 has been formally closed down with affirmation from Cabinet and we will swiftly move onto phase 2.

Whilst we have come a long way, we still have much more to do to achieve the financial resilience and sustainability ambitions we have identified. We are currently working through a reset of the 2020/21 budget in light of COVID-19 and the additional Central Government funding, to ensure we can continue to deliver a balanced budget despite the pressures being felt, by refining the costs, income loss, risks and opportunities estimates. In conjunction, we are revisiting and refining the delivery of efficiency targets for 2020/21, including those associated with the transformation programme.

To improve the efficiency and effectiveness of the administration of our financial affairs, we have updated our Financial Regulations. They include our new capital governance arrangements, clearer guidance on approval for reserves and revenue virements and the new finance operating model (the Partnership Agreement for Excellent Financial Management and adoption and embedding of a Business Partnering approach).

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We have also redesigned our capital budgeting, monitoring and approvals processes to allow for faster reporting and decision-making, with the appropriate level of accountability. Capital projects are subject to a rigorous governance process to ensure they are aligned with the council's priorities, represent value for money and are capable of being delivered within expected timescales.

Capital Strategy Groups for Infrastructure, Property and IT develop projects throughout the budget setting process. These are scrutinised and approved by a Capital Programme Panel; a group of officers from across the organisation, including the council's Section 151 Officer (or Deputy) and senior service representatives. Projects approved by the Capital Programme Panel are then included in the budget for approval by Cabinet and County Council. These new processes have required a significant shift in the culture and decision-making processes of the council over the past year.

Organisational Culture

Much work has been undertaken during 2019/20 in support of shifting our organisational culture. This has included a root and branch review of pay and reward, leading to the introduction of a new pay model and associated terms and conditions, a fundamentally different approach to performance reviews and sponsored leadership development activity, as well as targeted development for priority areas within the council in support of service specific transformation ambitions.

The cultural diagnostic work undertaken during 2018/19 led this year to the development of new corporate values and "working principles" designed to prompt the shift in behaviour needed to create a culture that is, amongst other things, open and inviting. This cultural shift is vital in supporting our transition to agile working, where our vision is for a workforce who can work anytime, anywhere, with the adoption of technology and working practices that will enable us to be an increasingly modern, flexible and responsive organisation.

Leadership has remained a vital element in the growth of our people over the last year, supported by an increased focus on supporting employees and managers to have effective performance/career conversations. We have made significant progress in our shift to more digital ways of Learning and Development delivery to ensure our people can quickly get to the content they need to support them in their roles. This has included our frontline staff undertaking the statutory training necessary for compliance with professional standards.

Another key area of cultural focus has been diversity and inclusion. This saw the launch of our #Talking Diversity Tour which ran during November-December 2019, reaching around 250 staff across the county, including targeted sessions with young employees, women, BAME and LGBTQ+ staff. In parallel a survey was undertaken, attracting over 150 responses. Our aim is to create a working environment that celebrates and embraces difference, enables a sense of belonging and provides equal opportunity for all. One where the residents we serve feel respected, listened to and valued as members of our community, both of which support a key objective of the Community Vision 2030: "no-one left behind".

Looking forward, the council's People Strategy has been refreshed to align with the refreshed Organisational Strategy. The following areas of focus reflect our priorities for 2020/21 and beyond:

- * Strong and nurturing leadership
- * Clarity of purpose
- * Culture of innovation
- * Diversity and inclusion
- * Collaboration
- * Agile workforce
- * Skills for the future
- * Roles that can flex
- * A compelling employer brand

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Service specific governance considerations:

In addition to the organisation-wide areas discussed above, there are some service specific governance arrangements to consider:

Children's Services

The council, with its partners, has been going through a process of fundamental change in response to two consecutive Ofsted ratings of 'Inadequate' and the organisation's own acknowledgement that improving outcomes for our most vulnerable children had not been fully effective. Services for children and families are being transformed at pace with a renewed focus on quality and consistency of practice.

As part of the first stage of the improvement programme we have:

- Completed a top to bottom reorganisation of the structure with the new model for all services in place from April 2019;
- Implemented the new front door arrangements and our Single Point of Access, ensuring the council has preventative and early help services in place to assist at the earliest possible moment in a child's life;
- Implemented the Family Safeguarding Model first pioneered in Hertfordshire, which will improve the quality of work we do with families, and outcomes for children and parents;
- Set up a new Quality Assurance division to enable us to monitor and report on our practice and deliver consistent, high quality and cost-effective support to children;
- Launched the Surrey Children's Services Academy in January 2019, which provides a learning & development offer for staff meaning we can drive up and maintain professional standards;
- Committed to strengthen our relationship with foster carers, adopters and other carers and significantly increased our recruitment of foster carers;
- Transitioned to the new Safeguarding Partnership arrangements in Surrey designed to ensure strong and effective partnership working in child protection and safeguarding practice across the county and promote the continuous improvement of these services; and
- Increased capital investment in Looked After Children (LAC) through Community Children's Homes, developing specialist children's placements for children with complex needs, contact family centres and Care Leaver accommodation.

The Children's, Families and Lifelong Learning directorate has made significant progress on its county-wide transformation programme in the last 12 months. In order to continue this progress and deliver the efficiencies within the 2020/21 budget and beyond these changes need to be embedded. Hence we are working in collaboration with both internal and external partners to ensure transformation programmes are deliverable and effective.

Health

The health and care system in Surrey is complex, with a complicated governance architecture across multiple NHS partnership boundaries. There are a large number of meetings needing attendance and servicing which have contributed to making working towards closer integration between the County and the NHS challenging. During 2019/20 the council has continued to progress work with NHS partners to integrate health and social care. Commissioning arrangements have evolved with a Surrey-wide commissioning committees-in-common forum established.

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A new ten-year Surrey Health and Wellbeing Strategy has also been launched – the product of unprecedented collaboration between the NHS, the council and wider partners, including the voluntary and community sector and the police. The revised Board membership is drawn from a wider range of organisations to reflect a stronger focus on the wider determinants of health and improving health outcomes for residents.

Waste Private Finance Initiative (PFI)

The council has a waste PFI contract through which it manages the recycling and disposal of waste and develops and operates waste infrastructure.

The contract attracts government “Waste Infrastructure Grant” (PFI credits) over its 25-year term, currently £3m per year, and this amount is due to increase once the Eco Park has been delivered. Completion of the Eco Park is currently delayed, which has a number of implications including changes in the timing and level of costs. The council continues to monitor progress closely, whilst also assessing available options on the future of the waste contract to allow an informed decision to be made. The current contract is due to expire in 2024 and work has commenced to commission new service arrangements.

Compliance and Risk

The council’s financial management arrangements during 2019/20 fully complied with CIPFA’s Statement on the Role of the Chief Finance Officer (CIPFA, 2010). The Executive Director of Resources (s151) met his financial responsibilities during the year and ensured financial management arrangements were in place. He reports directly to the Chief Executive and had regular contact with the Leader and key Members, Monitoring Officer, Chief Internal Auditor and other Executive Directors.

During the year, a strategic risk management baseline review was carried out by an independent risk consultant. Their recommendations were both operational and strategic. We are currently in the process of seeking a risk management partner to help us embed this culture in the organisation, through an integrated council-wide approach. The recommendations will form part of the council’s overall business planning and performance monitoring framework and will be reported to the Corporate Leadership Team and the Audit & Governance Committee.

The Chief Internal Auditor has provided reasonable assurance that the council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2019 to 31 March 2020. Significant effort continues to be made by the organisation to strengthen governance, risk management and internal control. Additionally, major transformational programmes have started to deliver their anticipated benefits during the year. The next phase is to turn our focus to the reporting of their delivery and achievement of organisational objectives.

Performance Reporting

The Insight, Analytics and Intelligence team, formed at the end of 2018/19, has implemented a new Business Planning and Performance Framework, providing greater insight and assurance on the authority’s ability to achieve 2025 objectives and the impact for our people, projects and programmes for our residents.

The new framework has resulted in the following:

- Implementation of the 2030 Vision for Surrey, supported by an evidence-based dataset of qualitative, quantitative analytics and resident insight.
- Agreed delivery plans for each service, aligned to the strategic outcomes in the organisational strategy.

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- Focused performance conversations with senior and operational leads, challenging progress against a range of key performance indicators
- A framework focused on People, Place, Organisation, Transformation, Risk, Finance and Service Improvement.
- Improved use of Tableau, a data visualisation tool, utilising data automation techniques to provide timely & accurate data and reduce the burden of producing manual performance reports.

The response to the COVID-19 outbreak has seen an improvement in performance reporting and data quality. The organisation has been able to respond quickly; providing data to support timely decision making ensuring services are in place to support Surrey residents.

The Council's response to the COVID-19 pandemic in March 2020

Robust governance arrangements were put in place at the beginning of the pandemic in March 2020, with clear reporting and escalation to ensure effective and swift decision making in response to COVID-19 activity. This included:

- A Strategic Coordination Group to ensure coordination across partners to support the response;
- The setup of a number of Strategic Coordination Group cells to co-ordinate activity to address the impact of COVID-19 on individuals, communities and services;
- A SCC resources co-ordination and mobilisation hub that acted as a single point of access for resources and reporting;
- A COVID-19 Operational Group that identified priority needs linked to risks, solved any blockers and escalated specific resources gaps; and
- The Corporate Leadership Team that provided strategic oversight on resource management.

The Surrey Local Resilience Forum (SLRF) is coordinating the county-wide response to COVID-19 and incorporates all partners across Surrey. SLRF is led by Surrey County Council, Surrey Police and Surrey Fire and Rescue Service working closely with District and Borough councils and all health partners. They also work alongside many community, voluntary sector and faith groups who co-ordinate projects at a local level.

A process for capturing, recording and reporting COVID-19 costs and risks was put in place by Finance, Procurement and Legal to ensure a robust process with a clear audit trail. Costs and risks were updated and reviewed regularly by the COVID-19 operational group and the Corporate Leadership Team.

Reporting of Finances during COVID-19

Over the course of the pandemic we have been providing regular updates of our finances to MHCLG and internally to the Corporate Leadership Team and Cabinet. We have filed two returns with MHCLG with the next return imminent. We continue to include the COVID-19 related financial information with respect to costs, income loss and risks through our routine financial reporting. We have done a significant amount of work to support our providers, businesses and the VCF sector over this period by evaluating how we can ensure we facilitate them to be financially viable.

Decision Making

The Leader and Council amended their schemes of delegation to ensure transparent decision making could continue in the possible absence of formal council meetings. The council put in place arrangements to enable remote committee meetings to take place so that Members could continue their decision-making roles. Any decisions that were taken under delegated authority have been published on the council's website, reviewed by the Audit and Governance Committee and reported at the monthly Cabinet meeting.

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HR & Organisational Development

The COVID-19 pandemic inevitably brought a number of employment related challenges. The council responded swiftly to the Government’s announcement that as many people as possible should work from home. The vast majority of our non-frontline staff were doing this ahead of lockdown, supported by the technology and, where necessary, office equipment to enable them to undertake their role. The rapidly changing circumstances of the pandemic resulted in the need to make very quick decisions in response, e.g. the redeployment within days of over 100 staff to support the Local Resilience Forum alongside, through delegated decision making arrangements agreed by Full Council in early March and the temporary reinstatement of terms and conditions dissolved through previous pay reviews.

These fundamental changes to working practices necessitated specific support alongside the usual Organisational Development offer to ensure the council did all it could to protect the welfare of our workforce: for managers who found themselves leading remote teams; for staff suffering anxiety and isolation; for those people experiencing bereavement and in particular, for our frontline staff facing unprecedented challenges. This support was developed and promoted at pace and has been adapted throughout the various stages of the pandemic.

Culturally, our aim of being “open and inviting” has been put to the test through the pandemic; partnership working has accelerated immeasurably through working towards common goals, one example of which has been the creation, in an extraordinarily short timescale, of the new NHS Mary Seacole Headley Court community hospital; the product of truly excellent multi-agency working.

Internal Audit

At the outset of the COVID-19 outbreak Internal Audit suspended the majority of its planned activities in order to support the organisation in different ways. This included providing advice and assurance where processes and controls were changed to facilitate faster and different responses to pressures on services and providing assurance around the robustness of operating practices in key activities such as business continuity arrangements and COVID-19 response protocols.

A Recovery Coordinating Group (RCG) has been put in place to oversee the steps that need to be taken to resume the County’s normal operating procedures where appropriate and ensure essential services are in place as the lockdown measures are eased. In parallel, the RCG has established a number of Sub-Groups (e.g. health and social care, economy and retail, travel and transport, etc.) to work on and coordinate the detailed recovery activity that needs to be undertaken to restore basic services.

The council is currently capturing lessons learned during the pandemic and identifying areas of focus for the future. This includes feedback from staff surveys to capture the experience of staff, qualitative feedback from redeployees, and quantitative analysis of relevant workforce data (for example numbers redeployed, where staff were redeployed to and sickness levels).

2018/19 Annual Governance Statement Action Plan – Follow Up

| Issue identified during 2018/19 | Action taken during 2019/20 |
|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Financial Sustainability</p> <p>Significant level of risk in the 2019/20 budget, including challenging savings targets.</p> | <p>The council set a balanced budget for 2019/20 without the use of Reserves. Our outturn position reported a small surplus (c£0.2m) and has enabled us to build General Fund Reserves and the Contingency for 2020/21 to set us in good stead for the medium-term. Of the £82m Savings Programme for 2019/20 £72m (88%) of savings were delivered, the balance of £10m was substituted by one-off alternative savings. The 2020/21 budget includes efficiency targets of £38m. We have already</p> |

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| | |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issue identified during 2018/19 | |
| | commenced planning for the 2021/22 -2025/26 Budget and MTFS, including a review of the efficiency programme |
| Organisational Culture Ensure the organisational culture is aligned to our strategy. | We have developed new corporate values and “working principles” designed to prompt the desired shift in behaviour. |
| Children’s Services Major change in response to two consecutive Ofsted ratings of ‘Inadequate.’ | We have continued to deliver against the Children’s Improvement Plan with regular progress reports to Cabinet and the Ofsted Priority Action Board. |
| Decision Making Ensure transparency and strong engagement on key issues and decisions. | <p>The council’s scrutiny function has been reviewed and a new model consisting of four select committees and an informal Select Committee Chairmen’s Group was approved at the May 2019 County Council meeting and implemented. The Audit and Governance Committee was charged with reviewing the effectiveness of the new arrangements and has undertaken some work on this but due to COVID-19 this work will now continue into 2020/21.</p> <p>A report including updates to the council’s Scheme of Delegation to streamline decision making was taken to the Leader’s decision-making meeting on 3rd September and then to County Council on 8th October for ratification.</p> <p>A review of the processes around Cabinet has been undertaken to ensure that teams are working effectively together and that processes are focussed, efficient and agile. The decision-making processes were found to be fit for purpose and actions arising from the review include developing improved ways of working across the organisation to support the democratic processes and work is underway to implement this.</p> |
| Performance Reporting Lack of council performance monitoring. | A new Business Planning and Performance Framework has been implemented, providing greater insight and assurance on the authority’s ability to achieve its vision and objectives. |
| Partnerships Progressing the Vision for Surrey ambition of closer working with our partners | We have: <ul style="list-style-type: none"> - further developed our partnership with health, through Surrey Heartlands, for example creating an integrated transformation unit to drive and coordinate joint programmes; - brought the Health and Well-being Board and Community Safety Partnership together to ensure closer alignment of their work and simplified strategic governance; - established a Growth Board to bring together a range of partners with an economic focus; |

Annual Governance Statement

| Issue identified during 2018/19 | Action taken during 2019/20 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <ul style="list-style-type: none"> - worked closely with and supported the Community Foundation for Surrey, assisting many charitable, voluntary and faith bodies; and - worked with District and Borough Councils on a range of services and issues, including developing proposals for enhanced locality partnerships. |
| <p>Land & Assets</p> <p>Improve capacity and capability of property services in line with recommendations from external review.</p> | <p>A new leadership team has been put in place including recruitment of key delivery roles and new senior roles linked to services.</p> <p>An Improvement Programme Board has been set up as part of the transformation programme, including scope and full Business Case.</p> <p>A condition and compliance assessment of the estate has been completed.</p> |
| <p>Corporate Resource Capacity</p> <p>Recognise the need for more/improved corporate resources to support the organisation through period of significant change</p> | <p>All services within the Resources directorate have undertaken improvement projects during 2019/20, including service restructures and the start of implementing a business partnering approach.</p> |
| <p>Agile Workforce</p> <p>Need to ensure clear contribution of the Agile workforce transformation project to deliver core business objectives and to the savings they could enable.</p> | <p>The Agile Workforce transformation project has been working with teams across the organisation to establish an understanding of agile working and identify good practice. The technology used by council staff is being upgraded to more modern computer devices, with the Windows 10 operating system rollout underway.</p> |

2020/21 Improvement Plan

| Issue identified during 2019/20 | Action being taken during 2020/21 |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>COVID-19 Recovery Programme</p> | <p>A 'Recovery, Reset and Reform' programme of work is being initiated to ensure:</p> <ul style="list-style-type: none"> • The council is able to function effectively and fulfil its duty of care to residents and staff throughout the pandemic; • There is a smooth transition from the LRF structures to existing partnership arrangements and the county council's own governance processes to allow the major incident to close when appropriate; |

Annual Governance Statement

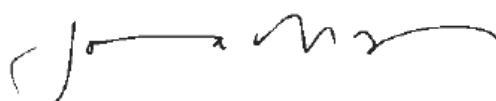
| Issue identified during 2019/20 | Action being taken during 2020/21 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <ul style="list-style-type: none"> • The impacts of COVID-19 are accurately reflected in the current budget and activities adjusted in year to maintain financial sustainability (<i>with a Cabinet/Council decision on this in September if required</i>); and • The council can continue to be ambitious in its vision for the county and has clear strategies in place that still deliver on the overarching aims of Vision 2030 with plans adjusted to mitigate the long-term impact of COVID-19 and take advantage of any opportunities presented to accelerate transformation. |
| <p>Agile workforce</p> <p>Changing our culture and the way we organise ourselves as a council, as well as the practical aspect such as technology.</p> | <p>Rethinking the way we work through a culture of empowerment where staff determine where, when and how they work to be most effective and deliver the best performance and outcomes, underpinned by our working principles.</p> |
| <p>Children’s Services</p> <p>Greater focus on the impact of the Children’s Improvement Programme.</p> | <p>Carrying out significant quality assurance activity including monthly case audits, themed auditing and focused mock inspections.</p> <p>Alongside the ongoing business as usual activities, the Children’s directorate priorities for 2020/21 focus on:</p> <ul style="list-style-type: none"> • Response to the COVID-19 Pandemic • Starting well: first 1000 days • Children’s Services Improvement • SEND and additional needs transformation • Emotional Health and Wellbeing • Libraries and Cultural Services transformation • Enabling our people, utilising our technology and embedding equality and diversity for all. |
| <p>Performance Reporting and Risk Management</p> <p>Embedding the performance management and risk management frameworks.</p> | <p>Analysing and understanding the impact of COVID-19 across Surrey, revising the 2030 vision, organisational strategy and performance reporting framework and risk impacts. Engaging a risk management partner to support the implementation of the baseline review recommendations and embed a risk management culture into the everyday workings of the council.</p> |
| <p>Land & Assets</p> <p>Improving the effectiveness, efficiency and commercialisation of the Land and Property function to ensure it supports service delivery to residents and organisational objectives for the council.</p> | <p>Implementing the Improvement Plan including:</p> <p>Business Performance: Updating Risk, Audit, Governance and business reporting including accurate forecasting.</p> <p>Systems, Data & Processes: Embedding quality and compliance processes and new systems to provide efficient data, workflows and management information.</p> <p>People, Communication and Culture: Strengthening skills, capabilities and investment in people and ensuring clear</p> |

Annual Governance Statement

| Issue identified during 2019/20 | Action being taken during 2020/21 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | accountabilities through a partnership approach to delivery aligned to the corporate strategy and business needs. |
| <p>Governance</p> <p>Improvements to the council's governance including the Member Code of Conduct and Governance Panel.</p> | <p>The Audit and Governance committee will consider and recommend to Council the adoption of a new Code of Conduct for councillors appropriate for the council further to the publication of the new model code by the Local Government Association.</p> <p>The officer Governance Panel will complete a review and action plan for all strands of council governance in adherence with the CIPFA code of good governance to fully inform the improvement of governance systems across the council and contribute to the Annual Governance Statement assurance in 2021.</p> |
| <p>Digital Business and Insights Programme to enable transformative process improvements</p> <p>To facilitate the transformation of our core processes through the replacement of the existing SAP corporate system</p> | <p>This programme is nearing completion of a procurement process to replace the existing SAP corporate system, which manages the council's back office finance, procurement, HR & payroll processes. This transformation programme is now moving towards its implementation phase, which will enable the council to achieve its ambitions to transform our core processes in Finance, HR and Procurement. This will improve reporting with more insightful information to facilitate management decision making and fully enable a flexible and mobile workforce.</p> |
| <p>Pensions Administration Improvement Programme</p> | <p>This function has long suffered from many issues across people, processes and systems. Despite much effort from many over the last few years, it has not been able to progress to the level required to deliver the best practice service we aspire to. As a result, the leadership, governance and ways of working of this function have been redesigned and a new, streamlined programme will be set in train for 2020/21 for delivery over the next 12-24 months.</p> |



Tim Oliver
Leader of the Council
November 2020



Joanna Killian
Chief Executive

November 2020

Pension Funds

Firefighters Pension Fund

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 central 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 38 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 £51m.

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.

Pension Funds

| 2018/19 £000 | Ref: Note | Firefighters' pension fund account | 2019/20 £000 |
|--------------------------|--------------|---------------------------------------------------------------|--------------------------|
| | | Contributions Receivable: | |
| (2,813) | 1 | Contributions receivable from employer (normal) | (5,139) |
| (2,277) | 1 | Contributions receivable from employees | (2,339) |
| | 3 | Individual transfers in from other schemes | |
| <u>(5,090)</u> | | | <u>(7,478)</u> |
| | | Benefits payable | |
| 13,297 | 2 | Pensions | 14,081 |
| 2,160 | 2 | Commutations and lump sum retirement benefits | 5,005 |
| | 2 | Lump sum death benefits | 197 |
| | 3 | Individual transfers out to other schemes | |
| <u>15,457</u> | | Total amounts payable | <u>19,283</u> |
| <u>10,367</u> | | Net amount receivable for the year before top-up grant | <u>11,805</u> |
| (8,350) | 4 | Top-up grant received from Home Office | (7,096) |
| (2,017) | 4 | Top-up grant still owing from Home Office | (4,709) |
| <u>(10,367)</u> | | Net amount payable / receivable for the year | <u>11,805</u> |
| | | Net Asset Statement | |
| 31 March 2019 £000 | | | 31 March 2020 £000 |
| | | Current assets: | |
| 2,017 | | Pension top-up grant receivable from Home Office | 4,709 |
| <u>2,017</u> | | | <u>4,709</u> |
| | | Current liabilities: | |
| (2,017) | | Cash overdrawn | (4,709) |
| <u>(2,017)</u> | | | <u>(4,709)</u> |

Pension Funds

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's 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 £11.8m in 2019/20 (£10.4m in 2018/19) as contributions were insufficient to meet the cost of pension payments due for the year. £7.1m was received in year leaving an outstanding balance of £4.7m due from government (£2.0m 2018/19).

SURREY PENSION FUND ACCOUNTS 2019/2020

Pension Funds

Surrey Pension Fund - Fund account

| 2018/19 | | Note | 2019/20 |
|------------------|---------------------------------------------------------|------|------------------|
| £000 | | | £000 |
| | Contributions and benefits | | |
| 176,776 | Contributions receivable | 7 | 186,625 |
| 14,954 | Transfers in | 8 | 11,082 |
| 191,730 | | | 197,707 |
| (149,832) | Benefits payable | 9 | (161,643) |
| (10,946) | Payments to and on account of leavers | 10 | (15,339) |
| 160,778 | | | 176,982 |
| 30,952 | Net additions from dealings with members | | 20,725 |
| (13,641) | Investment and governance expenses | 14 | (12,431) |
| (1,829) | Administration expenses | | (2,270) |
| (15,470) | | | (14,701) |
| 15,482 | Net additions including fund management expenses | | 6,024 |
| | Return on investments | | |
| 59,055 | Investment income | 16 | 51,320 |
| (785) | Taxes on income | | (551) |
| 185,943 | Change in market value of investments | 17 | (512,885) |
| 244,213 | Net return on investments | | (462,116) |
| 259,695 | Net increase in the fund during the year | | (456,092) |
| | Closing Net Assets of the Scheme | | |
| 4,055,883 | At 1 April (Opening) | | 4,315,578 |
| 4,315,578 | At 31 March (Closing) | | 3,859,486 |

Pension Funds

Surrey Pension Fund - Net asset statement

| 31 Mar 2019 | Note | 31 Mar 2020 |
|------------------|----------------------------------------------------------------------------------------|------------------|
| £000 | | £000 |
| | | |
| | Investment assets | |
| 706,529 | Bonds | 661,248 |
| 2,489,806 | Equities | 2,090,123 |
| 283,240 | Property unit trusts | 280,413 |
| 402,589 | Diversified growth | 394,217 |
| 255,964 | Private equity | 305,912 |
| | Derivatives | |
| 1,329 | - Foreign exchange contracts | 1,905 |
| 150,680 | Cash | 130,996 |
| | Other short term investments | |
| 3,407 | Other investment balances | 3,590 |
| 4,293,544 | Total investment assets | 3,868,404 |
| | | |
| | Investment liabilities | |
| | Derivatives | |
| (1,452) | - Foreign exchange contracts | (40,336) |
| (3,445) | Other investment balances | (2,114) |
| | Borrowings | |
| 4,288,647 | Net investment assets | 3,825,954 |
| | | |
| 5,450 | Long-term debtors | 3,630 |
| | | |
| 30,635 | Current assets | 36,277 |
| | | |
| (9,154) | Current liabilities | (6,375) |
| | | |
| 4,315,578 | Net assets of the scheme available to fund benefits at the reporting period end | 3,859,486 |

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.

Pension Funds

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.

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 two hundred and fifty other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply. The fund is overseen by the Surrey Pension Fund Committee, which is a committee of Surrey County Council.

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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.

Border to Coast Pensions Partnership

In the July 2015 Budget, the Chancellor announced the Government's intention to work with the LGPS administering authorities with the goal to transition assets into larger asset pools, increasing buying power, economies of scale amongst other benefits. Border to Coast Pensions Partnership (BCPP) was established in 2018, as a joint partnership between 12 Local Government Pension Schemes, including Surrey Pension Fund.

Pension Funds

a) 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.
- The number of employees in the fund and the number of pensioners as at 31 March 2019 and 31 March 2020 are:

| Surrey Pension Fund | 31 Mar 2019 | 31 Mar 2020 |
|----------------------------------|--------------------|--------------------|
| Total Number of Employers | 271 | 282 |
| Employees in the Scheme | | |
| Surrey County Council | 17,151 | 17,133 |
| Other Employers | 17,141 | 18,325 |
| Total | 34,292 | 35,458 |
| Pensioners | | |
| Surrey County Council | 12,721 | 13,483 |
| Other Employers | 13,208 | 13,761 |
| Total | 25,929 | 27,244 |
| Deferred Pensioners | | |
| Surrey County Council | 31,342 | 29,991 |
| Other Employers | 18,632 | 18,621 |
| Total | 49,974 | 48,612 |
| Total Number of Members | 110,195 | 111,314 |

b) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Regulations 2013 'as disclosed in the introduction and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019 and new rates

Pension Funds

applied from April 2020. Currently employer contribution rates range from 13.4% to 33.2% of pensionable pay.

c) 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 | 1/80 th of final salary | 1/60 th of final salary |
| Lump sum | Automatic lump sum 3 x pension 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

| | Service 1 April 2008 until 31 March 2014 | LGPS 2014 scheme |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Basis of pension | Final salary | Career average revalued earnings |
| Accrual rate | 1/60 th of salary | 1/49 th 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 | 1/160 th accrual based on Tier 1 ill health pension enhancement | 1/160 th 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 |

Pension Funds

| Indexation of pension in payment | Inflation rate: CPI (RPI for pre-2011 increases) | Inflation rate: CPI |
|---------------------------------------------|--------------------------------------------------|----------------------------------------------------------|
| Pre 2014 employee contribution rates | | LGPS 2014 employee contribution rates for 2019/20 |
| Pensionable payroll banding | Contribution rate | Pensionable payroll banding |
| Up to £13,700 | 5.5% | Up to £14,400 |
| £13,701 to £16,100 | 5.8% | £14,401 to £22,500 |
| £16,101 to £20,800 | 5.9% | £22,501 to £36,500 |
| £20,801 to £34,700 | 6.5% | £36,501 to £46,200 |
| £34,701 to £46,500 | 6.8% | £46,201 to £64,600 |
| £46,501 to £87,100 | 7.2% | £64,601 to £91,500 |
| More than £87,100 | 7.5% | £91,501 to £107,700 |
| | | £107,701 to £161,500 |
| | | More than £161,501 |
| Estimated overall LGPS average | 6.5% | Estimated overall LGPS average |
| | | 6.5% |

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website or the LGPS 2014 scheme website

Pension Funds

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2019/20 financial year and its position at the year end at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

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.

In the preparation of accounts, there has been additional market volatility as a result of the global COVID-19 outbreak as at 31 March 2020, also requiring additional assurance being sought from the Fund's external service providers in preparing the accounts, specifically the Fund Custodian and the Fund's Investment Managers.

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.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

c) Investment income

- i) Interest income

Pension Funds

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 2020 is reported as a current liability.

g) Management expenses

Administrative 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.

Investment management expenses

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

Pension Funds

Governance expenses

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

Net assets statement

h) Financial assets

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. This has led to the creation of eight asset pools in the UK, and Surrey Pension Fund, along with 11 other funds, is now a partner fund of Border to Coast Pensions Partnership. Each Partner Fund had invested in Class A and B Shares at a cost (transaction price) of £1 and £833,333 respectively. This investment has been valued at cost and will continue to be, as the fair value of these assets cannot be reliably estimated. More information on this can be found in Note 4.

All other financial assets are included in the financial statements 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

Pension Funds

partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

- v) Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- vi) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if singularly priced, at the closing single price.

i) Foreign currency transactions

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

j) Derivatives

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

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

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

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

k) Cash and cash equivalents

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

l) Financial Assets

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

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 the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

Pension Funds

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 Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 26).

Note 4: Critical judgements in applying accounting policies

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.

An allowance has been made for the recent McCloud judgement which relates to age discrimination within the New Judicial Pension Scheme. It is currently unclear how this judgement may affect LGPS members' past or future service benefits. Discussions are ongoing between the governing bodies and the LGPS to understand how this may affect mechanisms within the scheme, however, at the time of producing the report no guidance or indication of the likely impact of this ruling has been provided.

Investment of Class A Shares & B Shares in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2020 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd is intending to trade at a break even position (no/minimal profit or loss) with any values off-set against Partner Fund future costs. The company have now published a set of full year audited accounts and these show the company equity as equal to the 'Called up Share Capital' i.e. Class B Regulated Capital of £10m (shared equally between the twelve partner fund).
- They will always use a cost based methodology.
- The shares will never be traded externally
- As a significant event after the reporting date of 31 March 2020, Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 1 April 2020. *The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020* (UK Statutory Instrument 2020 No 502) came into force on 3 June 2020 giving this merger retrospective effect. All assets and liabilities of Northumberland County Council Pension Fund became the assets and liabilities of Tyne and Wear Pension Fund on 1 April 2020, and therefore Northumberland County Council Pension Fund's final day as a reporting entity was 31 March 2020. All shares traded between the two funds, along with the redistribution of shares between all Partner Funds, were traded at cost.

Pension Funds

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 2020 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. | <p>The net pension liability of the fund would change.</p> <p>a +0.5% increase in Pensions Increase Rate will increase liabilities by £538m</p> <p>a +0.5% increase in Salary Increase Rate will increase liabilities by £47m</p> <p>a +0.5% increase in the Discount Rate will increase liabilities by £589m</p> <p>a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.</p> |
| 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. These are usually classified as Level 3 Investments | The total private equity investments in the financial statement are £305.9 million. There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments |
| Fund of fund investments | Where investments are made into a fund of fund structure there is an additional level of separation from the fund These investments are not publicly listed and as such there is a degree of estimation involved in the valuation using best available dates of valuation. These are usually classified as Level 3 Investments | The total private equity fund of fund investments are £107.3 million. There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments |

Pension Funds

| | | |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>COVID-19 Outbreak</p> | <p>Due to considerable market volatility leading into 31 March 2020, there has been additional material uncertainty regarding the Fund's investment valuations, specifically its private equity and pooled property investments. With their nature being illiquid assets, there has not been a direct correlation on the market value of these assets in comparison to public markets, as a result of COVID-19</p> <p>Property valuers of pooled property funds have indicated that values are likely to fall and they can attach less weight to previous market evidence to inform market opinions. There have been adverse effect on stock markets, growth forecasts and business confidence, which means rental and capital values may change rapidly in the investment property market</p> <p>The above applies similarly to private equity, specifically uncertainty regarding future economic growth forecasts, and business confidence. There is also additional uncertainty of future cash flow forecasts of these private equity assets, resulting in a reduced level of certainty that can be attached to the valuation of these investments.</p> | <p>The effect of this is that the assets held by the pension fund could decrease in value. The Fund will request updated valuations from its fund managers where possible, and will make the necessary amendments to the Accounts, if they are seen to be material</p> |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Note 6: Events after the balance sheet date

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

Pension Fund Merger within Border to Coast Pensions Partnership

Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 1 April 2020. *The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020* (UK Statutory Instrument 2020 No 502) came into force on 3 June 2020 giving this merger retrospective effect. All assets and liabilities of Northumberland County Council Pension Fund became the assets and liabilities of Tyne and Wear Pension Fund on 1 April 2020, and therefore Northumberland County Council Pension Fund's final day as a reporting entity was 31 March 2020. From 1 April 2020 onwards there will be 11 partner funds within Border to Coast Pensions Partnership

Pension Funds

COVID-19

The most significant post balance sheet date event as at 31 March 2020, was the global pandemic of COVID-19. This has contributed to additional uncertainty regarding the Fund's investments and had decreased the Fund's market value from £4.3bn to £3.8bn between February and March 2020. The Fund value had increased back to circa £4.3bn as at 1 September 2020, so only a non-adjusting disclosure note is required.

Note 7: Contributions receivable

By Category:

| 2018/19 | | 2019/20 |
|----------------|---------------------------------------|----------------|
| £000 | | £000 |
| 38,502 | Total Employees' Contributions | 39,470 |
| | Employers' Contributions: | |
| 95,662 | Normal Contributions | 104,583 |
| | Augmentation Contributions | |
| 42,612 | Employers deficit | 42,572 |
| 138,274 | Total Employers' Contributions | 147,155 |
| 176,776 | | 186,625 |

By Authority:

| 2018/19 | | 2019/20 |
|----------------|-------------------------|----------------|
| £000 | | £000 |
| 80,839 | Administering authority | 84,191 |
| 87,698 | Scheduled bodies | 93,981 |
| 8,239 | Admitted bodies | 8,453 |
| 176,776 | | 186,625 |

The latest actuarial valuation carried out as at 31 March 2019, set contribution rates for fund employers with effect from April 2020. The financial year 2020/2021 is the first year of the revised employer contribution rates.

Note 8: Transfers in from other pension funds

| 2018/19 | | 2019/20 |
|----------------|---------------------------------------------------|----------------|
| £000 | | £000 |
| 14,954 | Individual transfers in from other schemes | 11,082 |
| 14,954 | | 11,082 |

Pension Funds

Note 9: Benefits payable

By category

| 2018/19 | | 2019/20 |
|-----------------------|----------------------------------------------|-----------------------|
| £000 | | £000 |
| 126,014 | Pensions | 134,183 |
| 19,571 | Commutation and lump sum retirement benefits | 23,829 |
| 4,146 | Lump sum death benefits | 3,539 |
| 101 | Interest on late payment of benefits | 92 |
| <u>149,832</u> | | <u>161,643</u> |

By employer

| 2018/19 | | 2019/20 |
|-----------------------|-------------------------|-----------------------|
| £000 | | £000 |
| 70,690 | Administering Authority | 77,586 |
| 67,001 | Scheduled Bodies | 70,730 |
| 12,141 | Admitted Bodies | 13,327 |
| <u>149,832</u> | | <u>161,643</u> |

Note 10: Payments to and on account of leavers

| 2018/19 | | 2019/20 |
|----------------------|--------------------------------------------|----------------------|
| £000 | | £000 |
| 10,732 | Group transfers to other schemes | 14,844 |
| 217 | Refunds of contributions | 503 |
| (3) | Payments for members joining state schemes | -8 |
| <u>10,946</u> | | <u>15,339</u> |

Note 11: Current assets

| 2018/19 | | 2019/20 |
|----------------------|---------------------------|----------------------|
| £000 | | £000 |
| 2,391 | Contributions – employees | 2,938 |
| 10,847 | Contributions – employer | 8,842 |
| 17,397 | Sundry debtors | 24,497 |
| <u>30,635</u> | | <u>36,277</u> |

Pension Funds

Analysis of current assets

| 2018/19 | | 2019/20 |
|----------------------|--------------------------------|----------------------|
| £000 | | £000 |
| 2,535 | Central government bodies | 5,073 |
| 23,435 | Other local authorities | 25,519 |
| <u>4,665</u> | Other entities and individuals | <u>5,685</u> |
| <u>30,635</u> | | <u>36,277</u> |

Note 12: Long term debtors

| 2018/19 | | 2019/20 |
|---------------------|---------------------------|---------------------|
| £000 | | £000 |
| <u>5,450</u> | Central government bodies | <u>3,630</u> |
| <u>5,450</u> | | <u>3,630</u> |

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 2020 is £5.450m but £1.815m was due in 2019/20, leaving a long term debtor of £3.630m.

Note 13: Current liabilities

| 2018/19 | | 2019/20 |
|---------------------|------------------|---------------------|
| £000 | | £000 |
| 8,885 | Sundry creditors | 6,061 |
| <u>269</u> | Benefits payable | <u>314</u> |
| <u>9,154</u> | | <u>6,375</u> |

Pension Funds

Analysis of current liabilities

| 2018/19 | | 2019/20 |
|---------------------|--------------------------------|---------------------|
| £000 | | £000 |
| 1,345 | Central government bodies | 908 |
| 4,424 | Other local authorities | 3,141 |
| 3,385 | Other entities and individuals | 2,326 |
| <u>9,154</u> | | <u>6,375</u> |

Note 14: Investment and governance expenses

| 2018/19 | | 2019/20 |
|----------------------|--------------------------------|----------------------|
| £000 | | £000 |
| 10,256 | Investment management fees | 10,427 |
| 171 | Investment custody fees | 85 |
| 3,214 | Oversight and governance costs | 1,919 |
| <u>13,641</u> | | <u>12,431</u> |

The investment management fees includes £612k in respect of transaction costs (2018/19: £569k).

As part of its oversight and governance costs in 2019/20, the fund had also spent £500k in respect of pooling costs as part of Surrey Pension Fund's ongoing transition into the Border to Coast Pensions Partnership (BCPP)

Note 15: External Audit Costs

| 2018/19 | | 2019/20 |
|------------------|------------------------------------------------|------------------|
| £000 | | £000 |
| 21 | Payable in respect of external audit | 31 |
| 0 | Payable in respect of IAS 19 Assurance Letters | 16 * |
| <u>21</u> | | <u>47</u> |

* £7k of these costs relate to 2018/19

Pension Funds

Note 16: Investment income

| 2018/19 | | 2019/20 |
|----------------|---------------------------|----------------|
| £000 | | £000 |
| | Bonds | |
| | UK | |
| 5,491 | Overseas | 5,529 |
| | Equities | |
| 23,526 | UK | 9,264 |
| 13,733 | Overseas | 19,286 |
| 11,101 | Property unit trusts | 13,231 |
| 1,693 | Diversified growth | 2,166 |
| 2,821 | Private equity | 1,457 |
| 519 | Interest on cash deposits | 302 |
| 171 | Other | 85 |
| 59,055 | | 51,320 |

Pension Funds

Note 17a: Reconciliation of movements in investments and derivatives

| | Market value at 31 Mar 2019 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Market movements | Market value at 31 Mar 2020 |
|---------------------------------|--------------------------------|------------------------------------------------------------|--------------------------------------------------------|---------------------|--------------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Bonds | 706,529 | 5,525 | | (50,806) | 661,248 |
| Equities | 2,489,806 | 1,110,692 | (1,088,114) | (422,260) | 2,090,124 |
| Property unit trusts | 283,240 | 64,376 | -56,096 | (11,108) | 280,412 |
| Diversified growth | 402,589 | 2,607 | 0 | (10,979) | 394,217 |
| Private equity | 255,964 | 64,769 | (42,561) | 27,740 | 305,912 |
| Derivatives | | | | | |
| - Futures | 0 | | | | 0 |
| - Forex contracts | (123) | 73,771 | (72,332) | (39,747) | (38,431) |
| | 4,138,005 | 1,321,740 | (1,259,103) | (507,160) | 3,693,482 |
| Cash | 150,680 | | | | 130,996 |
| Other Short Term Investments | | | | | |
| Other investment balances | (38) | | | | 1,476 |
| Other Fund Movements | | | | -5,725 | |
| | 4,288,647 | | | (512,885) | 3,825,954 |

2019/20

Pension Funds

Note 17a: Reconciliation of movements in investments and derivatives 2018/19

Having taken advice from its fund manager, the Fund had chosen to reclassify its two Darwin assets from Property Funds to Private Equity in 2018/19.

| | Market value at 31 Mar 2018 | Reclassified Asset | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Market movements | Market value at 31 Mar 2019 |
|------------------------------|--------------------------------|-----------------------|------------------------------------------------------------|--------------------------------------------------------|---------------------|--------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Bonds | 601,208 | | 100,492 | 0 | 4,829 | 706,529 |
| Equities | 2,413,734 | | 4,008,340 | (4,070,705) | 138,437 | 2,489,806 |
| Property unit trusts | 321,737 | (60,000) | 81,225 | (65,569) | 5,847 | 283,240 |
| Diversified growth | 394,288 | | 12,111 | 0 | (3,810) | 402,589 |
| Private equity | 155,782 | 60,000 | 80,374 | (91,286) | 51,094 | 255,964 |
| Derivatives | | | | | | |
| - Futures | | | | | | |
| - Forex contracts | 1,326 | | 66,507 | (37,130) | (30,826) | (123) |
| | 3,888,075 | | 4,349,049 | (4,264,690) | 165,571 | 4,138,005 |
| Cash | 80,636 | | | | | 150,680 |
| Other Short Term Investments | 60,000 | | | | | |
| Other investment balances | 1,347 | | | | | (38) |
| Other Fund movements | | | | | 20,372 | |
| | 4,030,058 | | | | 185,943 | 4,288,647 |

Pension Funds

Note 17b: Analysis of investments

| | 31 Mar 2019 | 31 Mar 2020 | |
|-----------------------------------------|------------------|------------------|-----------|
| | £000s | £000s | |
| Fixed interest securities | | | |
| UK public sector & quoted | 211,246 | 216,201 | Level 2 |
| Overseas pooled fund | 495,283 | 445,047 | Level 1 |
| | 706,529 | 661,248 | |
| Equities | | | |
| UK quoted | 219,113 | 174,990 | Level 1 |
| UK pooled funds | 492,713 | 385,440 | Level 1 |
| Overseas quoted | 309,803 | 302,373 | Level 1 |
| Overseas pooled funds | 1,468,177 | 1,227,320 | Level 1/2 |
| | 2,489,806 | 2,090,123 | |
| Property unit trusts | | | |
| UK property funds | 206,301 | 196,394 | Level 2/3 |
| Overseas property funds | 76,939 | 84,019 | Level 2/3 |
| | 283,240 | 280,413 | |
| Diversified growth | | | |
| Overseas diversified growth funds | 402,589 | 394,217 | Level 1 |
| | 402,589 | 394,217 | |
| Private equity | | | |
| UK limited partnerships | 104,877 | 110,636 | Level 3 |
| Overseas limited partnerships | 51,366 | 87,894 | Level 3 |
| Overseas fund of funds | 99,721 | 107,381 | Level 3 |
| | 255,964 | 305,912 | |
| Derivatives | | | |
| FX forward contracts | (123) | (38,431) | Level 2 |
| | (123) | (38,431) | |
| Cash deposits | 150,680 | 130,996 | Level 1 |
| Other investment balances | | | |
| Outstanding sales | 1,137 | 1,347 | Level 2 |
| Outstanding purchases | (3,444) | (2,114) | Level 2 |
| Tax due on accrued income | 0 | 1,475 | Level 1 |
| Accrued income - dividends and interest | 2,269 | 768 | Level 2 |
| | (38) | 1,476 | |
| Total investments | 4,288,647 | 3,825,954 | |

Pension Funds

Note 17c: Analysis of derivatives

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 2020 the Fund had forward currency contracts in place with a net unrealised loss of (£38.4m) (net unrealised loss of (123k) at 31 March 2019).

2019/20

| No of contracts | Contract settlement date within | Currency | | Notional amount | | Asset £'000 | Liability £'000 |
|-----------------|---------------------------------|----------|-----|------------------|--------------|----------------|--------------------|
| | | | | (local currency) | | | |
| | | | | Bought | Sold | | |
| 2 | One Month | GBP | EUR | 291 | (328) | 0 | 0 |
| 1 | One Month | GBP | JPY | 25 | (3,319) | 0 | 0 |
| 1 | One Month | GBP | USD | 14,622 | (17,214) | 744 | 0 |
| 1 | One Month | USD | GBP | 1,838 | (1,490) | 0 | 0 |
| 1 | Three Months | JPY | GBP | 496,500 | (3,483) | 231 | 0 |
| 2 | Three Months | GBP | JPY | 82,348 | (11,768,100) | 0 | (5,696) |
| 1 | Three Months | USD | GBP | 19,289 | (14,622) | 930 | 0 |
| 3 | Three Months | GBP | EUR | 161,914 | (19,317) | 0 | (9,225) |
| 7 | Three Months | GBP | USD | 533,601 | 693,926 | 0 | (25,408) |
| | | | | | | 1,905 | (40,329) |

2018/19

| No of contracts | Contract settlement date within | Currency | | Notional amount | | Asset £'000 | Liability £'000 |
|-----------------|---------------------------------|----------|-----|------------------|-----------|----------------|--------------------|
| | | | | (local currency) | | | |
| | | | | Bought | Sold | | |
| 1 | One Month | GBP | JPY | 143 | (20,803) | 0 | (1) |
| 2 | One Month | JPY | GBP | 99,626 | (685) | 6 | 0 |
| 3 | Three Months | GBP | JPY | 77,360 | (11,150) | 0 | (78) |
| 3 | Three Months | GBP | EUR | 149,652 | (171,767) | 1,323 | 0 |
| 7 | Three Months | GBP | USD | 442,232 | 579,813 | 0 | (1,373) |
| | | | | | | 1,329 | -1,452 |

Pension Funds

Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2019/20 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 2020 the value of quoted securities on loan was £42.6 million (31 March 2019 it was £53.8 million) in exchange for collateral held by the fund custodian at fair value of £47.1 million (31 March 2019 £57.9 million).

Note 17d: Investments analysed by fund manager

Following on from Central Government's proposal for Local Authorities to pool their pension assets into regional asset pools, Border to Coast Pensions Partnership (BCPP) was established in 2018, of which Surrey is a partner fund. Surrey Pension Fund had transitioned its first asset into the BCPP UK Equity Alpha Fund in November 2018 and into the BCPP Global Equity Alpha Fund in September 2019, and will continue to transition more of its active assets over the coming years.

Investments managed within Border to Coast Pensions Partnership Ltd;

| Market value 31 March 2019 | | Manager | Market value 31 March 2020 | |
|-------------------------------|------|-------------------------------------|-------------------------------|------|
| £000 | % | | £000 | % |
| 464,200 | 11.1 | Border to Coast UK Equity Alpha | 364,115 | 9.4 |
| 0 | 0 | Border to Coast Global Equity Alpha | 446,212 | 11.6 |
| 464,200 | | | 810,327 | |

Investments managed outside of Border to Coast Pensions Partnership Ltd;

| £000 | % | | £000 | % |
|------------------|------|----------------------------------------------|------------------|------|
| 1,190,723 | 28.3 | Legal & General Investment Management (LGIM) | 1,000,839 | 25.9 |
| 243,621 | 5.8 | Majedie Asset Management | 192,295 | 5.0 |
| 0 | 0 | UBS Asset Management | 0 | 0 |
| 505,222 | 12.0 | Marathon Asset Management | 0 | 0 |
| 333,760 | 7.9 | Newton Investment Management | 327,631 | 8.5 |
| 422,967 | 10.1 | Western Multi Asset Credit | 379,937 | 9.8 |
| 72,316 | 1.7 | Franklin Templeton Investments | 65,110 | 1.7 |
| 161,151 | 3.8 | Baillie Gifford Life Limited | 147,141 | 3.8 |
| 287,636 | 6.8 | CBRE Global Multi-Manager | 288,479 | 7.5 |
| 121,748 | 2.9 | Ruffer | 125,886 | 3.3 |
| 119,691 | 2.8 | Aviva | 121,190 | 3.1 |
| 3,458,835 | | | 2,648,508 | |
| 3,923,035 | | | 3,458,835 | |

The table above excludes the private equity portfolio as well as internal cash held within the Fund.

Pension Funds

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

| Market value 31 March 2019 | | Security | Market value 31 March 2020 | |
|----------------------------------|------|-------------------------------------|-------------------------------|------|
| £000 | % | | £000 | % |
| 501,089 | 11.6 | Marathon Global Contractual Fund | 0 | 0 |
| 492,637 | 11.4 | LGIM - TLCV Bespoke (34048) | 235,681 | 6.1 |
| 464,200 | 10.8 | Border to Coast UK Equity Alpha | 364,115 | 9.4 |
| 0 | 0 | Border to Coast Global Equity Alpha | 446,212 | 11.6 |
| 422,967 | 9.8 | Western Multi-Asset Credit EUR AC | 379,937 | 9.8 |
| 352,109 | 8.2 | LGIM – MSCI World Low Carbon | 335,219 | 8.7 |
| 345,977 | 8.0 | LGIM – Rafi Multi Factor | 305,439 | 7.9 |
| <hr/> 2,578,979 <hr/> | | | <hr/> 2,066,603 <hr/> | |

Pension Funds

Note 18: Fair Value – Basis of Valuation

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

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

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| | | | | |
|-------------------|---------|--------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Unquoted Equities | Level 3 | Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (2012) | EBITDA multiple Revenue multiple Discount for lack of marketability Control premium | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts |
|-------------------|---------|--------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Note 18a: Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020. With the outbreak of COVID-19 and the illiquid nature of the Fund's Level 3 investments, the Fund is still satisfied with the below sensitivity range,

| | Assessed Valuation Range (+/-) % | Value at 31 March 2020 £000 | Value on Increase £000 | Value on Decrease £000 |
|----------------|----------------------------------|--------------------------------|---------------------------|---------------------------|
| Private Equity | 10% | 305,912 | 336,504 | 275,321 |
| Property funds | 10% | 132,022 | 145,224 | 118,820 |
| Total | | 437,934 | 481,728 | 394,141 |

a) All movements in the assessed valuation range derive from changes to the value of the financial instrument being hedged against.

b) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions:

- Rental increases +/- 4%
- Vacancy levels +/- 2%
- Market prices +/- 3%
- Discount rates +/-1%

c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 15% is caused by how this profitability is measured since different methods (listed in the first table of Note 17 above) produce different price results

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

| | Market value at 31 Mar 2019 | Transfers in/ out of Level 3 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Market movements | Market value at 31 Mar 2020 |
|----------------------|-----------------------------------|---------------------------------------|------------------------------------------------------------|--------------------------------------------------------|---------------------|--------------------------------------|
| | £000 | £000 | £000 | £000 | £000 | |
| Property unit trusts | 142,704 | 0 | 9,353 | (3,528) | (16,507) | 132,022 |
| Private equity | 255,964 | 0 | 64,769 | (42,561) | 27,740 | 305,912 |
| | 398,668 | 0 | 74,122 | (46,089) | 11,233 | 437,934 |

Note 18c: 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 2019

As at 31 March 2020

| Designated as fair value though profit and loss | Financial assets at amortised cost | Financial liabilities at amortised costs | Designated as fair value though profit and loss | Financial assets at amortised cost | Financial liabilities at amortised costs |
|----------------------------------------------------------|------------------------------------------|---------------------------------------------------|----------------------------------------------------------|---------------------------------------------|---------------------------------------------------|
| £000 | £000 | £000 | £000 | £000 | £000 |
| Financial assets | | | | | |
| 706,529 | | | | 661,248 | |
| 2,489,806 | | | | 2,090,124 | |
| 283,240 | | | | 280,412 | |
| 402,589 | | | | 394,217 | |
| 255,964 | | | | 305,912 | |
| 1,329 | | | | | |
| | 150,680 | | | | 130,996 |
| | | | | | |
| 3,407 | | | | 3,590 | |
| | 36,085 | | | | 39,907 |
| 4,142,864 | 186,765 | | | 3,735,503 | 170,903 |

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| | | Financial liabilities | | |
|------------------|----------------|------------------------------|------------------------------------|------------------|
| | (1,452) | | Derivatives | (38,431) |
| | (3,445) | | Other investment balances | (2,114) |
| | | (9,154) | Creditors | (6,375) |
| | | | Borrowings | |
| | (4,897) | (9,154) | Total financial liabilities | (40,545) |
| 4,137,967 | 186,765 | (9,154) | | 3,694,958 |
| | | | 170,903 | (6,375) |

Note 18d: Net gains and losses on financial instruments

| | 31 March 2019 | | 31 March 2020 |
|----------------|--------------------------------------------------|------------------------------|----------------------|
| | £000 | | £000 |
| | | Financial Assets | |
| 196,397 | Designated at Fair Value through profit and loss | | (467,439) |
| 20,210 | Loans and Receivables | | |
| | | Financial Liabilities | |
| (30,826) | Fair Value through profit and loss | | (39,741) |
| | Loans and Receivables | | (5,695) |
| 185,781 | Total | | (512,885) |

Note 18e: Fair Value Hierarchy

| | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|-------------------------------------|----------------------------|--------------------------------|---------------------------------------------|------------------|
| 31 March 2020 | Level 1 | Level 2 | Level 3 | |
| | £000 | £000 | £000 | £000 |
| Financial assets at Fair Value | 2,148,280 | 1,151,134 | 437,934 | 3,737,348 |
| Loans and Receivables | 47,067 | 1,366 | 0 | 48,433 |
| Financial Liabilities at Fair Value | 0 | (42,450) | 0 | (42,450) |
| Net financial assets | 2,195,347 | 1,110,050 | 437,934 | 3,743,331 |

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| 31 March 2019 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|-------------------------------------|---------------------|-------------------------|--------------------------------------|------------------|
| | Level 1 | Level 2 | Level 3 | |
| | £000 | £000 | £000 | |
| Financial assets at Fair Value | 2,420,590 | 1,332,588 | 398,668 | 4,151,846 |
| Loans and Receivables | 52,520 | 1,230 | 0 | 53,750 |
| Financial Liabilities at Fair Value | 0 | (4,897) | 0 | (4,897) |
| Net financial assets | 2,473,110 | 1,328,921 | 398,668 | 4,200,699 |

Note 18f: Book cost

The book cost of all investments at 31 March 2020 is £3,235million (£3,164 million at 31 March 2019).

Note 19: Outstanding commitments

At 31 March 2020 the Fund held part paid investments on which the liability for future calls amounted to £378.5million (£195.1million as at 31 March 2019)

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.

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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

| Asset type | Value at 31 | Change | Value on | Value on |
|--------------------------------|------------------|------------|------------------|------------------|
| | March 2020 | | increase | decrease |
| | £000 | % | £000 | £000 |
| UK equities | 560,430 | 21.3 | 679,802 | 441,058 |
| Overseas equities | 1,529,693 | 16.8 | 1,786,681 | 1,272,705 |
| Bonds | 445,047 | 10.2 | 490,442 | 399,652 |
| Index-linked | 216,201 | 6.5 | 230,254 | 202,148 |
| Cash | 130,996 | 2.1 | 133,811 | 128,181 |
| Property | 280,413 | 5.4 | 295,482 | 265,344 |
| Alternatives | 305,912 | 4.8 | 320,501 | 291,323 |
| Diversified growth fund | 394,217 | 6.0 | 418,028 | 370,406 |
| Other assets | -36,955 | 2.1 | (36,161) | (37,749) |
| Total Investment Assets | 3,825,954 | 8.4 | 4,173,287 | 3,478,621 |

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 2019/20 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 year

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| Asset type | Value at 31 | Change | Value on | Value on |
|--------------------------------|------------------|------------|------------------|------------------|
| | March 2019 | | increase | decrease |
| | £000 | % | £000 | £000 |
| UK equities | 711,826 | 9.9 | 782,308 | 641,344 |
| Overseas equities | 1,777,980 | 9.3 | 1,942,938 | 1,613,022 |
| Bonds | 495,283 | 4.1 | 515,368 | 475,198 |
| Index-linked | 211,246 | 9.8 | 231,966 | 190,526 |
| Cash | 150,680 | 0.5 | 151,433 | 149,927 |
| Property | 283,240 | 4.3 | 295,504 | 270,976 |
| Alternatives | 255,964 | 6.0 | 271,348 | 240,580 |
| Diversified growth fund | 402,589 | 4.1 | 419,244 | 385,934 |
| Other assets | -161 | 0.5 | -162 | -160 |
| Total Investment Assets | 4,288,647 | 4.6 | 4,485,771 | 4,091,523 |

(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 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| As at 31 March 2019 | | As at 31 March 2020 | |
|------------------------|------------------------------|------------------------|--|
| £000 | | £000 | |
| 150,680 | Cash & cash equivalents | 130,996 | |
| 0 | Other short term investments | 0 | |
| 495,283 | Fixed interest securities | 445,047 | |
| 645,963 | Total | 576,043 | |

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

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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 | Change in net assets | |
|------------------------------|-----------------------------------|----------------------|----------------|
| | 2020 | +100 bps | - 100 bps |
| | £000 | £000 | £000 |
| Cash & cash equivalents | 130,996 | 1,310 | (1,310) |
| Other short term investments | 0 | | |
| Fixed interest securities | 445,047 | 4,450 | (4,450) |
| Total | 576,043 | (5,760) | (5,760) |

| Asset type | Carrying amount as at 31 March | Change in net assets | |
|------------------------------|-----------------------------------|----------------------|----------------|
| | 2019 | +100 bps | - 100 bps |
| | £000 | £000 | £000 |
| Cash & cash equivalents | 150,680 | 1,507 | (1,507) |
| Other short term investments | 0 | 0 | 0 |
| Fixed interest securities | 495,283 | 4,953 | (4,953) |
| Total | 645,963 | 6,460 | (6,460) |

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 2019/20 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

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| Asset type | Value at 31 March 2020 | | Value on increase £000 | Value on decrease £000 |
|-----------------------------|------------------------|-------------|---------------------------|---------------------------|
| | £000 | % Change | | |
| Equities | 1,299,887 | 7.35 | 1,395,460 | 1,204,314 |
| Fixed interest | 445,047 | 7.35 | 477,769 | 412,325 |
| Property and Private Equity | 279,294 | 7.35 | 299,829 | 258,759 |
| Diversified Growth | 394,217 | 7.35 | 423,201 | 365,233 |
| Cash and Other Assets | 11,619 | 7.35 | 12,473 | 10,765 |
| Total | 2,430,064 | 7.35 | 2,608,732 | 2,251,396 |

| Asset type | Value at 31 March 2019 | | Value on increase £000 | Value on decrease £000 |
|-----------------------------|------------------------|--------------|---------------------------|---------------------------|
| | £000 | % Change | | |
| Equities | 1,479,276 | 11.54 | 1,649,999 | 1,308,553 |
| Fixed interest | 495,283 | 11.54 | 552,443 | 438,123 |
| Property and Private Equity | 228,026 | 11.54 | 254,342 | 201,710 |
| Diversified Growth | 402,589 | 11.54 | 449,052 | 356,126 |
| Cash and Other Assets | 14,026 | 11.54 | 15,645 | 12,407 |
| Total | 2,619,200 | 11.54 | 2,921,481 | 2,316,919 |

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

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approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund held no fixed term deposits with other Local Authorities as at 31 March 2020.

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 Lloyds Bank and 5 accounts with money market funds, managed by JP Morgan (Aberdeen, Black Rock, Deutsche, Goldman Sachs and Aviva). In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

| Balance at 31 March 2019 | | Balance at 31 March 2020 |
|-------------------------------------|--------------------------------|-------------------------------------|
| £000 | | £000 |
| | Call account | |
| 19,000 | Lloyds | 19,000 |
| | Money market fund | |
| 25,000 | Goldman Sachs | 1,800 |
| 25,000 | Aberdeen MMF | 25,000 |
| 0 | Aviva | 20,000 |
| 0 | Blackrock | 15,100 |
| 0 | Deutsche | 1,600 |
| | Current account | |
| 18,948 | HSBC | 123 |
| 87,948 | Internally Managed Cash | 82,623 |
| 62,732 | Externally Managed Cash | 48,373 |
| 150,680 | Total Cash | 130,996 |

The fund's cash holding under its treasury management arrangements as at 31 March 2020 was £82.6million (£87.9million at 31 March 2019).

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 the Orbis Treasury Function on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

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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 2019/20

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 2019/20 amounted to £74,480k (£63,982k in 2018/19).

| 2018/2019 | | 2019/2020 |
|---------------|---------------------------------------------------------------------------------------|---------------|
| £000 | | £000 |
| 41,466 | Employers' current service contributions | 48,894 |
| 21,299 | Lump sum payments to recover the deficit in respect of past service | 21,126 |
| 1,217 | Payments into the fund to recover the additional cost of early retirement liabilities | 4,460 |
| <u>63,982</u> | | <u>74,480</u> |

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ii) Surrey Pension Fund paid Surrey County Council £2,723k for services provided in 2019/20 (£2,136k in 2018/19).

| 2018/2019 | 2019/2020 |
|-------------------------------------------------------------|---------------------|
| £000 | £000 |
| 307 Treasury management, accounting and managerial services | 453 |
| <u>1,829</u> Pension administration services | <u>2,270</u> |
| <u>2,136</u> | <u>2,723</u> |

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2020 were £3,070k (£4,619k at 31 March 2019).

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.

| 2018/19 | Position | 2019/20 | |
|-----------------------|-------------------------------------------|-----------------------|---|
| £ | | £ | |
| 25,356 | Executive Director of Corporate Resources | 17,754 | 1 |
| 26,485 | Director of Corporate Finance | 10,637 | 1 |
| 91,202 | Strategic Finance Manager (Pensions) | 100,904 | 2 |
| 23,599 | Senior Specialist Advisor | 52,619 | 2 |
| <u>54,956</u> | Senior Pensions Finance Specialist | <u>60,297</u> | 2 |
| <u>221,598</u> | | <u>242,211</u> | |

2018/19

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

2019/20

1. 10% of time allocated to pension fund
2. 100% of time allocated to pension fund

The Members of the Pension Fund Committee as at 31 March 2020 are shown below;

Elected Members:

Tim Evans (Chairman), Ben Carasco (Vice-Chairman), John Beckett, David Mansfield and Hazel Watson, Charlotte Morley,

Co-opted Members:

Ruth Mitchell, Tony Elias and Philip Walker

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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 market investments and internally held cash. For the Fund's private market investments, the custodial arrangements are managed by the individual private market partnership with each custodian in charge of all private market assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private market funds are as follows:

| Private Market 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 |
| Glennmont Partners | Augentius (Luxembourg) S.A. |
| Border to Coast | Northern Trust International Banking Corporation |

Note 24: Actuarial statement for 2019/20 - 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), effective from 1 April 2020. 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, but, are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the scheme, so far as relating to the pension fund;
- 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 have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least a 70% likelihood that the Fund will achieve the funding target 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 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,286 million, were sufficient to meet 96% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £196 million.

Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS. Contributions have the aim of achieving full funding within an appropriate time horizon and with an appropriate likelihood of success.

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Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 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 2019 valuation were as follows:

| Financial assumptions | 31 March 2019 |
|-----------------------------------|---------------|
| Discount rate | 4.2% |
| Salary increase assumption | 3.2% |
| Benefit increase assumption (CPI) | 2.3% |

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 2018 model, an allowance for smoothing of recent mortality experience and a 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 | 22.1 years | 24.3 years |
| Future Pensioners* | 22.9 years | 25.7 years |

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in volatile market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

6 May 2020

Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB

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Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2019/20 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 | 31/03/2020 | 31/03/2019 |
|-----------------------|--------------|--------------|
| Active members (£m) | 2,265 | 3,135 |
| Deferred members (£m) | 1,576 | 1,519 |
| Pensioners (£m) | 2,205 | 1,918 |
| | 6,046 | 6,572 |

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. 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.

Note that the above figures include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

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).

Pension Funds

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £528m. I estimate that the change in impact of the change in the demographic and longevity assumptions is to decrease the actuarial present value by £141m.

Financial assumptions

| Year ended (% p.a.) | 31 March 2020 | 31 March 2019 |
|-----------------------|---------------|---------------|
| Pension Increase Rate | 1.9% | 2.5% |
| Salary Increase Rate | 2.8% | 2.8% |
| Discount Rate | 2.3% | 2.4% |

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and 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 | 22.1 Years | 24.3 Years |
| Future pensioners (assumed to be aged 45 at the latest formal valuation) | 22.9 Years | 25.7 Years |

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

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 31 March 2020 | Approximate % increase to liabilities | Approximate monetary amount (£m) |
|-----------------------------------------------------------------|---------------------------------------|----------------------------------|
| 0.5% p.a. increase in the Pension Increase Rate | 9% | 538 |
| 0.5% p.a. increase in the Salary Increase Rate | 1% | 47 |
| 0.5% p.a. decrease in the Real Discount Rate | 10% | 589 |

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%.

Pension Funds

Professional notes

This paper accompanies our covering report titled 'Actuarial Valuation as at 31 March 2020 for accounting purposes'. The covering report identifies the appropriate reliance 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) 4 May 2020

Note 26: Additional Voluntary Contributions

| Market Value | | | Market Value | |
|---------------|------------|--|---------------|--|
| 2018/19 | Position | | 2019/20 | |
| £000 | | | £000 | |
| 14,520 | Prudential | | 13,548 | |
| 14,520 | | | 13,548 | |

Additional Voluntary Contributions, net of returned payments, of £2.1million were paid directly to Prudential during 2019/20 (£2.6million during 2018/19).

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 2019/2020 provides further details on the management, investment performance and governance of the Fund.

Glossary of Terms

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.

Glossary of Terms

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.

Glossary of Terms

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.

Glossary of Terms

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.

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.