Surrey County Council

Statement of Accounts

2015-2016

SURREY

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

We have audited the financial statements of Surrey County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Asset Statement and the related notes 1 to 4. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report by the Director of Finance and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

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

We are required under Section 20(1)(c) of the Act 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.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matter: In June 2015, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection, children looked after and care leavers. The overall judgement was that children's services were rated as inadequate. The report concluded that:

- there are widespread and serious failures that potentially leave children at risk of harm;
- leaders and managers have not been able to demonstrate sufficient understanding of failures; and
- leaders and managers have been ineffective in prioritising, challenging and making improvements.

At the date of our opinion, the Authority has agreed an Improvement Plan to address the issues highlighted in the report. Ofsted has yet to publish a subsequent inspection report and as such the judgement from June 2015 remains extant.

This matter is evidence of weaknesses in leadership and proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matter described in the Basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

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 2016. 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 Act and the Code.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code 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 2016. 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 value for money through economic, efficient and effective use of its resources.

Andy Mack

Andy Mack
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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27 July 2016

1. Introduction

Welcome to Surrey County Council's Statement of Accounts for 2015/16. The statement of accounts reports the income and expenditure on service provision for the year and the value of the council's assets and liabilities at the end of the financial year. This is prepared in accordance with proper accounting practices as defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

For 2015/16, Surrey County Council has again delivered the Finance Service's vision of producing audited financial statements by the end of July 2016. The Accounts & Audit Regulations 2015 make it compulsory for all local authorities to have audited financial statements by the end of July from 2017/18 and therefore the council is well ahead in compliance with this requirement. The annual report for 2015/16 will again contain financial information based on the audited Statement of Accounts.

In addition to demonstrating best practice in relation to the speed of our accounts closure, the finance service also aspires to develop a statement of accounts that is more accessible to users. Surrey County Council is a large and diverse organisation and the information contained in these accounts is technical and complex. The aim of this narrative statement, therefore, is to provide a general guide to the items of interest and highlights some of the more significant matters that have determined this position for the financial year ending 31 March 2016.

Key financial statements (known as Primary Statements)

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

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

Movement in Reserves Statement (page 19) shows the movement during the 2015/16 financial year on the different reserves held by the council, analysed into usable reserves and other unusable reserves

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

The total increase in the council's reserves during 2015/16 is £281.4million (an increase of £49.1m in usable reserves, and an increase of £232.3m in unusable reserves). This increase is primarily caused by a reduction in the pension liability of £245.3m (explained in section 3), growth in the revaluation reserve (£101.8m) offset by a reduction in the Capital Adjustment Account (£114.8m), mainly caused by writing out of £74.4m of school assets in relation to schools that have transferred to academy status.

Comprehensive Income & Expenditure Statement (CIES) (page 21) shows the true economic accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The deficit on the provision of services for 2015/16 was £130.0m which is also shown in the movement in reserves statement (in 2014/15 there was a deficit of £162.7m).The Financial Performance section at the bottom of this page summarises the outturn position, which shows spending compared to funding raised, and note 23 on page 67 reconciles the revenue budget outturn position to the CIES.

The main reasons for the deficit on the CIES are:

- the writing off of £74.4m of assets in relation to schools which have transferred to academy status. This is shown as an expense within the Financing and Investment Income and Expenditure line of the CIES.
- £55.0m adjustment for the current service cost of pensions required under International Accounting Standard 19 compared to actual employer pension contributions paid

Balance Sheet (page 22) shows the value of the assets and liabilities recognised by the council as at 31 March. The balance sheet of the council shows net assets of £82.m, which is matched by reserves (as set out in the movement in reserves statement).

Cash Flow Statement (page 23) shows the changes in cash and cash equivalents during the financial year. The total decrease in cash and cash equivalents for the council during 2015/16 was £36.2m which is shown in the cash flow statement and note 17. The reason for this decrease was due to the internal borrowing policy adopted by the council to help fund capital and manage cash flows. More information on this can be found in section 6.

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

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

2. Financial Performance in 2015/16

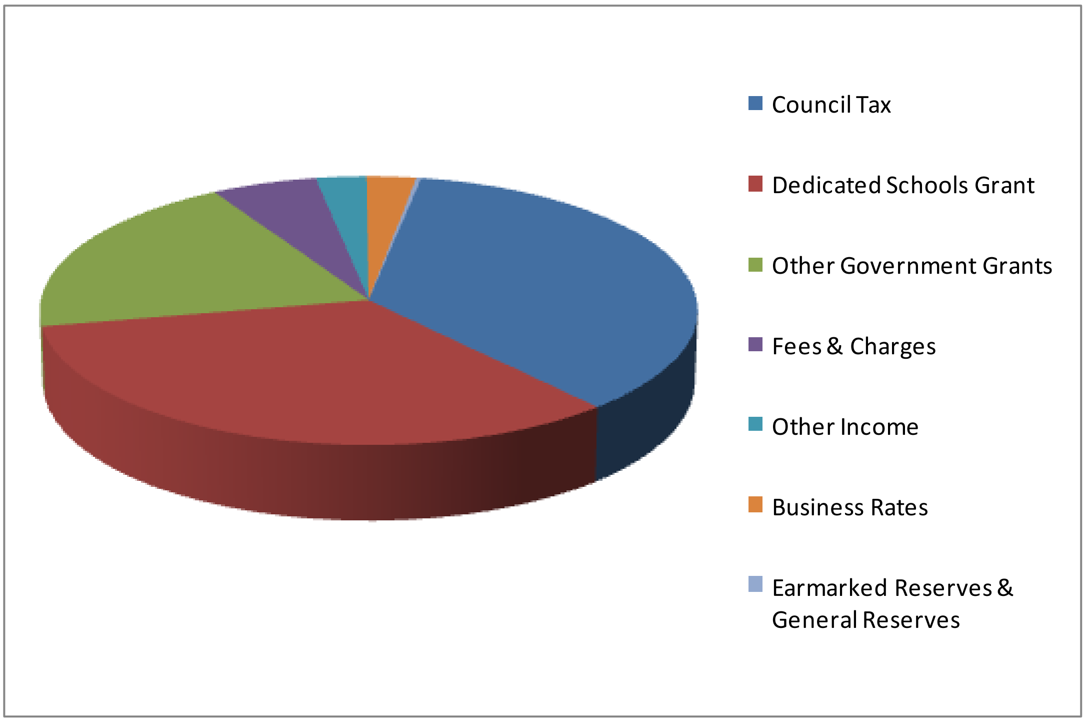
Revenue

The council set its budget for the 2015/16 financial year in the context of the government's austerity programme, reduction in public sector budgets and expenditure, and rising demand for its services.

For the sixth year in succession, the council ended 2015/16 with an underspend, demonstrating its tight grip on financial management. The revenue budget outturn position for 2015/16 provides a clearer indication of the council's strong financial stewardship during the year than is apparent from the accounting deficit provided in the Comprehensive Income & Expenditure Statement (CIES), which takes a different view of financial performance.

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

The 2015/16 revenue budget approved in February 2015 was to be funded as follows:



In line with the council's multiyear approach to financial management, which aims to smooth resource fluctuations over five years, the revenue budget for the 2015/16 financial year, included the use of £4.3m from reserves.

The outturn position for services' net revenue budget is -£2.8m underspent and -£7.1m for the council overall, including additional income of -£1.6m on general government grant and -£2.7m on local taxation (business rates). The council also achieved £65.8m out of £67.4m of planned efficiencies.

The table below shows services' gross expenditure variances at outturn:

Service	Full year final budget £m	Full year position £m	Full year variance £m
Economic Growth	1.7	1.2	-0.5
Strategic Leadership	0.4	0.4	0.0
Adult Social Care	372.2	372.6	0.4
Children's Services	91.4	94.5	3.1
Services for Young People	15.3	15.1	-0.2
Schools & Learning	74.2	73.9	-0.3
Strategic Services (CSF)	2.2	2.4	0.2
Delegated Schools	0.0	0.0	0.0
Community Partnership & Safety	3.5	2.8	-0.7
Coroner	1.3	1.5	0.2
Cultural Services	9.6	9.2	-0.4
Customer Services	3.4	3.3	-0.1
C&C Directorate Support	1.0	0.9	-0.1
Emergency Management	0.6	0.5	-0.1
Magna Carta	0.8	0.6	-0.2
Surrey Fire & Rescue Service	34.9	34.5	-0.4
Trading Standards	2.1	2.1	0.0
Environment & Planning	80.8	80.6	-0.2
Highways & Transport	45.0	43.5	-1.5
Public Health	0.3	0.3	0.0
Central Income & Expenditure	49.7	53.1	3.4
Communications	2.1	2.0	-0.1
Finance	8.4	7.5	-0.9
Human Resources & Organisational Development	8.5	7.9	-0.6
Information Management & Technology	25.8	24.8	-1.0
Legal & Democratic Services	8.5	8.4	-0.1
Strategy & Performance	2.6	2.4	-0.2
Procurement	3.3	3.1	-0.2
Property	28.9	26.5	-2.4
Business Operations	4.7	4.5	-0.2
Total services' net revenue expenditure	**883.0**	**880.2**	**-2.8**
General funding sources			
General Government grants	-237.2	-238.8	-1.6
Local taxation (council tax and business rates)	-642.1	-644.8	-2.7
Total general funding	**-879.3**	**-883.6**	**-4.3**
Total movement in reserves	**3.7**	**-3.4**	**-7.1**

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

The Cabinet has approved £3.9m revenue carry forwards from 2015/16 to 2016/17 to ensure funding is available for schemes, projects and commitments that need to be funded in the new financial year. This leads to a residual underspend of -£3.2m, which has been transferred to the Budget Equalisation Reserve, to support future year's budget.

Capital

The council demonstrated its firm long term commitment to supporting Surrey's economy through its £696m 2015-20 MTFP capital programme, including £176m capital expenditure budget for 2015/16.

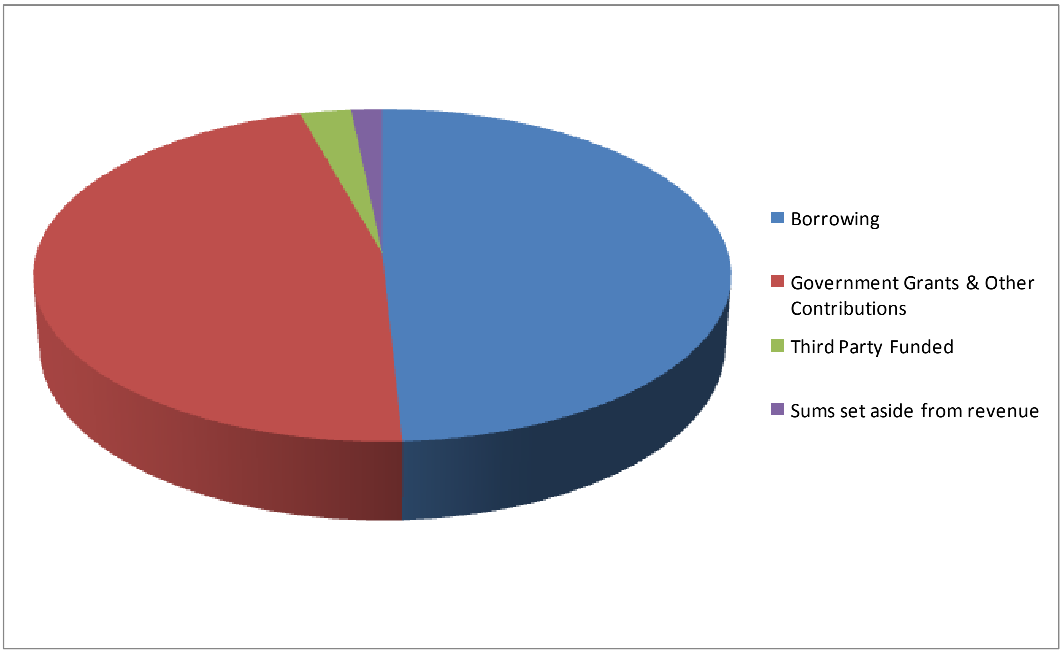
During the 2015/16 financial year, the council has invested and delivered significantly, especially on highways infrastructure and school places. Over the year the budget was revised to £197.7m, due to additional grant funding and the reinvestment of efficiencies.

In addition, the council has continued its programme of investment in revenue generating assets that will improve its self sufficiency and reduced reliance on government funding over the longer term. During 2015/16 the council invested a further £62.5m.

	Full year budget £m	Apr - Mar actual £m	Reprofile and use of underspend £m	Full year outturn £m	Full year variance £m
Schools basic need	57.8	65.9	-8.1	57.8	0.0
Highways recurring programme	51.5	52.8	-1.2	51.6	0.1
Property & IT recurring programme	25.6	20.5	4.6	25.1	-0.5
Other capital projects	62.8	34.9	19.9	54.7	-7.9
Service capital programme	**197.7**	**174.1**	**15.1**	**189.2**	**-8.5**
Long term investments	0.0	62.5	0.0	62.5	62.5
Overall capital programme	**197.7**	**236.6**	**15.1**	**251.7**	**54.0**

The table above compares the outturn expenditure (including re-profiling and use of the capital underspend) for the service capital programme and long term investments of £251.7m to the revised full year budget of £197.7m.

The 2015/16 capital expenditure was funded as follows:



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

These are defined as amounts either incurred or received to or from the same supplier or customer for the same good or service, which amount to more than £25m. Further details of these are disclosed in note 5.

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

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

During 2015/16, 14 schools transferred to academy status (19 in 2014/15). An academy is self-governing, directly funded by central government and independent of direct control by local government. Included in the Comprehensive Income and Expenditure Statement is an impairment charge of £74.4m related to the derecognition of academy schools (£55.6m in 2014/15). When a school changes status to an academy, the ownership of the land and buildings transfers from the council to the school. The assets are written out of the balance sheet and an accounting adjustment is made against the Financing and Investment Income & Expenditure line in the CIES.

During the year the council purchased the following material assets:

- £36.3m office building at Pixham Lane, Dorking. Classed as an investment property on the balance sheet.

Material balances

The pension liability recognised on the council's balance sheet at the 31 March 2016, has a significant impact on the net worth of the council. The council contributes to four pensions schemes on behalf of current employees:

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

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

The council's independent actuary Hymans Robertson estimated the Local Government Pension Scheme (LGPS) net liability to be £732.8m at the balance sheet date, a decrease of £182.3m on the previous year. The DCLG firefighters' pension liability included within the council's accounts is estimated to be £518.3m an decrease of £63m on the previous year. This decrease in the valuation of the liabilities is due mainly to rising real bond yields increasing the net discount rate, the positive impact of which has outweighed lower than expected asset returns. The liability does not need to be met within the next year but over the working lifetime of the scheme members. The council is making appropriate lump sum payments to the pension fund in addition to the contributions related to current employees. Readers of the accounts should note that the pension fund deficit of £1,251m is based on a snapshot in time and it does not predict the fund's future financial condition or its ability to pay benefits in the future.

4. Non-Financial performance

The council's corporate strategy sets out three strategic goals against which organisational performance is measured. The Annual Report for 2015/16 details the progress made on each goal during the year and a summary of achievements is included here.

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

The council created an additional 3,549 school places – equivalent to more than a dozen primary schools - on time for the start of the last academic year (September 2015).

As part of the wider improvement agenda, the county council and its partners also launched the SEND 2020 Programme last year. This followed feedback from children and young people with special educational needs and disabilities (SEND) and their families about how the SEND system could work better for them.

With an estimated 25% of Surrey adults (nearly 240,000 people) drinking above recommended levels, the council's public health team has been encouraging people to monitor their alcohol risk. In April 2015, they launched an online interactive alcohol screening tool called 'Don't Bottle It Up', which allows people to calculate their level of risk from drinking and get personalised advice on what to do about it

Economic prosperity – Surrey's economy remains strong and stable

County highways and transport planners have secured £20m of Local Enterprise Partnership funding for major road schemes to support the Surrey economy. These include:

- Greater Redhill Sustainable Travel Package
- A22, A217 and A24 Resilience works
- Guildford Town Centre Package

Since it began in 2013, the council's innovative £100m road renewal programme, Operation Horizon, has continued to raise the quality of Surrey roads. Some of the achievements include:

- 400kms (240 miles) of roads will have been treated by the end of this year
- 12% savings on contract rates
- 95% of the roads treated have 10-year guarantees
- improvements to drainage and kerbing where necessary
- a reduction in 'red' condition roads from 17% to 13% since 2013
- an improvement in customer satisfaction with roads.

Plans for Surrey's £13m University Technical College (UTC) have made major strides during 2015-16. Highlights include:

- designing a computer science and engineering curriculum
- developing a marketing and communications strategy for when student and public engagement begins
- and procuring a contractor for the work.

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

Over the last five years, restorative justice has resulted in a 95% drop in the number of young people receiving a criminal record, and a 50% drop in youth crime. In 2015-16 Surrey had the lowest number of children and young people entering the formal criminal justice system than anywhere else in England and Wales. Victims of crime have benefited significantly, with satisfaction levels at 85-90%, and eight out of 10 victims recommend the approach over traditional responses.

Police, fire and ambulance service colleagues in Surrey and Sussex can help people more quickly and efficiently thanks to their collaboration programme, called Working Together. Since last September, Surrey Fire & Rescue Service has been trialling an Immediate Emergency Care Response initiative. This involves responding to 999 calls for ambulances where they can get a fire crew more quickly to a life-threatening situation, such as a cardiac arrest. All incidents are backed up by an ambulance but the fire crew is able to start treatment in the critical few minutes before the paramedics arrive.

More than 9,000 households have been advised on how to improve their energy efficiency, as the council's partnership with Action Surrey and the district and borough councils has completed its third year. More than 1,400 householders have also benefited from better insulation – particularly for those with solid walls – and more efficient boilers. The initiative aims to help all residents, including vulnerable people, to achieve warmer, healthier homes more cheaply and with lower carbon emissions. This has saved Surrey householders, tenants and landlords an estimated £2.2m in energy costs over the period.

5. Changes in accounting policies

Accounting policies which have a material impact on the statement of accounts are detailed in Note 1 of the Statement of Accounts.

During 2015/16 there has been a change in the accounting policy for surplus assets following the adoption of IFRS 13 on fair values by the CIPFA Code of Practice for Local Authority Accounting. Surplus assets were previously held at historical cost, nominal value or existing use and are now shown at fair value in the 2015/16 accounts. The change has been applied prospectively from 1 April 2015 which means prior year restatements are not required.

Fair value is the price to purchase an asset or transfer a liability in a market transaction between willing participants. The CIPFA Code of Practice establishes a clear framework for measuring fair value, and specifies the disclosures required to enable users of the accounts to understand the valuation techniques applied in measuring fair value. More information about fair value measurement can be found in the accounting policies on page 23.

The council has also changed the treatment of the derecognition of schools that transfer to academy status. The impairment charge that the council incurs when the school asset transfers to the academy trust has previously been reported against the 'Education & Children's Services' line in the Comprehensive Income and Expenditure Statement. CIPFA guidance now recommends that the impairment charge is made against the Financing and Investment Income and Expenditure line, so the council has now adopted this policy for 2015/16. A prior period adjustment has been made to the 2014/15 CIES to ensure the accounting treatment is consistent between financial years.

6. Borrowing

Long-term borrowing (repayable in more than 12 months) on the balance sheet relates to the financing of capital expenditure incurred in previous years. The balance currently stands at £397.8m. No additional borrowing was undertaken during 2015/16.

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

The short term borrowing balance represents borrowing repayable in the next 12 months and also includes funds which the council holds on behalf of the Office of the Police and Crime Commissioner for Surrey and other third parties. Total short-term borrowing at 31 March 2016 was £30.9m and the funds held on behalf of the Police made up £29.9m of this balance.

During 2015/16 the council undertook some short term borrowing from other local authorities for short-term cash flow purposes. In December 2015 the council borrowed £49.5m which was repaid in early January 2016 and on 31 March 2016 the council arranged borrowing of £40m to take effect on 1 April 2016. This was repaid by the end of April 2016.

7. Provisions

Where the council has a liability to make future payments, but the precise timing of the payment and the amount is uncertain, it creates a provision in the Balance Sheet. At 31 March 2016 the main provisions held by the council are:

- Insurance (£5.8m). This provision was created to meet the cost of reported outstanding claims that are not covered by external insurance and those claims arising from the collapsed Mutual Municipal Insurance company. The level of this provision was reviewed by the council's actuary in 2015/16.
- Firefighters pension fund (£8.9m). This provision was created against the potential requirement to repay some of the firefighters top up grant received by the council between 2006 and 2013. This is in respect of an element of firefighters' pensions relating to injury awards.

Further details on provisions can be found in Note 20.

8. Reserves & balances

Usable reserves

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

- earmarked reserves - providing financing for future expenditure plans, commitments and possible liabilities, including schools balances
- general balances – available balances to cushion the impact of uneven cash flow and a contingency for unexpected events;
- capital receipts - the balance of proceeds from the sale of assets not used in-year to fund new capital expenditure but set aside to fund future capital expenditure in accordance with the council's Medium Term Financial Plan and asset management strategy;
- capital government grants unapplied – the balance of grants received from central government that have not been used in-year to fund new capital expenditure.

In developing the financial plan for the five years to 2021 - known as the Medium Term Financial Plan (MTFP) - the council took a multi-year approach to its budget setting and, in February, the council identified £24.7m of earmarked reserves to support the 2016/17 budget.

	Balance at 31/03/15	Transfers In	Transfers Out	Balance at 31/03/16	Support for 2016/17 Budget	2015/16 Carry-forwards	Balance at 01/04/16
	£m	£m	£m	£m	£m	£m	£m
Revolving Infrastructure & Investment Fund	20.6	0.5		21.1	-10.0		11.1
Eco Park Sinking Fund	16.0		-4.3	11.7	-5.9		5.8
Investment Renewals Reserve	10.0	0.1	-1.2	8.8			8.8
Insurance Reserve	10.6	2.0	-0.7	11.9	-5.4		6.5
General Capital Reserve	7.9	0.5	-3.2	5.2			5.2
Budget Equalisation Reserve	16.6	8.1	-11.7	13.1	-2.3	-3.9	6.9
Street lighting PFI Reserve	5.8		-0.7	5.1			5.1
Economic Downturn Reserve	4.2	5.0		9.2			9.2
Vehicle Replacement Reserve	5.6	1.0	-2.7	3.9			3.9
Child Protection Reserve	1.9	0.5	-1.3	1.1			1.1
Equipment Replacement Reserve	1.9	1.9	-1.8	2.0			2.0
Business Rate Appeals Reserve	1.3			1.3			1.3
Pensions Stabilisation Reserve	1.1			1.1	-1.1		
Interest Rate Reserve	1.0			1.0			1.0
Economic Prosperity Reserve	2.5			2.5			2.5
Earmarked Reserves	**107.0**	**19.6**	**-27.6**	**99.0**	**-24.7**	**-3.9**	**70.4**

The level of earmarked reserves increased from 2009 to 2014 to provide funds for what the council knew would be a difficult financial climate, especially with the reduction in government funding. During 2015/16 earmarked reserves fell £8m, in addition to a reduction of £21.7m in 2014/15. A further £24.7m will be used to support expenditure in 2016/17.

Unusable reserves

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

9. Orbis Partnership

In April 2015 East Sussex County Council and Surrey County Council launched a business services partnership called Orbis. The partnership seeks to build upon the successful working relationship already developed between the two organisations. It aims to deliver significant and transformative change by working in partnership to provide a comprehensive set of business services to both authorities operating as one function under the management of a Joint Committee.

The ambition is to create efficient, modern, agile and digitally enabled business services that will support both local authorities and partner organisations through an unprecedented period of change and financial challenge in the public sector.

Orbis' aim is to become the provider of choice for other public sector bodies and Orbis expect the partnership to grow beyond the two county councils in the early stages of its development. The Orbis partnership is actively engaged with other potential partners to that end. During the year Brighton & Hove City Council announced that it would also be joining the partnership. Business growth will in turn give Orbis increased commercial leverage and will increase volume of activity enabling Orbis to drive down the costs of service delivery, whilst increasing sustainability and resilience.

10. Investment properties

The council has several properties purchased for future service needs which are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2016, under the code of practice they are classed as investment properties.

During 2015/16 the value of the investment property portfolio increased by £32.0m to £62.9m. This was due to the purchase of new property for £36.2.m offset by fair value adjustment losses on the properties currently in the portfolio of £4.2m. More information on investment properties can be found in Note 13 on page 51.

11. Group accounts

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

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

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

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

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

12. Trust funds

The council acts as a custodian trustee for 42 trusts and as one of several trustees for a further 4 funds. As a custodian trustee the council holds the assets but takes no decisions on its use. In neither case do the funds represent the assets of the council and therefore they have not been included in the balance sheet. The total value of all the fund balances as at the 31 March 2016 is £4.8m. Further information on these trusts can be obtained via the contact details provided on page 17.

13. Better Care Fund

The Better Care Fund (BCF) was introduced in 2015/16 and has two primary purposes:

- to transform the health and social care system to achieve a shift from acute to community services;
- to 'protect' adult social care, recognising the financial pressures on it.

The Council works with Surrey's seven Clinical Commissioning Groups (CCGs) to determine use of these shared resources. These resources are managed through pooled budget arrangements and information on the income and expenditure in 2015/16 is available in Note 25 on page 69.

14. Looking forward to 2016/17 and beyond

Strategically the financial and economic context facing the council is a continuation of austerity and significant, and a very unexpected reduction in central Government funding. The Government made their provisional financial settlement for future funding on 17 December 2015 and the council learnt that it faces a 42% reduction of core central Government funding in 2016/17, when compared to 2015/16. The council had, in accordance with what could be reasonably assumed from previous Government indications, been planning for a reduction of 28%. The difference in the figures compared to those that could reasonably be expected, reflect that the Government made changes to the basis of distribution of their core funding (Revenue Support Grant) for which there had been no previous indications or consultation. In the final settlement for 2016/17 the government announced an element of transitional relief for 2016/17 and 2017/18 but this still results in core central government funding being £8.1m below the previously assumed figure for 2016/17 and £25m lower for 2017/18

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

Council tax, through the precept, is the council's main source of funding for the council's budget, excluding schools. The settlement for 2016/17 set the council tax referendum limit at an increase of 2% and also introduced an ability to raise council tax by a further 2%, each year, specifically for adult social care (ASC) services.

The Council has only been able to balance its five year MTFP through a combination of the following:

- Increasing general council tax by 1.99% and to implement an additional precept introduced to help fund adult social care services of 2%;making a total Council tax increase of 3.99% in 2016/17 and each of the subsequent four years of the MTFP period;
- the expected significant use of capital receipts from asset sales to fund major transformation of service delivery through a programme of transformation;
- significant use of reserves in 2016/17 and 2017/18;
- earlier and deeper implementation of service efficiencies and reductions.

As part of the 2016/17 settlement, the Government is introducing flexibility in the use of capital receipts. This will enable councils to use asset sales to help pay for upfront investment in service transformation. The council is using this flexibility to introduce a Public Value Transformation programme. This will robustly consider alternative methods of service delivery. The council recognises that service transformation on this scale will take time and will not be delivered in full for the 2016/17 financial year. The Public Value Transformation programme will follow the principle of the Council's Public Value Review (PVR) programme introduced in 2009.The new funding settlement will require the Council to find even greater efficiencies while ensuring availability of front line services to residents.

15. Business rate pool

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

Surrey as an area has operated a business rates pool in 2015/16 in partnership with: Elmbridge Borough Council, Mole Valley District Council, Spelthorne Borough Council and Woking Borough Council.

The gain attributable to the council as a result of the reduced composite levy is included within local taxation in the Comprehensive Income & Expenditure Statement.

Following a review, the optimum pool to maximise projected business rates income in the Surrey area for 2016/17 involves joining Surrey County Council with the London Borough of Croydon, Guildford Borough Council, Runnymede Borough Council, Spelthorne Borough Council, Waverley Borough Council and Woking Borough Council.

These six authorities submitted a bid to form a business rates pool for the financial year 2016/17 and succeeded in receiving the relevant designation by DCLG. The pool's financial modelling projects retaining up to £4m additional income to the Surrey county area, which would otherwise be lost as levy payments. The pool agreement is for the county council to receive a third of this additional income.

16. **Business Rates Retention**

The Government has confirmed that their intention is that by 2020 there is 100% local retention of business rates by local government. Although there are some indications about the likely change to powers that will go with this delegation, the Government are planning a period of detailed design and consultation over the next year or so. The council will monitor closely the development of the proposals and seek to influence where appropriate. What is clear now is that the Government intends for any changes to be fiscally neutral and that additional responsibilities or services will be devolved to local government to achieve this objective.

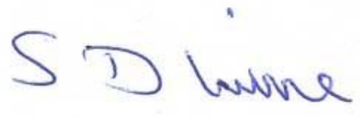
Highways Network Asset

In the 2016/17 accounts there will be a large change in how infrastructure assets are accounted for. This change in accounting policy will see the Highways Network Asset replace the large majority of infrastructure assets and the valuation method will change dramatically from depreciated historical cost to depreciated replacement cost.

Under IAS 1 this change would usually require a disclosure in the 2015/16 accounts about the impact of the forthcoming change, and the 2016/17 accounts would usually need two years worth of comparator figures. CIPFA have however removed these requirements under an exceptional adaption of IAS1 to help reduce the burden of the change on local authorities. Therefore the accounting policy change will only apply prospectively from 1 April 2016.

Further information

Additional information on the council's overall revenue and capital budget outturn position and achieved efficiencies for 2015/16 can be found in the '2015/16 Outturn report' considered by the Cabinet on 26 April 2016. Surrey County Council's annual report can be viewed on the website www.surreycc.gov.uk. Further information on the financial statements presented in this document can be obtained from Jonathan Evans, Principal Accountant (jonathan.evans@surreycc.gov.uk)



Sheila Little BA CPFA
Director of Finance
25 July 2016

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 Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

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

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

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

The Director of Finance has:

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

Certification
I certify that the statement of accounts set out on pages 19 to 108 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 2016; that the firefighter pension fund accounting statements on pages 113 to 115 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2016; that the statement of accounts on pages 116-156 presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2016 and its income and expenditure for the year then ended.

Sheila Little BA CPFA
Director of Finance
25 July 2016

Stuart Selleck
Chairman of Audit & Governance Committee
25 July 2016

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2015	**-21,326**	**-173,862**	**-30,475**	**-42,320**	**-267,983**	**467,297**	**199,314**
(Surplus) or deficit on provision of services (accounting basis)	130,043				**130,043**		**130,043**
Other comprehensive income & expenditure						-411,497	**-411,497**
Total comprehensive income & expenditure	**130,043**				**130,043**	**-411,497**	**-281,454**
Adjustments between accounting basis & funding basis under regulations (note 7)	-127,042		-44,955	-7,171	**-179,168**	179,168	
Net increase/decrease before transfers to earmarked reserves	**3,001**		**-44,955**	**-7,171**	**-49,125**	**-232,329**	**-281,454**
Transfers to/from earmarked reserves (note 8)	-3,001	2,890	111				
Increase/decrease in year		**2,890**	**-44,844**	**-7,171**	**-49,125**	**-232,329**	**-281,454**
Balance at 31 March 2016	**-21,326**	**-170,972**	**-75,319**	**-49,491**	**-317,108**	**234,968**	**-82,140**

Movement in Reserves Statement

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

Comprehensive Income & Expenditure Statement

Restated year ended 31 March 2015 Gross Expenditure £000	Income £000	Net Expenditure £000		**Year ended 31 March 2016** Gross Expenditure £000	Income £000	**Net Expenditure £000**
452,655	-76,702	**375,953**	Adult Social Care	454,087	-78,872	**375,215**
955,201	-640,973	**314,228**	Education & Children's Services	963,959	-642,930	**321,029**
141,649	-20,841	**120,808**	Highways & Transport Services	116,371	-15,555	**100,816**
32,599	-3,582	**29,017**	Cultural and Related Services	31,918	-3,587	**28,331**
64,657	-1,852	**62,805**	Environmental & Regulatory Services	68,425	-4,795	**63,630**
16,288	-1,672	**14,616**	Planning Services	7,134	-739	**6,395**
15,333	-66	**15,267**	Housing General Fund	18,494	-9,129	**9,365**
43,944	-1,365	**42,579**	Fire Services	63,976	-22,037	**41,939**
27,424	-19,475	**7,949**	Corporate and Democratic Core	26,148	-19,668	**6,480**
6,782	-3,948	**2,834**	Central Services to the Public	6,853	-2,636	**4,217**
1,947	0	**1,947**	Court Services	2,105	0	**2,105**
27,106	-29,152	**-2,046**	Public Health	33,806	-33,479	**327**
11,250	-9,827	**1,423**	Non Distributed Costs	-7,842	3	**-7,839**
1,796,835	**-809,455**	**987,380**	**Cost of Services - continuing operations**	**1,785,434**	**-833,424**	**952,010**
31,435	-31,815	**-380**	Other Operating Income & Expenditure (note 9)	31,056	-31,994	**-938**
186,992	-62,032	**124,960**	Financing & Investment Income & Expenditure (note 10)	204,961	-56,701	**148,260**
0	-620,640	**-620,640**	Local Taxation (note 11)		-642,732	**-642,732**
0	-328,621	**-328,621**	General grants & contributions (note 11 and note 32)		-326,557	**-326,557**
2,015,262	**-1,852,563**	**162,699**	**Surplus(-) or Deficit on Provision of Services**	**2,021,451**	**-1,891,408**	**130,043**
		-304,719	(Surplus) or deficit on revaluation of non-current assets			**-111,165**
		243,514	Remeasurement of the net defined benefit liability			**-300,332**
		-61,205	**Other Comprehensive Income & Expenditure**			**-411,497**
		101,494	**Total Comprehensive Income & Expenditure**			**-281,454**

Balance Sheet

As at 31.03.2015 £000		Note:	**As at 31.03.2016 £000**
1,725,604	Property, plant & equipment	12	1,793,016
665	Heritage assets		1,024
30,850	Investment property	13	62,850
4,534	Intangible assets		5,477
363	Long term investments	15	3,190
15,205	Long term debtors	15	28,694
1,777,221	**LONG TERM ASSETS**		**1,894,251**
	Short Term:		
107,999	Investments	15	65,000
860	Intangible assets		836
33,975	Assets held for sale	18	24,160
1,110	Inventories		1,369
119,210	Short term debtors	16	152,080
16,593	Cash & cash equivalents	17	
279,747	**CURRENT ASSETS**		**243,445**
	Short Term:		
	Cash & cash equivalents	17	-19,615
-32,563	Borrowing	15	-30,876
-187,303	Creditors	19	-182,084
-2,626	Provisions	20	-3,053
-171	Revenue grants receipts in advance		-142
-249	Capital grants receipts in advance		-281
-7,014	Other current liabilities	36	-7,623
-229,926	**CURRENT LIABILITIES**		**-243,674**
-22,831	Provisions	20	-30,573
-397,815	Long term borrowing	15	-397,798
-1,605,710	Other long term liabilities	36	-1,383,511
-2,026,356	**LONG TERM LIABILITIES**		**-1,811,882**
-199,314	**NET ASSETS/LIABILITIES(-)**		**82,140**
-267,983	Usable reserves	8,21	-317,108
467,297	Unusable reserves	22	234,968
199,314	**TOTAL RESERVES**		**-82,140**

Cash Flow Statement

2014/15 £000		Note	**2015/16 £000**
162,699	Net surplus (-) / deficit on the provision of services		**130,043**
-227,415	Adjustments to net surplus / deficit on the provision of services for non-cash movements	41	**-226,061**
-32,240	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities		**-23,674**
-96,956	**Net cash flows from operating activities**		**-119,692**
194,171	Purchase of property, plant & equipment, and investment property	42	**218,904**
-10,195	Proceeds from the sale of property, plant & equipment		**-44,955**
34,161	Movement in short-term and long-term investments		**-40,172**
5,386	Other receipts & expenditure from investing activities		**13,465**
223,523	**Net cash flows from investing activities**		**147,242**
5,412	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		**6,955**
24,104	Repayment of short-term and long-term borrowing		**51,154**
-165,247	Receipts of short-term and long-term borrowing		**-49,450**
-135,731	**Net cash flows from financing activities**		**8,659**
-9,164	**Net increase (-) / decrease in cash & cash equivalents**		**36,208**
-7,429	Cash & cash equivalents at the beginning of the reporting period		**-16,593**
-16,593	Cash & cash equivalents at the end of the reporting period	17	**19,615**

The cash flows from operating activities in 2015/16 include interest received of £1.249m (2014/15, £3.933m) and interest paid of £27.233m (2014/15, £19.774m).

Note 1. Accounting policies

Significant changes in accounting policies

In the 2015/16 accounts there has been a change in the accounting policy for surplus assets following the adoption of IFRS 13 – Fair Value by the CIPFA Code of Practice for Local Authority Accounting. Surplus assets were previously held at historical cost, nominal value or existing use but are now held at fair value in the 2015/16 accounts. The change has been applied prospectively from 1 April 2015 which means prior year restatements are not required.

Fair value is the price to purchase an asset or transfer a liability in a market transaction between willing participants. The CIPFA Code of Practice establishes a clear framework for measuring fair value, and specifies the disclosures required to enable users of the accounts to understand the valuation techniques applied in measuring fair value.

The council has also changed the treatment of the derecognition of schools that transfer to academy status. The impairment charge that the council incurs when the school asset transfers to the academy trust has previously been reported against the 'Education & Children's Services' line in the Comprehensive Income and Expenditure Statement. CIPFA guidance now recommends that the impairment charge is made against the 'Financing and Investment Income and Expenditure' line of the Comprehensive Income and Expenditure Statement so the council has now adopted this policy for 2015/16. A prior period adjustment has been made to ensure the accounting treatment is consistent between financial years.

i. General principles

The statement of accounts summarises the council's transactions for the 2015/16 financial year and its position at the year end 31 March 2016. 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 2015/16 and the Service Reporting Code of Practice 2015/16 supported by International Financial Reporting Standards (IFRS).

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

ii. Recognition of income and expenditure

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

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

Balance Sheet and provision is made for bad and doubtful debts. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Council tax and business rates

Council tax and business rate income included in the comprehensive income and expenditure statement as local taxation is the total of the:

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

Regulations then dictate that the amount credited to the general fund must be equal to the amount precepted as part of the annual budget process (ie the cash flow for the year). Therefore an adjustment is posted to the general fund though the movement in reserves statement to the collection fund adjustment account to mitigate the accrual on the general fund.

The collection of council tax and business rates is an agency arrangement. The Code requires that the council recognises on its balance sheet its share of arrears, impairment allowance for bad debts, overpayments and prepayments and collection fund surplus and deficit for both council tax and business rates. For business rates, an appeals provision has also been created to cover successful appeals by ratepayers against business rates.

iii. Cash and cash equivalents

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

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

iv. Charges to revenue for non-current assets

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

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

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

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

Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

v. Employee benefits

Benefits payable during employment

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

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

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

<u>The Local Government Pension Scheme (LGPS) & The Firefighters' Pension Scheme</u>

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

- liabilities of the pension funds attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees);
- liabilities are discounted to their value at current prices, using a discount rate of 3.5%.

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

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

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

- Service cost comprising:
    - *current service cost* – the increase in liabilities as a result of years of service earned this year are allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
    - *past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
    - *net interest on the defined benefit liability* – the net interest expense for the council. The change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment income and expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability as a result of contribution and benefit payments.

- Remeasurements comprising:

  - *return on plan assets* – excluding amounts included in the net interest on the net defined liability. Charged to the Pension Reserve as other comprehensive income and expenditure;
  - *actuarial gains and losses* – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions are charged to the Pensions Reserve as other comprehensive income and expenditure.

- Contributions paid to the pension funds – cash paid as employer's contributions to the pension fund in settlement of liabilities are not accounted for as an expense.

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

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

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

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

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

vii. Financial instruments

<u>Financial liabilities</u>
Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument. Initially liabilities are measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that

exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

Financial assets

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

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

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

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

ix. Government grants and contributions

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

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

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

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

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

x. Interests in companies and joint operations

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

In 2015/16 group accounts have been produced due to qualitative factors. The use of Local Authority Trading Companies, such as S.E. Business Service and Surrey Choices is still a relatively new development for the council and there is significant interest from members and public interest in the impact on the financial position and performance of the council. In order to provide a full picture of the financial performance of the group, group accounts have been produced for 2015/16.

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

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

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

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

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

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

xi. Leases

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

The council does not have any material finance leases

The council as lessee

Operating leases

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

The council as lessor

Operating leases

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

xii. Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used so that the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

xiii. Private Finance Initiative (PFI) and similar contracts

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

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

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

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

- Anchor Homes
- Waste
- Street Lighting
- Care UK

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

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

Recognition

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

Depreciation is calculated on the following bases:

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

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

Disposals and non-current assets held for sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use it is reclassified as an asset held for sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent

decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

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

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

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

For schools that have attained Academy status and disengaged from the council, the net book value of the land and building is de-recognised from the Balance Sheet through the Capital Adjustment Account.

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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Investment properties are not depreciated but are re-valued annually according to market conditions at year end with gains and losses on revaluation being posted to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement; the same treatment is applied to gains and losses on disposals.

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

xvi. 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.

xvii. Reserves

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

Certain reserves are kept to manage the accounting processes for 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.

xviii. Revenue expenditure funded from capital under statute

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

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

Note 2: Accounting standards issued not adopted
The Council is required to disclose information on accounting changes that have been issued but not yet adopted. The requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (ie on or before 1 January 2016 for 2016/17) The following changes will be introduced by CIPFA into the 2016/17 Code of Practice on Local Authority Accounting.

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendment to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)
- Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- Changes to the format of the Pension Fund Account and the Net Assets Statement.

It is expected that the above amendments will not have a material impact on the 2016/17 accounts as there is unlikely to be a change to the reported information in the net cost of services or the surplus or deficit on the provision of services. However, in 2016/17 changes to the presentation of the Comprehensive Income and Expenditure Statement will require the 2015/16 comparator figures to be presented in a new format. The change will see the authority presenting income and expenditure based on the organisational structure of the council rather than based on the CIPFA Service Reporting Code of Practice, which is a standardised format across all local authorities. This change should lead to the Statement of Accounts being more tailored to local circumstances and more familiar to users of the council's financial reports.

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

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

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

- In the 2015/16 accounts there has been a change in the accounting policy for surplus assets following the adoption of IFRS 13 – Fair Value by the CIPFA Code of Practice for Local Authority Accounting. Surplus assets were previously held at historical cost, nominal value or existing use but are now held at fair value in the 2015/16 accounts.

  Fair value is the price to purchase an asset or transfer a liability in a market transaction being willing participants. The CIPFA Code of Practice establishes a clear framework for measuring fair value, and specifies the disclosures required to enable users of the accounts to understand the valuation techniques applied in measuring fair value.

  In the 2014/15 financial statements there were 223 surplus assets. During 2015/16 a review of the portfolio was undertaken by staff and the number of surplus assets was reduced to 102 mainly by recognising properties as single entities. Previously a property could have been held as three separate assets; land, building and out-building. Of these 102 assets, 54 of them made up 98% of the value of the 102 assets in the 2014/15 accounts. The council's valuers, Bruton Knowles, have provided valuations in line with IFRS 13 for these 54 assets as part of the 2015/16 rolling valuation programme. It is judged that this method will provide the council with a materially accurate valuation of the surplus asset portfolio without the expense of having every minor asset in the portfolio valued.

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

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

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

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

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

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

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

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

  The waste disposal PFI includes investment in a number of waste disposal assets. These have all been recognised on the council's balance sheet including an asset under construction of £37.1m for the Eco Park as at 31 March 2016.

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

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

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

    - Halsey Garton Ltd – is a Local Authority Trading Company wholly owned by the council to make property investments. It is a holding company and has three subsidiaries; Halsey Garton Investments Ltd, Halsey Garton Developments Ltd and Halsey Garton Residential Ltd. During 2015/16 only the holding company and Halsey Garton Investments Ltd 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 council has not been incorporated into the group accounts

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

The Statement of Accounts contains estimated figures based on assumptions about the future or that are otherwise uncertain. Estimates take into account historical experience, current trends and other relevant factors. In addition, contingent assets and liabilities, which are not reflected in the statements, are assessed and any material items are disclosed in note 40.

The items in the council's Balance Sheet at 31 March 2016 for which significant assumptions have been made are set out in the table that follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain whether authorities will be able to sustain spending on repairs and maintenance, bringing into question the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by around £1.4m for every year that useful lives had to be reduced.
Pensions Liability	The council's actuary advises on the sensitivity analysis to be applied to the calculation for estimating the net pension liability. The calculation is dependent upon a number of complex judgements relating to: the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a decrease of 0.5% in the real discount rate would result in an increase in the pension liability of £236.3m for the LGPS and £45.3m for the firefighters' pension fund. A 1 year increase in member life expectancy would result in an increase in the pension liability of £68.3m for the LGPS and £15.4m for the firefighters' pension fund.
Debtors	At 31 March 2016, the council had a balance of £168.9m on short term debtors (including government grants, receipts in advance and the council's share of Council Tax and Business Rates debtors). A credit risk review suggested that an impairment level of £15.0m for doubtful debts was sufficient.	Debtors are monitored regularly and should general debtors rise in 2016/17 the council may consider raising its provision for bad and doubtful debt. This provision is reviewed quarterly.

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

Note 5: 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 £74.4m related to the derecognition of academy schools (£55.6m in 2014/15). 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 2015/16, 14 schools transferred to academy status (19 in 2014/15).

During the year the council purchased the following material assets:

- £36.3m office building at Pixham Lane, Dorking. Classed as an investment property on the balance sheet.

Note 6: Events after the balance sheet date

The statement of accounts will be authorised for issue by the chief finance officer in July 2016. 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 following non-adjusting post-balance sheet event has occurred:

The referendum on the United Kingdom's membership of the European Union took place on 23 June 2016. The result to leave the European Union has increased political and economic uncertainty. The full impact of the result on the council will become clearer over the next couple of years.

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

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

2015/16	General Fund Balance £000	Capital grant & contributions unapplied reserve £000	Capital Receipts 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)	-54,989		
Council tax and business rates (transfers to Collection Fund)	-2,026		
Holiday pay (transferred to the Accumulated Absences Reserve)	2,092		
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):			
Charges for depreciation, impairment of non-current assets and de minimis expenditure	-90,843		
Revaluation losses on property, plant & equipment	-32,373		
Movement on fair value on investment property	-4,255		
Amortisation of intangible assets	-700		
Impairment of academies	-74,406		
Revenue expenditure funded from capital under statute	-23,674		
Deferred Income in respect of PFI schemes	185		
Reversal of donated asset adjustment	224		
Net book value of disposals	-43,233		
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	113,101	-113,101	
Total Adjustments to the Revenue Resources	-210,897	-113,101	
Adjustments between Revenue & Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	44,955		-44,955
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	30,615		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	8,285		
Total Adjustments between Revenue & Capital Resources	83,855		-44,955
Adjustments to Capital Resources			
Application of capital grants to finance capital expenditure		105,930	
Total Adjustments to capital resources		105,930	
Total Adjustments	-127,042	-7,171	-44,955

Comparator information relating to the 2014/15 adjustments between accounting basis and funding basis under regulations is provided in the table below:

2014/15	General Fund Balance £000	Capital grant & contributions unapplied reserve £000	Capital Receipts 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)	-49,640		
Council tax and business rates (transfers from Collection Fund)	4,424		
Holiday pay (transferred from the Accumulated Absences Reserve)	2,402		
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):			
Charges for depreciation & impairment of non-current assets	-98,648		
Revaluation losses on property, plant & equipment	-35,661		
Movement on fair value on investment property	-2,096		
Amortisation of intangible assets	-612		
Impairment of academies	-55,643		
Revenue expenditure funded from capital under statute	-32,240		
Deferred Income in respect of PFI schemes	175		
Reversal of donated asset adjustment	32		
Net book value of disposals	-7,136		
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	95,169	-95,169	
Total Adjustments to the Revenue Resources	-179,474	-95,169	
Adjustments between Revenue & Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	10,195		-10,195
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	26,714		
Capital expenditure financed from revenue balances (transfer from the Capital Adjustment Account)	6,222		
Total Adjustments between Revenue & Capital Resources	43,131		-10,195
Adjustments to Capital Resources			
Application of capital grants to finance capital expenditure		89,603	
Total Adjustments to capital resources		89,603	
Total Adjustments	-136,343	-5,566	-10,195

Note 8: Transfers to / from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves, to provide financing for future expenditure plans, commitments and possible liabilities and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

	Restated Balance at 31/03/14	Transfers In	Transfers Out	**Restated Balance at 31/03/15**	Transfers In	Transfers Out	**Balance at 31/03/16**
	£000	£000	£000	**£000**	£000	£000	**£000**
Schools Balances	**41,290**	9,963	-7,439	**43,814**	9,275	-2,215	**50,874**
Transfer of Schools Balances to Academies	**4,314**		-2,014	**2,300**		-2,300	
Investment Renewals	**12,960**	37	-3,014	**9,983**	123	-1,260	**8,846**
Equipment Replacement	**3,383**	1,840	-3,296	**1,927**	1,880	-1,754	**2,053**
Vehicle Replacement	**5,448**	720	-596	**5,572**	1,091	-2,738	**3,925**
Waste Site Contingency	**299**		-299				
Budget Equalisation	**33,563**	15,739	-32,729	**16,573**	8,182	-11,695	**13,063**
Financial Investment	**1,564**		-1,564				
Private Finance Initiative	**6,169**		-415	**5,754**		-689	**5,065**
Insurance	**8,830**	1,767		**10,597**	2,038	-692	**11,943**
Eco Park Sinking Fund	**14,616**	6,372	-5,000	**15,988**		-4,252	**11,736**
Child Protection	**3,140**		-1,250	**1,890**	493	-1,263	**1,120**
Revenue Grants Unapplied	**25,976**	18,267	-25,976	**18,267**	18,157	-18,267	**18,157**
General Capital	**7,671**	470	-202	**7,938**	553	-3,253	**5,238**
Interest Rate	**4,731**		-3,731	**1,000**			**1,000**
Economic Downturn	**6,044**	2,495	-4,300	**4,239**	5,000		**9,239**
Revolving Investment & Infrastructure Fund	**20,215**	390		**20,605**	534		**21,139**
Public Health		2,512		**2,512**	4,164	-4,002	**2,674**
Pension Stabilisation		1,139		**1,139**			**1,139**
Business Rate Appeals		1,258		**1,258**			**1,258**
Economic Prosperity		2,505		**2,505**			**2,505**
	200,213	65,474	-91,825	**173,862**	51,490	-54,380	**170,972**

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

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

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

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

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

Budget equalisation reserve: The budget equalisation reserve was set up to support future years' revenue budgets from unapplied income and budget carry forwards. The balance includes £3.9m service budget carry forwards into 2016/17 and a further £2.3m which has been agreed to support the 2016/17 budget.

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

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

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

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

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

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

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

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

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

Revolving investment & infrastructure fund: The revolving infrastructure & investment fund was established in the 2013-18 Medium Term Financial Plan in order to provide the revenue costs of funding infrastructure and investment initiatives that will deliver savings and enhance income in the longer term. The net income generated by the portfolio in 2015/16 has been transferred to the reserve.

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

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

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

Note 9: Other operating income and expenditure

Net Expenditure 2014/15 £000		Gross Expenditure 2015/16 £000	Income 2015/16 £000	**Net Expenditure 2015/16 £000**
1,057	Land Drainage Precept	1,111		**1,111**
-54	Miscellaneous Income	26	-721	**-695**
152	Contributions from Trading Services (note 24)	29,523	-29,261	**262**
1,556	Change in Provisions	396	-290	**106**
-32	Donated Assets			
-3,059	Gain on disposal of non current assets		-1,722	**-1,722**
-380		31,056	-31,994	**-938**

Note 10: Financing and investment income and expenditure

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

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

Restated 2014/15 £000		**2015/16 £000**
19,774	Interest payable and similar charges	**26,146**
51,378	Net interest on the net defined benefit liability (Note 39)	**47,870**
-1,629	Interest receivable and similar income	**-1,933**
-208	Income & expenditure in relation to investment properties	**1,771**
55,643	Impairment charge for the derecognition of schools that transfer to Academy status	**74,406**
124,960		**148,260**

Note 11: Council tax and general grants & contributions

2014/15 £000			**2015/16 £000**
	Local taxation:		
577,226	- Council tax income	594,858	
43,413	- Business rate income	47,874	**642,732**
	Grants and contributions:		
191,275	- Formula grant	168,714	
42,177	- Non-ringfenced government grants	44,742	
95,169	- Capital grants and contributions	113,101	**326,557**
949,260			**969,289**

The formula grant figure for 2015/16 includes Revenue Support Grant and also top-up funding received through the Business Rate Retention Scheme.

Note 12: Property, plant & equipment

	Land and Buildings	Vehicle, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost (revalued)							
Restated Balance at 1 April 2015	1,674,673	68,754	832,141	5,697	50,567	64,150	2,695,982
Additions*	70,703	7,088	51,273	576	54	41,784	171,478
Donations		224					224
Revaluations recognised in the Revaluation Reserve	95,418				9,727		105,145
Disposals	-11,026	-7,968			-5,348		-24,342
Derecognition - academies	-103,172						-103,172
Assets reclassified to Assets Held for Sale					-4,423	-261	-4,684
Reclassifications	-2,507				-10,302	12,809	0
Other Movements in assets and valuation	-1,465						-1,465
At 31 March 2016	**1,722,624**	**68,098**	**883,414**	**6,273**	**40,275**	**118,482**	**2,839,166**
Accumulated Depreciation and Impairment							
Restated at 1 April 2015	-440,643	-45,630	-483,989		-116		-970,378
Depreciation charge	-35,515	-4,439	-35,304				-75,258
Impairment losses recognised in the Revaluation Reserve	-7,673				-4,844		-12,517
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-30,347				-2,026		-32,373
Disposals	5,988	7,967					13,955
Derecognition - academies	28,766						28,766
Other Movements in Depreciation	1,655						1,655
At 31 March 2016	**-477,769**	**-42,102**	**-519,293**		**-6,986**		**-1,046,150**
Net Book Value							
at 31 March 2015	**1,234,030**	**23,124**	**348,152**	**5,697**	**50,451**	**64,150**	**1,725,604**
at 31 March 2016	**1,244,855**	**25,996**	**364,121**	**6,273**	**33,289**	**118,482**	**1,793,016**

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

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

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

Capital commitments

At 31 March 2016, the council has entered into a contract for the acquisition/enhancement of Property, Plant & Equipment in 2016/17 and future years, budgeted to cost £10.2m (£21.5m as at 31 March 2015). The major commitments as at 31 March 2016 are:

Schools Basic Need Capital Projects,

- Danetree School £3.4m
- St Nicholas £3.0m
- St Josephs Primary £2.0m
- Cleve School £1.8m

Revaluations

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

		Land and Buildings £'000
Carried at historical cost		615
Carried at fair value		8,910
Change in fair value as at:		
31 March 2012		48,346
31 March 2013		54,102
31 March 2014		237,201
31 March 2015		553,208
31 March 2016		342,474
	Total	**1,244,855**

Impairment losses

During 2015/16 the council has recognised an impairment loss of £49.1m in total. The land and building assets are re-valued based on existing use value, as part of the five year rolling programme by external valuers. The result was an impairment loss of £36.6m charged to the Comprehensive Income and Expenditure Statement and £12.5m offset from the balance in the revaluation reserve in relation to these assets. £15.6m relates to capital expenditure which is below the council's de minimis levels and consequently is written off to the Comprehensive Income & Expenditure Statement in the year it is incurred.

Note 13: Investment properties

The council has several properties purchased for future service needs which are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2016, 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:

2014/15		**2015/16**
£000		**£000**
2,935	Rental income from investment property	**3,307**
-631	Direct operating expenses arising from investment property	**-823**
2,304	**Net gain**	**2,484**

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

2014/15		**2015/16**	Offices	Retail	Leisure	Fair Value Hierarchy
£000		**£000**	£000	£000	£000	
29,186	Balance at start of the year	**30,850**	24,350	5,400	1,100	Level 2
3,755	Purchases	**36,255**	36,255			Level 2
5	Subsequent expenditure					
-2,096	Net loss from fair value adjustments*	**-4,255**	-4,255			Level 2
30,850	**Balance at end of the year**	**62,850**	56,350	5,400	1,100	

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The fair value hierarchy within which the fair value measurements are categorised are all level 2 observable inputs.

*the valuation of Investment Properties is based on prevailing market conditions and existing lease agreements as at 31 March 2016. The Stamp Duty changes announced by the Chancellor and implemented from 17th March 2016 have had a negative impact on the whole investment property market and our independent valuers have assessed the impact on the council's portfolio to be just over £1.0m. In addition to this, the fair value adjustment means that we are required to write-down any transaction costs associated with the purchase where these are not offset by an increase in value and this is the case with the council's most recent acquisition in Dorking which completed in February 2016. One investment has reduced in value as the current tenant lease agreement ends shortly however the value will increase once a new lease has been secured; except for this all other investment properties have increased in value since purchase.

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

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

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

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

Foundation

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

Voluntary aided

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

Voluntary controlled

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

Academies

During 2015/16, 14 schools had transferred to academy status (11 Community Schools, 2 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.

Note 15: Financial instruments

Categories of financial instruments

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

31/03/2015 Long-Term £000	31/03/2015 Short-Term £000		**31/03/2016 Long-Term £000**	**31/03/2016 Short-Term £000**
		Investments		
62	124,592	Loans & receivables	**26**	**65,000**
301		Available for sale financial assets	**3,163**	
363	124,592	**Total Investments**	**3,190**	**65,000**
		Debtors		
15,205	96,342	Financial assets carried at contract amounts*	**28,694**	**126,383**
		Borrowings		
-397,815	-32,563	Financial liabilities at amortised cost	**-397,798**	**-30,876**
		Cash Overdrawn		
		Bank Overdraft		**-19,031**
		Other Long-term Liabilities		
-97,107	-7,014	PFI, finance lease liabilities and third party balances	**-120,436**	**-7,623**
		Creditors		
	-138,370	Financial liabilities carried at contract amounts		**-134,551**

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

Income, expense, gains & losses

2014/15 Financial Liabilities Measured at amortised cost £000	2014/15 Financial Assets Loans & receivables £000	2014/15 TOTAL £000		**2015/16 Financial Liabilities Measured at amortised cost £000**	**2015/16 Financial Assets Loans & receivables £000**	**2015/16 TOTAL £000**
19,774		19,774	Interest expense	**27,233**		**27,233**
120		120	Net impairment on financial asset			
19,894		19,894	**Total expense in Surplus or Deficit on the Provision of Services**	27,233		**27,233**
	-1,629	-1,629	Interest Income		-1,057	**-1,057**
			Dividend Income		-876	**-876**
	-1,629	-1,629	**Total income in Surplus or Deficit on the Provision of Services**		-1,933	**-1,933**

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

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

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

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

31/03/2015				**31/03/2016**	
Carrying value	Fair Value	**Financial liabilities**	**Fair Value Level**	**Carrying value**	**Fair Value**
£000	£000			**£000**	**£000**
387,247	581,613	Long-term loans from PWLB	**2**	**387,247**	**491,633**
10,550	14,277	Long-term LOBO loans	**2**	**10,545**	**16,245**
18	18	Other long-term loans	**2**	**6**	**6**
97,107	97,107	PFI and other lease liabilities	**2**	**120,436**	**120,436**
494,922	693,015			**518,234**	**628,320**

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

Fair value shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

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

31/03/15		**Financial assets**	**Fair Value Level**	**31/03/16**	
Carrying Amount	Fair Value			**Carrying Amount**	**Fair Value**
£000	£000			**£000**	**£000**
301	301	Shares in unlisted companies	**3**	**3,163**	**3,163**
14,874	14,874	Long-term loans to companies	**2**	**28,421**	**28,421**
392	392	Other long term loans	**2**	**299**	**299**
15,568	15,568			**31,883**	**31,883**

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

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

Nature and extent of risks arising from financial instruments
The council's activities expose it to a variety of financial risks, the key risks are:

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

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

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

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

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

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

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

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

Estimated maximum exposure to default		Amount	Historical experience of default	Adjustment for market conditions	**Estimated maximum exposure to default**
£000s		£000s	%	%	**£000s**
31/03/15		31/03/16	31/03/16	31/03/16	**31/03/16**
	Deposits with banks and financial institutions	(a)	(b)	(c)	**(a x c)**
	Local Authorities	65,000	0.00%	0.00%	
	AAA rated counterparties	2,895	0.00%	0.00%	
	AA rated counterparties		0.03%	0.03%	
16	A rated counterparties		0.08%	0.08%	
	Other counterparties				
6,868	Trade debtors*	90,920			**7,443**
6,884	Total	158,815			**7,443**

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

The council does not generally allow credit for its trade debtors, such that £27.5m of the £168.9m balance (see note 16) is past its due date for payment. The past due amount can be analysed by age as follows:

31/03/15 £000		**31/03/16** **£000**
6,637	Less than six months	**11,168**
2,678	Six months to one year	**5,846**
9,391	More than one year	**10,471**
18,706	Total	**27,486**

Liquidity risk

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

Refinancing and maturity risk

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

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

The maturity analysis of financial liabilities is as follows:

31/03/15 £000		**31/03/16 £000**
-11,834	Less than one year	**-14,786**
-26,422	Between one and two years	**2,758**
38,961	Between two and five years	**55,216**
119,593	Between five and 15 years	**106,173**
414,202	More than 15 years	**409,670**
534,499		**559,031**

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

31/03/15 £000		**31/03/16 £000**
220,934	Less than one year	**172,352**

Market risk

Interest rate risk

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

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

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

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

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

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

Price risk

The council, excluding the pension fund, does not generally invest in equity shares or marketable bonds. The council does have holdings to the value of £3.2m in seven companies. These companies are not quoted and the shares are held at book value. The council is therefore not exposed to losses arising from movements in the prices of the shares although if any of the companies were to go into liquidation there is a risk that the shares would become worthless.

Foreign exchange risk

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

Note 16: Short term debtors

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

31/03/2015 £000		**31/03/2016 £000**
21,782	Central government bodies	**37,559**
42,398	Other local authorities	**51,289**
3,317	NHS bodies	**3,242**
	Public corporations and trading funds	**274**
65,686	Bodies external to general government (i.e. All other bodies)	**76,534**
133,183	**Total**	**168,897**
	Less:	
	Provision for bad debts	
-6,146	- Social services and health services	**-6,929**
-722	- Other services	**-1,490**
-7,105	- Local taxation arrears	**-8,398**
119,210		**152,080**

Note 17: Cash and cash equivalents

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

31/03/15 £000		**31/03/16 £000**
-27,007	General account	**-22,510**
43,600	Money market funds	**2,895**
16,593	**Total cash and cash equivalents**	**-19,615**

Note 18: Assets held for sale

Assets held for sale (current) 31/03/2015 £000		**Assets held for sale (current) 31/03/2016 £000**
6,050	**Balance outstanding at 1 April**	**33,975**
	Assets newly classified as held for sale:	
3,219	- Property, plant and equipment	**4,684**
28,456	Revaluation gains	**18,347**
-3,750	Assets sold*	**-32,846**
33,975	**Balance outstanding at 31 March**	**24,160**

***** Of the total assets sold (i.e. £32.846m) in 2015/16, £32.585 relates to land and property included in the opening balance.

Note 19: Creditors

31/03/15 £000		**31/03/16 £000**
-41,725	Central government bodies	**-15,647**
-39,450	Other local authorities	**-40,502**
-18,016	NHS bodies	**-11,683**
-371	Public corporations and trading funds	**-418**
-87,741	Bodies external to general government (i.e. All other bodies)	**-113,835**
-187,303	**Total**	**-182,084**

Note 20: Provisions

	Business Rates Appeals Provision	Insurance liabilities	Equal pay	Fire fighters Pensions Fund	Redundancy	Carbon reduction commitment	Closed landfill sites	Other short-term provisions	**Total provisions**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**
Balance at 1 April 2015	4,218	5,664	4,000	8,949	423	200	700	1,303	**25,457**
Additional provisions made in 2015/16	7,560	713			1,278			216	**9,767**
Amounts used in 2015/16					-248			-163	**-411**
Unused amounts reversed in 2015/16		-531			-134			-522	**-1,187**
Balance at 31 March 2016	11,778	5,846	4,000	8,949	1,319	200	700	834	**33,626**
Current Provisions					1,319	200	700	834	**3,053**
Non-Current Provisions	11,778	5,846	4,000	8,949					**30,573**
	11,778	5,846	4,000	8,949	1,319	200	700	834	**33,626**

Comparator information relating to 2014/15 provisions are provided in the following table:

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

Business rates
Since the introduction of Business Rates Retention Scheme effective from 1st April 2013, local authorities have been liable for successful appeals against business rates charged to businesses since 2012/13 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2016. The council's provision for the business rates appeals is based on a 10% share of the provision calculated by each of the 11 borough and district councils in Surrey. The provision as at 31st March 2016 is £11.778m (£4.218m 2014/15).

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. The provision also contains £695,000 to meet a levy payment due in May 2016 in relation to Municipal Mutual Insurance (MMI).

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

Firefighters Pensions
The council has been receiving a firefighters top up grant since 2006. In May 2014 it became apparent that between 2006 and 2013 the council had received funding under this grant for an element of firefighters' pensions relating to injury awards that should have been borne by the council under the terms of the scheme. The council has been in discussion with DCLG on resolving this issue but a liability may arise for the council to repay some or all of the additional funding received in previous years. A provision for the total potential liability of £8.949m was created in 2014/15.

Redundancy costs
As at 31 March there is a provision of £1.319m to cover the cost of redundancies agreed during 2015/16 but for which the expenditure will not be incurred until 2016/17.

Note 21: Usable reserves

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

	Balance at 1 April 2015	Transfers In	Transfers Out	**Balance at 31 March 2016**
Revenue				
General Fund Balance	21,326			**21,326**
Earmarked Reserves	173,862	51,490	-54,380	**170,972**
Total revenue reserves	195,188	51,490	-54,380	**192,298**
Capital				
Capital Grant Unapplied	42,320	116,035	-108,864	**49,491**
Capital Receipts Reserve	30,475	44,955	-111	**75,319**
Total capital reserves	72,795	160,990	-108,975	**124,810**
Total usable reserves	267,983	212,478	-163,353	**317,108**

Note 22: Unusable reserves

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

31/03/15 £000		**31/03/16 £000**
-629,277	Revaluation Reserve	-731,042
-398,077	Capital Adjustment Account	-283,232
37	Financial Instruments Adjustment Account	37
1,496,438	Pensions Reserve	1,251,095
-11,569	Collection Fund Adjustment Account	-9,543
9,745	Accumulated Absences Account	7,653
467,297		**234,968**

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.

31/03/15 £000		**31/03/16 £000**	**31/03/16 £000**
-331,198	**Balance at 1 April**		-629,277
-308,408	Upward revaluation of assets	-123,492	
3,689	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services	12,517	
	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the Provision of Services		-110,975
6,640	Difference between fair value depreciation and historical cost depreciation	9,210	
	Amount written off to the Capital Adjustment Account		9,210
-629,277	**Balance at 31 March**		**-731,042**

Capital Adjustment Account

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

31/03/15 £000		**31/03/16 £000**	**31/03/16 £000**
-500,727	**Balance at 1 April**		**-398,077**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
98,648	Charges for depreciation and impairment of non-current assets	72,258	
14,222	De minimis capital expenditure	15,585	
77,082	Revaluation losses on Property, Plant and Equipment	32,183	
2,096	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	4,255	
612	Amortisation of intangible assets	700	
32,240	Revenue expenditure funded from capital under statute	23,674	
-175	Deferred Income	-185	
-32	Donated Assets credited to the Comprehensive Income and Expenditure Statement	-224	
7,136	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	117,639	
231,829			268,885
-6,640	Adjusting amounts written out of the Revaluation Reserve		-9,210
225,189	Net written out amount of the cost of non-current assets consumed in the year		259,675
	Capital financing applied in the year:		
	Use of the Capital Receipts Reserve to finance new capital expenditure		
	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing		
-89,603	Application of grants to capital financing from the Capital Grants Unapplied Account		-105,930
-26,714	Statutory provision for the financing of capital investment charged against the General Fund		-30,615
-6,222	Capital expenditure charged against the General Fund		-8,285
-398,077	Balance at 31 March		**-283,232**

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 2016 is in relation to the loss of interest on soft loans issued by the council in 2007/08 to Painshill Park Trust and foster carers, there have been no movements on this reserve during 2015/16 (No movements 2014/15).

Pensions Reserve

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

31/03/15 £000		**31/03/16** **£000**
1,203,285	Balance at 1 April	**1,496,438**
243,514	Actuarial gains or losses on pensions assets and liabilities	**-300,332**
125,811	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Account	**133,265**
-76,171	Employer's pensions contributions and direct payments to pensioners payable in the year	**-78,276**
1,496,438	**Balance at 31 March**	**1,251,095**

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.

31/03/15 £000		**31/03/16** **£000**
-7,145	Balance at 1 April	**-11,569**
-4,424	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	**2,026**
-11,569	**Balance at 31 March**	**-9,543**

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.

31/03/15 £000		31/03/16 £000	**31/03/16 £000**
12,147	Balance at 1 April		**9,745**
-12,147	Settlement or cancellation of accrual made at the end of the preceding year	-9,745	
9,745	Amounts accrued at the end of the current year	7,653	
-2,402	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		**-2,092**
9,745	**Balance at 31 March**		**7,653**

Note 23: Amounts reported for resource allocation decisions

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

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

2015/16	Adult Social Care	Children, Schools & Families	Customer& Communities	Environment & Infrastructure	Central Services & Financing	**TOTAL**
	£m	£m	£m	£m	£m	**£m**
Amounts reported to management						
Directorate budgets:	**372.2**	**183.1**	**46.2**	**125.7**	**-723.6**	**3.7**
Income						
- Local taxation					-644.8	**-644.8**
- Government grants & contributions	-0.8	-591.0	-14.1	-3.2	-278.1	**-887.3**
- Fees, charges & other service income	-61.4	-76.6	-5.9	-15.1	-28.5	**-187.4**
- Interest & investment income					-1.9	**-1.9**
Expenditure						
- Employee expenses	57.0	498.6	36.9	22.9	72.5	**687.9**
- other service expenditure	377.8	355.0	28.2	119.6	149.5	**1,030.1**
- Interest payments						
- Precepts & levies						
Actual income & expenditure	**372.6**	**186.0**	**45.1**	**124.1**	**-731.3**	**-3.4**
Full year variance	0.4	2.8	-1.1	-1.6	-7.7	**-7.1**
Contribution to reserves (carry-forward)		0.1	0.7	0.9	2.2	**3.9**
Net revenue expenditure	0.4	2.9	-0.4	-0.7	-5.5	**-3.2**
Transfer of revenue underspend to budget equalisation reserve						**3.2**
Movement on the General Fund						**0.0**
Accounting adjustments to CIES (not reported for budget purposes)						
- Depreciation, amortisations & impairment						**-226.2**
- Adjustments in relation to pension contributions						**-55.0**
- Recognition of capital grants & contributions						**101.6**
- Other accounting adjustments						**0.5**
- Gain or loss on disposal of non-current assets						**1.7**
Items reported for budget purposes but not charged to the CIES						
- Statutory provision for financing of capital						**30.6**
- Capital expenditure financed from revenue						**19.7**
Contributions to/from reserves						**-3.0**
Deficit on Provision of Services						**-130.1**
Surplus on revaluation of non-current assets						**111.2**
Actuarial losses on pension assets / liabilities						**300.3**
Total Comprehensive Income & Expenditure						**281.4**

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

Note 24: Trading operations

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

The table below shows the income and expenditure for 2015/16

2014/15 £000		**2015/16 £000**
-27,173	Turnover	**-29,261**
25,824	Expenditure	**28,019**
-1,348	Surplus(-)	**-1,243**
1,499	Support services recharged to Expenditure of Continuing Operations	**1,504**
152	Net deficit debited to other Operating Expenditure (note 9)	**262**

Note 25: Pooled budgets

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

Better Care Fund

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

The Council entered into seven pooled budget arrangement 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 2015/16. The council recognises its share of income, expenditure, assets and liabilities in its accounts.

2015/16

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

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

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

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

Note 26: Member allowances

2014/15		**2015/16**
£000		**£000**
2,139	Member Allowances*	**1,884**
54	Member Expenses	**42**
2,193		**1,926**

*Includes the employer's contributions for national insurance and superannuation £281k (2014/15, £334k).

Note 27: Officer remuneration – senior officers

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

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

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

Post	Year	Salary £	Expense allowances £	Total remuneration excluding pension contributions £	Pension contributions £	Total remuneration including pension contributions £
Chief Executive - David McNulty	2015/16	216,242	4,053	220,295	32,004	252,299
	2014/15	210,850	4,053	215,653	31,317	246,970
Deputy Chief Executive and Strategic Director of Children, Schools & Families (1) Julie Fisher	2015/16	154,753		154,753	23,034	177,788
	2014/15	128,363		128,363	19,557	147,920
Strategic Director of Children, Schools & Families (2) Nick Wilson	2015/16	48,750		48,750	7,215	55,965
	2014/15	145,450		145,450	21,527	166,977
Assistant Chief Executive (3)	2015/16	59,543		59,543	8,812	68,355
	2014/15	116,181		116,181	17,506	133,687
Strategic Director of Adult Social Care (4)	2015/16	97,426		97,426	14,630	112,056
	2014/15	127,895		127,895	18,956	146,851
Strategic Director, Adults Social Care & Public Health (5)	2015/16	108,488		108,488	15,514	124,001
	2014/15	102,384		102,384	14,165	116,549
Strategic Director of Environment & Infrastructure	2015/16	144,883		144,883	21,383	166,267
	2014/15	142,000		142,000	20,957	162,957
Strategic Director, Communities	2015/16	130,838		130,838	19,364	150,202
	2014/15	130,438		130,438	19,245	149,683
Director of Finance	2015/16	118,335		118,335	17,514	135,849
	2014/15	117,535		117,535	17,395	134,930
Director of Legal, Democratic and Cultural Services (6)	2015/16	106,400		106,400	15,747	122,147
	2014/15	101,600		101,600	15,037	116,637
Head of Fire & Rescue	2015/16	122,498		122,498	14,417	136,915
	2014/15	118,076		118,076	13,826	131,902
Total	**2015/16**	**1,308,156**	**4,053**	**1,312,209**	**189,634**	**1,501,842**
	2014/15	**1,441,522**	**4,053**	**1,445,575**	**209,488**	**1,655,063**

Notes to the Accounts

1. Julie Fisher moved from being the Strategic Director of Business Services in July 2015.

2. Nick Wilson left his post in July 2015. His annualised salary was £146,250. He received a severance payment of £60,940.

3. The Assistant Chief Executive left the post in September 2015. The annualised salary is £119,086. They received a redundancy payment of £90,373.

4. The Strategic Director of Adults Social Care left their post in December 2015. The annualised salary is £129,901

5. Position title changed to 'Strategic Director, Adults Social Care & Public Health' in January 2016

6. Position title changed to 'Director of Legal, Democratic and Cultural Services in January 2016.

Note 28: Officers' remuneration

2014/15				2015/16		
Non school numbers	Schools numbers	Total numbers	Remuneration (£)	**Non-schools numbers**	**Schools numbers**	**Total numbers**
123	116	239	50,000 - 54,999	**109**	**114**	**223**
117	95	212	55,000 - 59,999	**125**	**93**	**218**
59	49	108	60,000 - 64,999	**67**	**57**	**124**
49	58	107	65,000 - 69,999	**38**	**50**	**88**
14	22	36	70,000 - 74,999	**22**	**26**	**48**
31	13	44	75,000 - 79,999	**31**	**12**	**43**
10	9	19	80,000 - 84,999	**7**	**9**	**16**
11	2	13	85,000 - 89,999	**13**	**5**	**18**
4	7	11	90,000 - 94,999	**1**	**3**	**4**
4	2	6	95,000 - 99,999	**9**	**3**	**12**
3	1	4	100,000 - 104,999	**1**	**4**	**5**
1	2	3	105,000 - 109,999	**3**		**3**
1	1	2	110,000 - 114,999			
4		4	115,000 - 119,999	**3**		**3**
2	1	3	120,000 - 124-999	**2**	**1**	**3**
2		2	125,000 - 129,999			
1		1	130,000 - 134,999	**1**		**1**
			135,000 - 139,999			
1		1	140,000 - 144,999	**1**		**1**
1		1	145,000 – 149,999	**1**		**1**
			150,000 – 154,999	**1**		**1**
			195,000 - 199,999			
			210,000 - 214,999			
1		1	215,000 – 219,999			
			220,000 – 224,999	**1**		**1**
439	378	817		**436**	**377**	**813**

The table above includes the full salary costs of 1 officer who spend a proportion of their time working for Mole Valley District Council. The full salary cost is shown in the table above but the council does recover a proportion of these costs from Mole Valley District Council.

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

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band (b) + (c)		(e) Total cost of exit packages in each band*	
	2014/15	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**
Cost (£)							**£000**	**£000**
0-20,000	**64**	**48**	**34**	**33**	**98**	**81**	**928**	**435**
20,001-40,000	**20**	**8**	**19**	**5**	**39**	**13**	**1,123**	**338**
40,001-60,000	**6**	**2**	**14**	**1**	**20**	**3**	**948**	**145**
60,001-80,000	**4**	**1**	**7**	**1**	**11**	**2**	**747**	**126**
80,001-100,000	**1**	**1**	**2**	**1**	**3**	**2**	**267**	**170**
100,001-150,000	**2**		**1**	**1**	**3**	**1**	**397**	**131**
150,001 – 200,000	**1**				**1**		**164**	
200,001 – 250,000	**1**				**1**		**212**	
Total cost included in bandings	**99**	**60**	**77**	**42**	**176**	**102**	**4,786**	**1,346**
ADD: Amounts provided for in CIES not included in bandings**	**13**	**31**	**1**	**8**	**14**	**30**	**290**	**1,319**
Total cost included in CIES	**112**	**91**	**78**	**50**	**190**	**132**	**5,076**	**2,665**

*****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 2015/16 but for which no payment had yet been made.

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

2014/15 £000		**2015/16 £000**
189	Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year	**142**
-30	Audit fee rebate from the Audit Commission and prior year fees	
	Fees payable to the external auditors for the certification of grant claims and returns for the year	**4**
159		**146**

Note 31: Dedicated Schools Grant
The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools' budget, as defined in the School Finance (England) Regulations 2014. The school budget includes elements for a range of educational services provided on a council-wide basis and for the individual school's budget, which is divided into a budget share for each maintained school.
Central expenditure includes items such as:

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

Notes to the Accounts

Details of the deployment of DSG receivable for 2015/16 are shown on the table below:

Ref:	2014/15 £000s		Central	ISB*	**2015/16 £000s**
A	725,345	Final DSG 2015/16 before academy recoupment (DFE gross allocation)			**759,438**
A1	-8,583	Less deducted by DfE for high needs placing			**-10,630**
B	-182,489	Academy figure recouped			**-211,660**
C	534,273	Total DSG after academy recoupment			**537,148**
D	13,252	Brought forward from 2014/15			**6,645**
E	-4,672	Carry forward agreed in advance			**-2,056**
	542,853				**541,737**
F	542,853	Agreed initial budgeted distribution	122,260	419,477	**541,737**
G	724	In year adjustments	-384	710	**326**
H	543,577	Final distribution	121,876	420,187	**542,063**
I	-111,334	Actual central expenditure	-118,317		**-118,317**
J	-431,076	Actual Individual Schools Budget (ISB)		-420,187	**-420,187**
K	806	Local authority contribution	953		**953**
L	1,973	Amount carried forward to 2016/17	4,512		**4,512**
	4,672	Pre-agreed carry forward to 2016/17	2,056		**2,056**
	6,645	Total amount carried forward to 2016/17	6,568		**6,568**

*Individual Schools Budget

Reference:

A Final DSG figure before deducting academy recoupment and funding for places directly funded by the Education Funding Agency (EFA), and before the January 2016 early years block adjustment (which will be made in summer 2016).

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

B Figure recouped from the authority in 2015/16 by the DfE for the conversion of maintained schools into academies.

C Total DSG after EFA academy recoupment and place funding deductions

D Figure brought forward from 2014/15 as agreed with the Department. This excludes the January 2015 early years adjustment, which was paid by EFA in July 2015.

E Any amounts which the authority decided after consultation with the Schools Forum, to carry forward to 2016/17 rather than distribute in 2015/16. This was DSG underspent in 2014/15 which was not committed in the initial 2015/16 budget and which has been allocated to support the 2016/17 budget, plus additional DSG allocated after the initial Schools Budget had been agreed with the Schools Forum.

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

G Changes to DSG after the initial distribution comprise the final early years adjustment for 2014/15 made by EFA in 2015/16 (£0.326m), adjustments to budgets for maintained early years providers and adjustments for permanently excluded pupils.

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

I Actual amount of central expenditure items in 2015/16

J Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the council once it is deployed to schools' budget shares). Includes final budget shares for private nursery providers
K Contribution from local authority which has the effect of substituting for DSG in 2015/16
L Amount carried forward to be spent in 2016/17

Note 32: Grants and contributions

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

2014/15 £000			**2015/16 £000**
	General grants & contributions		
191,275	Formula Grant*		**168,714**
11,044	Private Finance Initiative Grant	11,044	
14,386	Education Services Grant	11,126	
	The Implementation of the Care Act	9,808	
3,517	Dedicated Schools Grant (Non-ringfenced)	3,517	
13,230	Other Revenue Grants	9,247	**44,742**
42,569	Education Funding Agency (Schools Basic Need & Schools Maintenance)	55,722	
30,142	Highways Maintenance & Integrated Grant	21,498	
6,678	Capital S106 developer contributions	11,184	
	Local Growth Deal	10,920	
	Fire Transformation grant	5,162	
3,062	Capital contributions from schools	3,266	
3,609	Local Sustainable Transport Fund	401	
9,109	Other Capital grants & Contributions	4,948	**113,101**
328,621			**326,557**

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

Grants credited to services are analysed in the following table:

2014/15 £000		2015/16 £000
	Credited to services	
538,087	Dedicated Schools Grant	**534,034**
25,561	Public Health Grant	**33,406**
18,115	Young People Learning Agency	**18,147**
19,755	Pupil Premium	**18,323**
7,618	Universal Infant Free School Meals	**11,882**
23,893	Other revenue grants	**32,406**
	Government "Capital" Grant applied to Revenue Expenditure Funded by Capital under Statute:	
1,043	- Community Capacity grant	**858**
2,659	- Capital Contributions from Schools	**1,726**
35	- Other grants	
636,767	**Total**	**650,782**

Note 33: Related parties

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

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

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

The total of members' allowances paid in 2015/16 is shown in Note 26.

In addition, a survey of the related party interests of members in office during the 2015/16 financial year and their immediate family members was carried out in preparing this statement of accounts. There were responses from 81 of 81 members. The council had transactions with 46 bodies that members declared an interest in, with a total value of £80.2m. Of this, payments of £62.9m were to SITA UK, in which 1 member declared an interest, £10.5m to Surrey and Borders Partnership NHS Trust in which 2 members declared an interest, £1.0m was to Surrey Wildlife Trust in which 2 members declared an interest, £1.0m to London Care Partnership in which 1 member declared an interest, £0.9m to South East Surrey YMCA in which 1 member declared an interest, £0.9m to Disability Challengers in which 1 member declared an interest, £0.7m to National Centre for Young Epilepsy in which 1 member declared an interest.

Senior Officers are deemed to include all officers earning over £61,292. The council had transactions with 8 other bodies in which an interest was declared totalling £7.7m. This includes payments of £6.7m to Alpenbest Ltd in which 1 officer declared an interest; and £0.7m to Young Epilepsy in which 2 officers declared an interest.

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

- S.E. Business Services Ltd - The company was set up for the provision of business services and was incorporated on 20 June 2013.
- Surrey Choices Ltd -. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until August 2014.
- Halsey Garton Ltd – is a property investment company. It is a holding company with three subsidiaries; Halsey Garton Investments Ltd, Halsey Garton Developments Ltd and Halsey Garton Residential Ltd. During 2015/16 only the holding company and Halsey Garton Investments Ltd commenced trading.

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

Group accounts for 2015/16 have been prepared and are presented on page 100 to show the combined financial performance and position of the county council, SE Business Services, Surrey Choices and Halsey Garton.

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

Surrey Pension Fund
The fee payable by the Surrey Pension Fund to the county council for services provided in 2015/16 was £1.4m (£1.6m in 2014/15). This is split into the fee for providing pension administration services £1.1m (£1.4m in 2014/15) and £0.3m (£0.2m in 2014/15) for treasury management, accounting and managerial services.

During 2015/16 the council paid employer pension contributions of £65.0m (£64.1m in 2014/15).

Net amounts owed by the council to the fund as at 31 March 2016 were £2.7m (£6.6m at 31 March 2015).

Note 34: Capital expenditure and capital financing

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

The CFR is analysed in the following table:

2014/15		2015/16
£000		£000
	Capital Financing	
681,681	**Opening Capital Financing Requirement**	**781,587**
	Capital investment:	
182,521	Property, Plant and Equipment	187,424
3,760	Investment Properties	36,255
936	Intangible Assets	1,642
32,240	Revenue Expenditure Funded from Capital Under Statute	23,674
3,162	Long Term Debtor	18,273
	Sources of Finance	
0	Capital receipts	0
-89,602	Government grants and other contributions	-105,930
-3,563	Sums set aside from revenue	-7,611
-2,659	Direct revenue contributions	-673
-26,714	Minimum Revenue Provision	-30,615
-175	PFI Deferred Income	-185
781,587	**Closing Capital Financing Requirement**	**903,841**
	Explanation of movements in year	
101,264	Increase in underlying need to borrowing (unsupported by government financial assistance)	122,963
-26,714	Minimum Revenue Provision	-30,615
25,531	Assets acquired under finance leases	30,091
-175	PFI Deferred Income	-185
99,906	**Increase / (decrease) in Capital Financing Requirement**	**122,254**

Note 35: Leases

Council as lessee

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

31 March 2015 £000	Operating lease liabilities - land and buildings	**31 March 2016 £000**
1,814	Not later than one year	1,860
5,911	Later than one year but not later than five years	6,320
10,102	Later than five years	9,026
17,827		**17,206**

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

31 March 2015 £000	Amounts charged to the Comprehensive Income and Expenditure Statement during the year Operating leases - land and buildings	**31 March 2016 £000**
3,604	Minimum lease payments for the year	3,161
	Contingent rents in year	
	Sublease payments receivable in year	
3,604		**3,161**

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

Council as lessor

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

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

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

31 March 2015 £000		**31 March 2016 £000**
	Lease liabilities - land and buildings:	
3,288	Not later than one year	4,563
9,823	Later than one year but not later than five years	14,337
11,596	Later than five year	12,025
24,707		**30,925**

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

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

31 March 2015 Other liabilities				31 March 2016 Other liabilities		
Short term	Long-term	Total		Short term	Long-term	**Total**
£000	£000	£000		£000	£000	**£000**
6,955	95,797	102,752	PFI finance lease liabilities (Note 37)	7,564	118,324	**125,888**
	12,165	12,165	Deferred income liabilities (Note 37)		11,980	**11,980**
59	501	560	Other finance lease liabilities	59	442	**501**
	1,496,438	1,496,438	Pension liabilities (Note 38)		1,251,095	**1,251,095**
	809	809	Balances held for third parties		1,670	**1,670**
7,014	1,605,710	1,612,725		**7,623**	**1,383,511**	**1,391,134**

Note 37: Private finance initiatives and similar contracts

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

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

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

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

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

Property plant and equipment

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

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

The table below summarises the movement:

	2014/15			**2015/16**		
	Land & Buildings £000	Infrastructure £000	Asset Under Construction £000	**Land & Buildings £000**	**Infrastructure £000**	**Asset Under Construction £000**
Gross cost at 1 April	95,684	63,275	0	**100,928**	**76,653**	**6,909**
Additions	5,244	13,378	6,909			**30,091**
Revaluations						
Gross Cost at 31 March	100,928	76,653	6,909	**100,928**	**76,653**	**37,000**
Accumulated Depreciation and Impairment at 1 April	-17,757	-5,995	0	**-20,812**	**-8,717**	**0**
Depreciation charge for the year	-3,055	-1,610		**-3,366**	**-1,917**	
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	-1,112				
Accumulated Depreciation and Impairment at 31 March	-20,812	-8,717	0	**-24,178**	**-10,634**	**0**
Net book Value at 1 April	77,927	57,280	0	**80,116**	**67,936**	**6,909**
Net book Value at 31 March	80,116	67,936	6,909	**76,750**	**66,019**	**37,000**

Payments made to the contractor are described as unitary payments. Unitary payments have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The value of any capital works are matched in the balance sheet by recognising a liability, either a finance lease liability or a deferred income liability where the contractor is able to exploit the assets for their own business.

Payments remaining to be made under the PFI contract at 31 March 2016 (based on 2015/16 prices, excluding any estimation of inflation and availability/performance deductions) are as follows:

Payable in 2015/16 £000		Payable in 2016/17 £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						
38,427	- Waste	41,044	196,903	196,110			**434,057**
16,086	- Anchor Trust	16,465	32,931				**49,396**
8,473	- Care UK	7,330	29,321	36,652	7,330		**80,633**
1,915	- Street Lighting	2,799	11,198	42,067	14,771	13,102	**83,937**
64,901		67,638	270,353	274,829	22,101	13,102	**648,023**
	Reimbursement of Capital Expenditure						
3,475	- Waste	3,874	55,545	61,928			**121,347**
1,709	- Anchor Trust	1,813	3,963				**5,776**
85	- Care UK	90	417	681	162		**1,350**
1,686	- Street Lighting*	1,787	8,336	13,937	19,695	21,443	**65,198**
6,955		7,564	68,261	76,545	19,857	21,443	**193,671**
	Interest						
3,083	- Waste	569	24,496	9,649			**34,714**
455	- Anchor Trust	351	365				**716**
87	- Care UK	82	271	179	10		**542**
6,710	- Street Lighting	6,614	25,266	27,868	21,534	10,256	**91,538**
10,335		7,616	50,398	37,696	21,544	10,256	**127,510**
82,191	TOTAL	**82,818**	**389,012**	**389,071**	**63,502**	**44,801**	**969,204**

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

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

2014/15 Finance Lease Liability £000	2014/15 Deferred Income Liability £000		**2015/16 Finance Lease Liability £000**	**2015/16 Deferred Income Liability £000**
-82,633	-12,340	Balance outstanding at the start of the year	-102,752	-12,165
5,412		Payments during the year	6,955	
-25,531		Capital expenditure incurred in the year	-30,091	
	175	Amortisation of deferred income		185
-102,752	-12,165	Balance outstanding at year end	**-125,888**	**-11,980**

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

31 March 2015 £000		31 March 2016 £000
124	not later than one year	66
259	later than one year but not later than 5 years	256
714	later than 5 years	651
1,097		**972**

Note 38: Pension schemes accounted for as defined contribution schemes
Teachers employed by the council are members of the Teacher Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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

In 2015/16, the council paid £49.1m to teachers' pensions in respect of retirement benefits, representing 14.1% of pensionable pay. The figures for 2014/15 were £49.9m and 14.1%. The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and the council is not liable to the scheme for any other entities' obligations under the scheme.

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

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

In 2015/16 the council paid £370,810 to NHS pensions representing 14% of pensionable pay (2014/15, £403,200).

Note 39: Defined benefit pension schemes

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

Surrey County Council contributes to two defined benefit schemes:

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

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

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

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

Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2014/15 £000	**2015/16 £000**	2014/15 £000	**2015/16 £000**
Comprehensive Income & Expenditure Statement				
Cost of Services:				
- current service cost	69,910	**87,093**	12,400	**10,800**
- past service cost	-302	**-301**		
- (gain)/loss on settlements	-7,575	**-12,197**		
Financing & Investment Income & Expenditure				
- net interest on the net defined benefit liability	30,278	**29,170**	21,100	**18,700**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	92,311	**103,765**	33,500	**29,500**
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
- return on plan assets (excluding the amount included in the net interest expense)	-124,142	**32,927**		
- actuarial gains and losses arising on changes in demographic assumptions				**-1,500**
- actuarial gains and losses arising on changes in financial assumptions	314,473	**-223,972**	71,500	**-55,400**
- other experience	-17,917	**-30,187**	-400	**-22,200**
Total remeasurement of the net defined benefit liability	172,414	**-221,232**	71,100	**-79,100**
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	279,875	**-117,467**	104,600	**-49,600**
Movement in Reserves Statement:				
- reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-92,311	**-103,765**	-33,500	**-29,500**
Actual amount charged against the General Fund Balance for pensions in the year:				
- employers' contributions to the scheme/ retirement benefits paid direct to pensioners	63,542	**64,891**	12,629	**13,385**

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	
	2014/15 £000	**2015/16 £000**	2014/15 £000	**2015/16 £000**
Present value of the defined benefit obligation	-2,436,780	**-2,287,583**	-581,295	**-518,310**
Fair value of plan assets	1,521,637	**1,554,797**		
Net liability arising from defined benefit obligation	-915,143	**-732,786**	-581,295	**-518,310**

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	
	2014/15 £000	**2015/16 £000**	2014/15 £000	**2015/16 £000**
Opening Balance at 1 April	-2,042,976	**-2,436,780**	-489,324	**-581,295**
Current service cost	-69,910	**-87,093**	-12,400	**-10,800**
Interest cost	-87,567	**-78,135**	-21,100	**-18,700**
Contributions by scheme participants	-19,118	**-18992**	-2,700	**-2,500**
Remeasurements:				
- Actuarial gains and losses arising on changes in demographic assumptions				**1,500**
- Actuarial gains and losses arising on changes in financial assumptions	-314,473	**223,972**	-71,500	**55,400**
- Other experience	17,917	**30,187**	400	**22,200**
Actuarial gains and losses				
Pensions and lump sum expenditure			14,900	**19,700**
Benefits paid	65,103	**64,049**		
Past service costs (including curtailments)	302	**301**		
Settlements	16,484	**17,146**		
Employer contributions adjustment*	-2,542	**-2,238**	429	**-3,815**
Closing balance at 31 March	-2,436,780	**-2,287,583**	-581,295	**-518,310**

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

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

	Local Government Pension Scheme		Firefighters' pension scheme	
	2014/15	**2015/16**	201/415	**2015/16**
	£000	**£000**	£000	**£000**
Opening fair value of scheme assets at 1 April	1,329,016	**1,521,637**		
Expected rate of return				
Actuarial gains and losses				
Interest income	57,289	**48,965**		
Remeasurement:				
Return on assets excluding amounts included in net interest	124,142	**-32,927**		
Employer Contributions	63,542	**64,890**		
Employer contributions adjustment*	2,542	**2,238**		
Contributions by scheme participants	19,118	**18,992**		
Benefits paid	-65,103	**-64,049**		
Settlements	-8,909	**-4,949**		
Closing fair value of scheme assets at 31 March	1,521,637	**1,554,797**		

***** 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 £1,251m has a substantial impact on the net worth of the council as recorded in the Balance Sheet. The statutory arrangements for funding the deficit, however, mean that the financial position of the council remains stable:

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

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

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

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2014/15	**2015/16**	2014/15	**2015/16**
Mortality assumptions:				
- longevity at 65 for current pensioners (60 for firefighters):				
- Men	22.5 years	22.5 years	29.5 years	29.7 years
- Women	24.6 years	24.6 years	31.7 years	31.6 years
- longevity at 65 for future pensioners (60 for firefighters):				
- Men	24.5 years	24.5 years	31.1 years	31.2 years
- Women	26.9 years	26.9 years	33.2 years	33.2 years
Rate of inflation	3.0%	3.2%	3.4%	3.2%
Rate of increase in salaries	3.8%	3.7%	3.5%	3.2%
Rate of increase in pensions	2.4%	2.2%	2.5%	2.2%
Rate for discounting scheme liabilities	3.2%	3.5%	3.3%	3.5%

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

Sensitivity analysis

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

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	Approximate % increase to employer liability	Approximate monetary amount	Approximate % increase to employer liability	Approximate monetary amount
		£000		£000
0.5% decrease in real discount rate	10%	236,256	9%	45,300
1 year increase in member life expectancy	3%	68,355	3%	15,400
0.5% increase in the salary increase rate	3%	63,275	1%	5,200
0.5% increase in the pension increase rate	7%	170,084	8%	39,600

Investment assets

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

31-Mar-15 Quoted prices in active markets £000			**31-Mar-16 Quoted prices in active markets £000**	
		Quoted prices in active markets		
		Equity securities		
113,980	8%	Consumer	124,895	8%
82,407	5%	Manufacturing	95,048	6%
49,857	3%	Energy & utilities	43,682	3%
97,485	6%	Financial institutions	111,119	7%
53,524	4%	Health & care	54,799	4%
72,673	5%	Information technology	84,203	5%
		Other	2,288	0%
469,926			**516,034**	
		Debt securities		
55,379	4%	Corporate bonds (investment grade)	66,512	4%
6,116	0%	Corporate bonds (non-investment grade)	4,127	0%
34,263	2%	UK government		0%
14,154	1%	Other	2,075	1%
109,912			**72,714**	
		Real estate		
96,025	6%	UK property	93,827	6%
733	0%	Overseas property	12,191	1%
96,758			**106,018**	
		Investment funds & unit trusts		
443,215	29%	Equities	404,728	26%
142,233	9%	Bonds	166,833	11%
175,482	12%	Other	192,578	12%
760,930			**764,139**	
		Derivatives		
-215	0%	Interest rate	6	0%
-1,198	0%	Foreign exchange	-9,372	-1%
-1,413			**-9,366**	
28,429	2%	Cash & cash equivalents	**43,408**	**3%**
1,464,542	96%	Sub-total	**1,492,947**	**96%**
		Quoted prices in non-active markets		
57,094	4%	Private equity	**61,849**	**4%**
1,521,636	100%	**Total**	**1,554,796**	**100%**

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

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

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

Impact on the council's cash flows
The council has a stabilisation strategy in place to keep employer contributions at a consistent rate as possible. The council has agreed a strategy with the fund's actuary to achieve 100% funding over the next 20 years. The council's employer contribution rate is set at a level to help achieve this objective. The contribution level is periodically reviewed as part of the triennial valuation to ensure it is appropriate The most recent review was as at the 31 March 2013 and the next review will take place during 2016/17 with a valuation date of 31 March 2016.

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

The council expects to make employer contributions of £65.0m to the LGPS in 2016/17.

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

Local Government Pension Scheme

2014/15			**2015/16**	
Liability split (%)	Weighted average duration (years)		**Liability split (%)**	**Weighted average duration (years)**
48.3	24.0	Active members	50.6	24.0
19.7	23.1	Deferred members	18.6	23.1
32.0	11.3	Pensioner members	30.8	11.3
100.0	18.5	**Total**	**100.0**	**18.5**

Firefighters' Pension Scheme

2014/15 Liability split (%)	2014/15 Weighted average duration (years)		**2015/16 Liability split (%)**	**2015/16 Weighted average duration (years)**
53.0	25.8	Active members	38.0	24.5
2.6	25.2	Deferred members	2.6	26.5
44.4	12.3	Pensioner members	59.4	12.0
100.0	19.8	**Total**	**100.0**	**17.1**

Note 40: Contingent liabilities

Potential liabilities are not required to be incorporated within the accounts where there is no certainty that an actual liability will arise or where the extent of an obligation cannot be measured with sufficient reliability. At 31 March 2016 the council had the following contingent liabilities:

- The council embarked upon a PFI for waste disposal in 1999. By the end of 2015/16 £146.1m has been received in PFI credits. In return, the council has an obligation to invest in waste disposal infrastructure. A large proportion of this obligation is still to be delivered. If these obligations are not met then a liability may arise to repay some or the entire PFI grant received to date.

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

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

2014/15 £000		**2015/16 £000**
-125,811	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	**-133,265**
76,171	Employer's pensions contributions and direct payments to pensioners payable in the year	**78,276**
175	Deferred Income in respect of PFI schemes	**185**
-98,648	Charges for depreciation & impairment of non-current assets	**-75,258**
-612	Amortisation of intangible assets	**-700**
-35,661	Revaluation losses on property, plant & equipment	**-47,957**
-2,096	Change in fair value of investment properties	**-4,255**
-55,643	Impairment of academies	**-74,406**
-11,383	Contributions to provisions	**-8,170**
3,059	Net gain/loss on sale disposal of property, plant & equipment	**1,722**
22,539	Movement in creditors	**3,155**
1,958	Movement in third party balances	**-859**
-13	Movement in inventories	**259**
-4,486	Movement in debtors	**32,870**
2,402	Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**2,092**
32	Donated asset adjustment	**224**
59	Finance lease repayment	**59**
-787	Movement in Capital Receipts in Advance	**-33**
1,330	Movement in IRR reserve to fund capital expenditure	
-227,415		**-226,061**

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

2014/15 £000		**2015/16 £000**
157,235	Purchase of Property Plant & Equipment	**157,333**
3,760	Purchase of Investment Property	**36,255**
936	Purchase of Intangible Assets	**1,642**
32,240	Revenue Expenditure Funded from Capital Under Statute	**23,674**
194,171		**218,904**

Note 43: Prior period adjustments

This note summaries the adjustments made to the 2014/15 comparators from the figures published in the 2014/15 Statement of Accounts. The adjustments arise from a change in the accounting policy for the treatment of the derecognition of schools that transfer to academy status. Previously the impairment charge that the council incurs when the school asset transfers to the academy trust has been reported against the 'Education & Children's Services' line in the Comprehensive Income and Expenditure Statement. CIPFA guidance now recommends that the impairment charge is made against the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement so a prior period adjustment has been made to ensure the accounting treatment is consistent between financial years.

Comprehensive Income and Expenditure Statement

	Originally stated 2014/15 Net Expenditure £000	Restated 2014/15 Net Expenditure £000	Amount of restatement £000
Education & Children's Services	369,871	314,228	-55,643
Financing & Investment Income & Expenditure	69,317	124,960	55,643

Group Accounts

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

Halsey Garton Ltd has three subsidiaries, of which only one had commenced trading as at 31 March 2016. The economic activities and financial position of the Halsey Garton Group is included within these group accounts.

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

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

These statements (*the purposes of which are explained on page 5*), together with those explanatory notes that are considered necessary in addition to those accompanying the Council's 'single entity' accounts, and accounting policies, are set out in the following pages.

Group Movement in Reserve Statement

2015/16	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Profit & loss reserve of subsidiary £000	Pension Reserve of Subsidiary £000	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2015	-21,326	-173,862	-30,475	-42,320	7	1,573	**-266,403**	467,297	**200,894**
(Surplus) or deficit on provision of services (accounting basis)	130,043				1,801		**132,844**		**131,844**
Other comprehensive income & expenditure						-504	**-504**	-411,497	**-412,001**
Total comprehensive income & expenditure	**130,043**				**1,801**	**-504**	**131,340**	**-411,497**	**-280,157**
Adjustments between accounting basis & funding basis under regulations	-127,042		-44,955	-7,171			**-179,168**	179,168	
Net increase/decrease before transfers to earmarked reserves	**3,001**		**-44,955**	**-7,171**	**1,801**	**-504**	**-47,828**	**-232,329**	**-280,157**
Transfers to/from earmarked reserves	-3,001	2,890	111						
Increase/decrease in year	**0**	**2,890**	**-44,844**	**-7,171**	**1,801**	**-504**	**-47,828**	**-232,329**	**-280,157**
Balance at 31 March 2016	**-21,326**	**-170,972**	**-75,319**	**-49,491**	**1,808**	**1,069**	**-314,231**	**234,968**	**-79,263**

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

Group Comprehensive Income & Expenditure Statement

Restated year ended 31 March 2015 Gross Expenditure £000	Income £000	Net Expenditure £000		Year ended 31 March 2016 Gross Expenditure £000	Income £000	**Net Expenditure £000**
451,113	-75,977	375,136	Adult Social Care	453,901	-75,320	**378,581**
955,481	-641,231	314,250	Education & Children's Services	964,179	-643,107	**321,072**
141,649	-20,841	120,808	Highways & Transport Services	116,371	-15,555	**100,816**
32,775	-3,763	29,012	Cultural and Related Services	32,076	-3,673	**28,403**
64,805	-2,002	62,802	Environmental & Regulatory Services	68,553	-4,874	**63,679**
16,288	-1,672	14,617	Planning Services	7,134	-739	**6,395**
15,333	-66	15,267	Housing General Fund	18,494	-9,129	**9,365**
44,315	-2,100	42,215	Fire Services	64,110	-22,811	**41,299**
27,434	-19,486	7,948	Corporate and Democratic Core	26,148	-19,668	**6,480**
6,782	-3,948	2,834	Central Services to the Public	6,862	-2,641	**4,221**
1,947		1,947	Court Services	2,105		**2,105**
27,106	-29,152	-2,046	Public Health	33,806	-33,479	**327**
11,253	-8,616	2,637	Non Distributed Costs	-7,839	1	**-7,838**
1,796,281	-808,854	987,427	**Cost of Services - continuing operations**	**1,785,900**	**-830,995**	**954,905**
31,435	-31,815	-380	Other Operating Income & Expenditure	31,056	-31,994	**-938**
186,995	-62,011	124,984	Financing & Investment Income & Expenditure	205,391	-56,626	**148,765**
	-620,640	-620,640	Local Taxation		-642,732	**-642,732**
	-328,621	-328,621	General Grants & Contributions		-326,557	**-326,557**
2,014,711	-1,851,941	162,770	**Surplus(-) or Deficit on Provision of Services**	**2,022,347**	**-1,888,904**	**133,443**
		81	Tax expense of subsidiaries			**17**
		162,851	**Group surplus/deficit**			**133,460**
		-304,719	(Surplus) or Deficit on revaluation of non current assets			**-111,165**
		245,087	Remeasurement of the net defined benefit liability			**-301,181**
		-59,632	**Other Comprehensive Income & Expenditure**			**-412,346**
		103,219	**Total Comprehensive Income & Expenditure**			**-278,886**

Group Balance Sheet

As at 31 March 2015		**As at 31 March 2016**
1,726,341	Property, Plant & Equipment	1,793,713
665	Heritage Assets	1,024
30,850	Investment Property	73,541
4,534	Intangible Assets	5,477
465	Long Term Investments	647
13,840	Long Term Debtors	16,691
1,776,695	**LONG TERM ASSETS**	**1,891,093**
	Short Term:	
107,999	Investments	65,650
860	Intangible Assets	836
33,975	Assets Held for Sale	24,160
1,110	Inventories	1,369
119,521	Short Term Debtors	151,177
18,038	Cash & Cash Equivalents	
	Deferred Tax Asset	596
281,503	**CURRENT ASSETS**	**243,788**
	Short Term:	
	Cash & Cash Equivalents	-18,105
-32,563	Borrowing	-30,876
-188,459	Creditors	-183,534
-2,626	Provisions	-3,053
-171	Revenue Grants Receipts in Advance	-142
-249	Capital Grants Receipts in Advance	-281
-7,014	Other Short Term Liabilities	-7,623
-81	Current tax liability	-90
-231,163	**CURRENT LIABILITIES**	**-243,704**
	Long term creditors:	
-22,831	Provisions	-30,573
-397,815	Long Term Borrowing	-397,798
-1,607,283	Other Long Term Liabilities	-1,383,543
-2,027,929	**LONG TERM LIABILITIES**	**-1,811,914**
-200,894	**NET ASSETS**	**79,263**
-266,403	Usable Reserves	-314,231
467,297	Unusable Reserves	234,968
200,894	**TOTAL RESERVES**	**-79,263**

Group Cash Flow Statement

2014/15 £000		**2015/16 £000**
162,771	Net surplus (-) / deficit on the provision of services	133,443
-227,462	Adjustments to net surplus / deficit on the provision of services for non-cash movements	-238,285
-32,240	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities	-23,674
-96,931	**Net cash flows from operating activities**	**-128,516**
194,171	Purchase of property, plant & equipment, and investment property	229,555
-10,195	Proceeds from the sale of property, plant & equipment	-44,955
32,796	Movement in short-term and long-term investments	-42,065
5,386	Other receipts & expenditure from investing activities	13,465
222,158	**Net cash flows from investing activities**	**156,000**
5,412	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	6,955
24,104	Repayment of short-term and long-term borrowing	51,154
-165,247	Receipts of short-term and long-term borrowing	-49,450
-135,731	**Net cash flows from financing activities**	**8,659**
-10,507	**Net increase (-) / decrease in cash & cash equivalents**	36,143
-7,534	Cash & cash equivalents at the beginning of the reporting period	-18,038
-18,038	Cash & cash equivalents at the end of the reporting period	**18,105**

Note 1: General

The Group Accounts should be read in conjunction with the Surrey County Council single entity accounts on pages 19 to 99. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.

Note 2: Group Boundary

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

- S.E. Business Services Ltd – Provides business services such as IT data storage and was incorporated on 20 June 2013.
- Surrey Choices Ltd - The company delivers day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until August 2014.
- Halsey Garton Ltd – is a property investment company. It acts as a holding company for three subsidiaries; Halsey Garton Investments Ltd, Halsey Garton Developments Ltd and Halsey Garton Residential Ltd. During 2015/16 only the holding company and Halsey Garton Investments Ltd commenced 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 low. Compared to the single entity Surrey County Council accounts the overall surplus on the Comprehensive Income and Expenditure Statement decreased by £2.6m, net assets decreased by £2.9m and the net decrease in cash improved by £0.1m.

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

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

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

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

Note 3: Accounting policies

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

Note 4: Investment properties

The group has several properties purchased for future service needs which are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2016, under the code of practice they are classed as investment properties.

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

2014/15		**2015/16**	Offices	Industrial	Retail	Leisure	Fair Value Hierarchy
£000		**£000**	£000	£000	£000	£000	
29,186	Balance at start of the year	**30,850**	24,350		5,400	1,100	Level 2
3,755	Purchases	**47,305**	36,255	11,050			Level 2
5	Subsequent expenditure						
-2,096	Net loss from fair value adjustments*	**-4,614**	-4,255	-359			Level 2
30,850	**Balance at end of the year**	**73,541**	56,350	10,691	5,400	1,100	

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The fair value hierarchy within which the fair value measurements are categorised are all level 2 observable inputs.

*the valuation of Investment Properties is based on prevailing market conditions and existing lease agreements as at 31 March 2016. The Stamp Duty changes announced by the Chancellor and implemented from 17th March 2016 have had a negative impact on the whole investment property market and our independent valuers have assessed the impact on the council's portfolio to be just over £1.0m. In addition to this, the fair value adjustment means that we are required to write-down any transaction costs associated with the purchase where these are not offset by an increase in value and this is the case with the council's most recent acquisition in Dorking which completed in February 2016 and the Halsey Garton acquisition in Melksham. One investment has reduced in value as the current tenant lease agreement ends shortly however the value will increase once a new lease has been secured; except for this all other investment properties have increased in value since purchase.

Overview
Surrey County Council (the council) has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. We are committed to fulfilling our responsibilities in accordance with the highest standards of good governance to support our Corporate Strategy "Confident in Surrey's future." The council's Governance Strategy sets out our approach to good governance and is supplemented by our Code of Corporate Governance.

The annual review of governance is overseen by the Governance Panel (the panel) which comprises the Director of Legal, Democratic and Cultural Services [chair], the Director of Finance, senior representatives from HR and Organisational Development and Strategy and Performance, the Chief Internal Auditor and the Risk and Governance Manager. The panel meets four times a year and reports to the Statutory Responsibilities Network and the Audit and Governance Committee. The 2015/16 annual review of governance has provided a satisfactory level of assurance on the governance arrangements for the year.

We are pleased to present the Surrey County Council Annual Governance Statement for 2015/16, which outlines the council's governance arrangements and achievements during the year and highlights areas to continue to strengthen governance in 2016/17.

The governance environment during 2015/16

<u>Purpose and Outcome</u>
Surrey County Council's Corporate Strategy, 'Confident in Surrey's future', provides clear direction for staff as well as a signpost for residents, businesses and partner organisations and incorporates council's four values of Listen, Responsibility, Trust and Respect at its heart. It is underpinned by a suite of supporting documents such as the Medium Term Financial Plan and the Investment Strategy. Performance is measured through a variety of key indicators relating to wellbeing, economic prosperity and resident experience and progress is published on the external website. The Chief Executive also reports progress to full County Council twice a year.

The Statutory Responsibilities Network, chaired by the Chief Executive, continues to meet on a fortnightly basis and provides a forum for statutory officers to discuss key issues, share knowledge and offer challenge.

We continue to fulfil a wide range of critical responsibilities as well as developing new and innovative projects. The New Models of Delivery Network is enabling and assisting services in identifying and assessing opportunities in a structured way to respond to changing expectations and to manage the impact of reduced funding.

To provide the basis for longer term sustainability, the council has established an extensive transformation programme. A Public Value Transformation Board comprising the Leader of the Council (Chair), the Chief Executive and the Director of Finance provides strategic oversight and challenge to ensure the transformation programme is driven by public value and contributes significantly to the council's financial sustainability.

The Continuous Improvement and Productivity Network identifies areas for improvement to bring about greater productivity and ensure that we deliver services of the highest standard to our residents. The Customer Promise provides a framework for customer service standards, which is bringing improvements to the resident experience.

The council's external auditors' 2014/15 report on value for money published in July 2015 concluded that 'the council has good arrangements in place across a number of key areas with the exception of the arrangements for promoting and demonstrating the principles and values of good governance within the council's Children's Services directorate.' A Children's improvement plan is being delivered to address the January 2016 improvement notice issued by the Department for Education following the Ofsted inspection report published in June 2015. The plan aims to strengthen service and whole system capability and capacity.

Our Children's Services Improvement Board oversees the systematic approach to improving services for children. Partner agencies are key members of the board and make a significant contribution to its work.

Governance arrangements continue to be strengthened through the implementation of management action plans in the areas highlighted in the 2014/15 AGS including children's direct payments, looked after children's personal finances, long term agency resource and contract management.

Leadership and Behaviour

Changes to the senior officer leadership team were implemented during 2015, including the consolidation of roles. The new arrangements are providing focused strategic leadership through the current challenging and financially constrained environment and will ensure ongoing continuity and effective arrangements at the top of the organisation.

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

The council's financial management arrangements fully comply with the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Financial Officer (CIPFA, 2010). The Director of Finance meets her financial responsibilities and ensures fully effective financial management arrangements are in place. She reports directly to the Chief Executive and is a member of Chief Executive's Direct Reports, the Statutory Responsibilities Network and the Public Value Transformation Board. She has regular meetings with and has direct access to the Chief Executive, the Leader, Monitoring Officer, Chief Internal Auditor, External Auditor and other key Members and strategic directors. The Director of Finance and the Chief Executive have regular support meetings with the key strategic directors. Strategic budget workshops led by the Director of Finance are held with Cabinet and the Leadership Team on a regular basis and finance briefings for all members have been held throughout the year. Additional meetings have also been held as deemed necessary in light of the financial challenges emerging from the Local Government financial settlement in 2015.

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

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

The Staff and Member Codes of Conduct set out the expected high standards of conduct and include the 7 Standards of Public Life. The Codes of Conduct are supplemented by the Member/Officer Protocol, which provides principles and guidance for good working relations, and the Strategy Against Fraud and Corruption. The Monitoring Officer and the Member Conduct Panel deal with allegations of breaches of the Member Code of Conduct. The register of pecuniary interests for all members can be viewed online.

The Chief Executive continues to engage with and support staff by providing regular updates and key messages through emails, the intranet via a blog and a programme of staff visits.

Transparency and Stewardship

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

As part of the council's policy on transparency and openness, information is made available to residents and business through the publication of expenditure invoices for spend over £500 and salaries of staff who earn over £58,200 (named from £100,000).

The gifts and hospitality register is online and provides a means for staff to register anything offered or accepted, making the entire process transparent.

The council produces an Annual Report that highlights key data on performance and notable achievements; and includes summaries of the AGS and audited accounts. The 2014/15 Statement of Accounts was audited and approved for publication by the end of July 2015.

The Investment Panel continues to ensure all proposed service capital investments have robust business cases before formal decision by Cabinet or Cabinet Member as appropriate. It is chaired by the Director of Finance and comprises senior leaders from key services as well as the Chief Property Officer and Chief Internal Auditor to ensure a broad perspective for challenge.

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

The council has six member Boards who provide challenge to the Cabinet. The Council Overview Board, comprising the Board chairmen, takes a council-wide view and leads on collaborative scrutiny issues. Every County Council, Cabinet and Planning and Regulatory Committee meeting is webcast to enable people to watch meetings online.

The Audit and Governance Committee comprises six councillors (the Chairman is a Residents' Association/Independent Councillor) who have been specifically chosen to enable robust challenge and assurance from a position of knowledge and experience. The committee provides independent assurance on the council's control environment, the adequacy of the risk and governance arrangements, financial reporting and ethical standards. During the year the committee have received training on risk culture, treasury management and fraud.

The Surrey Pension Fund Committee takes decisions on behalf of the council as the administering body for the Local Government Pension Scheme and meets four times a year. The Surrey Local Pension Board, established in 2015, assists the Surrey Pension Fund Committee in the exercise of its functions but has no decision making powers. A Local Fire Pension Board was also established in 2015 to assist the Surrey Fire and Rescue Authority in the administration of its Firefighters' Pension Scheme.

An Effective audit opinion was given following the annual internal audit of Organisational Ethics. The review concluded that the routine actions of members and officers, and the consequent decisions taken by the council, are based on strong ethical principles.

The annual review of the effectiveness of the system of internal audit concluded that appropriate controls were in place during 2015/16 to ensure an effective internal audit service was provided.

The overall opinion of the Chief Internal Auditor on the internal control environment for 2015/16 is "some improvement needed." A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives met. Controls over the council's key financial systems continue to be sound, although the Chief Internal Auditor has reported an increase in the proportion of audit review resulting in a adverse audit opinion ('significant improvement needed' or 'unsatisfactory') in 2015/16. This may be a reflection of the unprecedented change, increasing demands for services and declining resources that the council is currently facing.

<u>People</u>

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

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

During October and November 2015 staff participated in a staff survey, which has provided evidence of how colleagues feel about working for our organisation. Positive messages have come out of the survey but also some areas that we need to work on over the next few months.

To create a more networked organisation we are developing Communities of Practice to bring together groups of people with shared interests. Our aim is to utilise this knowledge and experience more effectively to provide the best and most efficient services to residents.

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

Surrey County Council and East Sussex County Council's business and support services partnership, known as Orbis, continues to develop and integrate services. In addition, Orbis Public Law, a legal services partnership between Surrey County Council, East Sussex County Council, West Sussex County Council and Brighton & Hove City Council, launched in April 2016 and will provide a sustainable and cost effective legal service.

We have joined up to work with East Sussex County Council, West Sussex County Council and 23 districts and boroughs on devolution to allow us to make collective decisions on matters affecting the whole area, such as building transport links between communities and finding new ways to encourage businesses and jobs to the region.

We have worked closely with the health sector throughout 2015 and have ambitious plans for 2016 regarding transformation and integration.

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

The Surrey Residents Survey, jointly commissioned with Surrey Police, regularly gathers customer satisfaction data. Formal customer feedback procedures ensure that feedback is both consistent and appropriate and regularly reported.

Focus for 2015/16
The demographic demand pressures we face continue to grow and at the same time our resources are declining. We will be focusing on influencing national decision making over the next year to help sustain services for the residents we serve.

Devolution gives us an opportunity to move more of the decisions and funding from Central Government so that we can do things differently to meet local needs.

We will focus on improving Services for Children, including Early Help and Special Educational Needs and Disability (SEND).

Integration is a huge part of the work that is being done in Health and Social Care and presents us with a great opportunity to provide better outcomes for residents. We are re-thinking our current ways of working and collaborating with health partners to help deliver local integrated community based health and social care.

The new Public Value Transformation programme will help us focus on the innovation and transformation needed in these areas for the next five years and beyond. It will require continued focus and determination across the council and with key partners to provide outcomes that residents want.

We will continue to develop a strong organisational culture, with a focus on succession planning and workforce development. We will also continue to make important investments and improvements for staff and members to ensure they have the right training, support, equipment and working environments needed to work effectively. This will provide high standards of customer care for all our stakeholders.

Work will be undertaken in ensuring we meet our responsibilities within the new Local Audit and Accountability Act 2014 regarding appointing an external auditor.

Signed:

David McNulty

Leader of the Council	Chief Executive
25 July 2016	25 July 2016

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 and the 2006 firefighters' pension) schemes from a separate local fire-fighter pension fund and therefore the firefighters' pension fund does not form part of the council's balance sheet.

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

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

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

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

Estimating the net liability to pay pensions depends upon a number of complex judgements relating to salary increase projections, changes in retirement ages and mortality, expected returns on pension fund assets and the discount rate used for financial modelling. A sensitivity analysis carried out by the actuary revealed that a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £45.3m.

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.

Firefighter Pension Fund Accounts

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.

2014/15 £000	Ref: Note	**Firefighters' pension fund account**	**2015/16 £000**
		Contributions Receivable:	
-3,766	1	Contributions receivable from employer (normal)	-3,317
-2,754	1	Contributions receivable from employees	-2,519
-205	3	Individual transfers in from other schemes	-54
-6,725			**-5,891**
		Benefits payable	
11,494	2	Pensions	12,086
1,931	2	Commutations and lump sum retirement benefits	5,413
123	2	Lump sum death benefits	103
185	3	Individual transfers out to other schemes	219
13,733		Total amounts payable	**17,821**
7,008		**Net amount receivable for the year before top-up grant**	**11,930**
-6,079	4	Top-up grant received from DCLG	-8,505
-929	4	Top-up grant still owing from DCLG	-3,425
-7,008		Net amount payable / receivable for the year	**-11,930**

Net Asset Statement

31 March 2015 £000		**31 March 2016 £000**
	Current assets:	
929	Pension top-up grant receivable from Central Government	**3,425**
929		**3,425**
	Current liabilities:	
-929	Cash overdrawn	**-3,425**
-929		**-3,425**

Note 1 - Contributions receivable

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

Note 2 - Benefits and refunds

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

Note 3 - Transfer values
Transfer values are those sums paid to or received from other pension schemes and the firefighters' pension scheme outside England for individuals and relate to periods of previous pensionable employment.

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

Note 4 – Top up grant
The fund was topped up by Government grant of £11.930m in 2015/16 (£7.008m in 2014/15) as contributions were insufficient to meet the cost of pension payments due for the year. £8.505m was received in year leaving an outstanding balance of £3.425m due from government (£0.929m 2014/15).

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

SURREY PENSION FUND ACCOUNTS 2015/2016

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2015/2016 and of the disposition of its assets at 31 March 2016.

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

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

The number of employees in the fund and the number of pensioners as at 31 March 2015 and 31 March 2016 are:

31 Mar 2015		**31 Mar 2016**
32,851	Employees in the fund	34,072
22,481	Pensioners	23,197
33,833	Deferred pensioners	34,158
89,165	**Total**	**91,427**

Surrey pension fund account

2014/2015 £000		Note	2015/2016 £000
	Contributions and benefits		
173,448	Contributions receivable	7	**186,901**
7,656	Transfers in	8	**5,518**
181,104			**192,419**
-126,113	Benefits payable	9	**-131,330**
-6,195	Payments to and on account of leavers	10	**-6,762**
-15,857	Investment and governance expenses	14	**-14,830**
-1,550	Administration expenses		**-1,121**
-149,715			**-154,043**
31,389	**Net additions from dealings with members**		**38,376**
	Return on investments		
56,444	Investment income	16	**61,346**
-1,023	Taxes on income	15	**-924**
299,210	Change in market value of investments	17	**-68,655**
354,631	**Net return on investments**		**-8,233**
386,020	**Net increase in the fund during the year**		**30,143**
	Net assets of the fund		
2,807,500	**At 1 April**		**3,193,520**
3,193,520	**At 31 March**		**3,223,663**

Net asset statement

31 Mar 2015 £000		Note	31 Mar 2016 £000
	Investment assets	17	
350,859	Fixed interest securities		**342,581**
161,260	Index linked securities		**168,470**
1,908,092	Equities		**1,851,024**
199,410	Property unit trusts		**225,690**
360,061	Diversified growth		**376,686**
112,642	Private equity		**129,353**
	Derivatives	17c	
0	- Futures		**26**
3,082	- Foreign exchange contracts		**44**
77,218	Cash		**64,294**
0	Other short term investments		**37,000**
9,033	Other investment balances	17b	**8,649**
	Investment liabilities		
	Derivatives	17c	
-288	- Futures		**0**
-11,501	- Foreign exchange contracts		**-6,331**
-2,441	Other investment balances	17b	**-1,148**
0	Borrowings		**0**
3,167,427	**Net investment assets**		**3,196,338**
12,705	**Long-term debtors**	12	**10,890**
18,949	**Current assets**	11	**23,090**
-5,561	**Current liabilities**	13	**-6,655**
3,193,520	**Net assets of the fund at 31 March**		**3,223,663**

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

Note 1: Description of the fund

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

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

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

During 2015/16 the investment decision making and governance of the fund was undertaken by the Pension Fund Board, a committee of the Administering Authority, with representation on behalf of employers and members.

b) Membership

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

Organisations participating in the Surrey Pension Fund include:

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

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers’ contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and new rates applied from April 2014. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits

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

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

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

e) New LGPS Scheme 2014

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

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

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

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

LGPS 2014 employee contribution rates for 2015/16	
Pensionable payroll banding	Contribution rate
Up to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
More than £151,800	12.5%
Estimated overall LGPS average	6.5%

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

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at the year end at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

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

Note 3: Summary of significant accounting policies

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

Fund account – revenue recognition

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

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

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

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

c) Investment income
i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

d) Private equity

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

Fund account – expense items

e) Benefits payable

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

f) Taxation

The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2016 is reported as a current liability.

g) Administration expenses

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

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

h) Investment and governance expenses

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

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

Net assets statement

i) Financial assets

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

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

i) Market quoted investments

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

ii) Fixed interest securities

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

iii) Unquoted investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

o) Additional voluntary contributions
Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the

pension fund. The fund has appointed Prudential as the AVC provider. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

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

Note 4: Critical judgements in applying accounting polices

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2016 was £129 million (£113 million at 31 March 2015).

Pension Fund Liability

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

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

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

The items in the net assets statement or subsequent notes as at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability of the fund would change. An increase in the discount rate would result in a corresponding decrease in the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy.
Private equity	Private equity investments, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £129 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £81 million. There is a risk that asset or investment transaction misclassification may occur.

Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in July 2016. The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Funds assets and liabilities. No such adjustments have been deemed necessary.

The following non-adjusting post-balance sheet event has occurred:

A referendum on the United Kingdom’s membership of the European Union took place on 23 June 2016. The result to leave the European Union has increased political and economic uncertainty. The full impact of the result on the pension fund will become clearer over the next couple of years.

Note 7: Contributions receivable

By category

2014/2015 £000		2015/2016 £000
93,269	Employers	94,565
43,580	Employers deficit	55,283
36,599	Members	37,053
173,448		**186,901**

2014/2015 £000		2015/2016 £000
83,223	Administering authority	84,530
75,565	Scheduled bodies	82,358
14,660	Admitted bodies	20,013
173,448		**186,901**

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

Note 8: Transfers in from other pension funds

2014/2015 £000		2015/2016 £000
0	Group transfers from other schemes	0
7,656	Individual transfers in from other schemes	5,518
7,656		**5,518**

Note 9: Benefits payable

By category

2014/15 £000		2015/16 £000
106,175	Pensions	110,904
17,734	Commutation and lump sum retirement benefits	17,276
2,170	Lump sum death benefits	3,094
34	Interest on late payment of benefits	56
126,113		**131,330**

By employer*

2014/2015 £000		2015/2016 £000
60,937	Administering Authority	61,079
55,571	Scheduled Bodies	59,766
9,571	Admitted Bodies	10,429
126,079		**131,274**

*(Note that the above does not include interest on late payment of benefits of £56k)

Note 10: Payments to and on account of leavers

2014/2015 £000		2015/2016 £000
0	Group transfers to other schemes	480
5,896	Individual transfers to other schemes	5,907
227	Refunds of contributions	298
72	Payments for members joining state schemes	77
6,195		**6,762**

Note 11: Current assets

2014/2015 £000		2015/2016 £000
2,816	Contributions - employees	3,262
10,196	Contributions - employer	12,025
5,937	Sundry debtors	7,803
18,949		**23,090**

Analysis of current assets

2014/2015 £000		2015/2016 £000
3,112	Central government bodies	5,366
13,713	Other local authorities	15,478
2,123	Other entities and individuals	2,246
18,948		**23,090**

Note 12: Long term debtors

2014/2015 £000		2015/2016 £000
12,705	Central government bodies	10,890
12,705		**10,890**

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 2016 is £12.705m but £1.815m was due in 2015/16, leaving a long term debtor of £10.890m.

Note 13: Current liabilities

2014/2015 £000		2015/2016 £000
5,541	Sundry creditors	6,595
20	Benefits payable	60
5,561		**6,655**

Analysis of current liabilities

2014/2015 £000		2015/2016 £000
1,408	Central government bodies	1,483
1,664	Other local authorities	3,053
2,489	Other entities and individuals	2,119
5,561		**6,655**

Note 14: Investment and governance expenses

2014/2015 £000		2015/2016 £000
14,908	Investment management fees	13,952
226	Investment custody fees	206
723	Oversight and governance costs	672
15,857		**14,830**

The investment management fees above includes £1.9million (2014/15:£3.9million) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £1.1million in respect of transaction costs (2014/15: £1.6million).

Note 15: Taxes on Income

2014/2015 £000		2015/2016 £000
603	Withholding tax - equities	821
420	Withholding tax - property	103
1,023		**924**

Note 16: Investment income

2014/2015 £000		2015/2016 £000
	Fixed interest	
5,905	UK	5,394
5,873	Overseas	6,956
54	**Index linked**	91
	Equities	
18,781	UK	21,269
10,605	Overseas	12,322
7,936	**Property unit trusts**	7,943
2,601	**Diversified growth**	3,245
3,793	**Private equity**	3,412
523	**Interest on cash deposits**	180
373	**Other**	534
56,444		**61,346**

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

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2016
	£000	£000	£000	£000	£000
Fixed interest securities	**350,859**	157,937	-143,145	-23,070	**342,581**
Index linked securities	**161,260**	0	-2,093	9,303	**168,470**
Equities	**1,908,092**	257,490	-262,124	-52,434	**1,851,024**
Property unit trusts	**199,410**	35,963	-26,003	16,320	**225,690**
Diversified growth	**360,061**	30,344	0	-13,719	**376,686**
Private equity	**112,642**	24,797	-26,434	18,348	**129,353**
Derivatives					
- Futures	**-288**	470	-2	-154	**26**
- Forex contracts	**-8,419**	39,557	-12,829	-24,596	**-6,287**
	3,083,617	**546,558**	**-472,630**	**-70,002**	**3,087,543**
Cash	**77,218**			1,347	**64,294**
Other short term investments	**0**				**37,000**
Other investment balances	**6,592**				**7,501**
Borrowing	**0**				**0**
	3,167,427			**-68,655**	**3,196,338**

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

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

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

Note 17b: Analysis of investments

	31 Mar 2015	31 Mar 2016
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	148,648	82,845
UK pooled funds	51,905	0
Overseas public sector & quoted	76,104	66,961
Overseas pooled fund	74,202	192,775
	350,859	**342,581**
Index linked securities	**161,260**	**168,470**
Equities		
UK quoted	540,276	495,555
UK pooled funds	276,454	281,110
Overseas quoted	554,463	564,742
Overseas pooled funds	536,899	509,617
	1,908,092	**1,851,024**
Property unit trusts		
UK property funds	194,992	224,098
Overseas property funds	4,418	1,592
	199,410	**225,690**
Diversified growth		
UK diversified growth funds	0	0
Overseas diversified growth funds	360,061	376,686
	360,061	**376,686**
Private equity		
UK limited partnerships	24,905	27,970
Overseas limited partnerships	13,852	20,452
UK fund of funds	0	0
Overseas fund of funds	73,885	80,931
	112,642	**129,353**
Derivatives		
Futures	-288	26
FX forward contracts	-8,419	-6,261
	-8,707	**-6,235**
Cash deposits	**77,218**	**64,294**
Other short term investments	**0**	**37,000**
Other investment balances		
Outstanding sales	2,239	1,459
Outstanding purchases	-2,408	-1,105
Tax due on accrued income	-33	-43
Accrued income - dividends and interest	6,794	7,190
	6,592	**7,501**
Total investments	**3,167,427**	**3,196,338**

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. At 31 March 2016 the fund had three futures contracts in place with an unrealised gain of £26k. As at 31 March 2015 the Fund had two contracts in place with a net unrealised loss of £288k.

31 March 2016

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	21/06/2015	3 Months	US Treasury Bonds	801	11	0
Futures	21/06/2015	3 Months	US Treasury Bonds	-3,721	8	0
Futures	28/06/2015	3 Months	UK Government Bonds	-7,637	7	0
				-7,637	**26**	**0**

31 March 2015

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

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 2016 the Fund had forward currency contracts in place with a net unrealised loss of £6,287 (net unrealised loss of £8,419k at 31 March 2015).

2015/16

No of contracts	Contract settlement date within	Currency Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'000
1	One Month	BRL	USD	4,002	-1,122	17	-13
1	One Month	GBP	AUD	4	-8	0	0
1	One Month	GBP	EUR	20	-25	0	0
2	Two Months	GBP	EUR	6,118	-7,884	0	-140
4	Three Months	GBP	EUR	87,400	-112,765	0	-2,145
1	One Month	GBP	JPY	87	-14,147	0	0
3	Three Months	GBP	JPY	62,227	-10,246,348	0	-1,291
1	Two Months	GBP	SEK	2,482	-30,350	0	-126
4	Two Months	GBP	USD	16,283	-23,539	0	-93
6	Three Months	GBP	USD	278,256	-403,456	0	-2,403
1	One Month	GBP	ZAR	0	-9	0	0
1	One Month	USD	BRL	966	-4,002	7	-120
1	Four Months	USD	BRL	1,094	-4,002	4	-7
1	One Month	USD	GBP	457	-318	0	0
1	Two Months	USD	GBP	842	-580	6	0
1	Two Months	USD	JPY	2,290	-254,405	10	7
						44	**-6,331**

2014/15

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

Stock Lending

During the financial year 2015/16 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 16 the value of quoted securities on loan was £119.4million in exchange for collateral held by the fund custodian at fair value of £128.2million

Note 17d: Investments analysed by fund manager

Market value 31 March 2015 £000	%	Manager	Market value 31 March 2016 £000	%
918,551	30.6	Legal & General Investment Management	831,747	26.0%
308,575	10.3	Majedie Asset Management	289,511	9.1%
0	0.0	Mirabaud Asset Management	0	0.0%
242,069	8.0	UBS Asset Management	227,289	7.1%
424,497	14.1	Marathon Asset Management	440,714	13.8%
242,915	8.1	Newton Investment Management	249,031	7.8%
232,799	7.8	Western Asset Management	283,675	8.9%
69,454	2.3	Franklin Templeton Investments	65,268	2.0%
227,691	7.6	Standard Life Investments	246,846	7.7%
132,370	4.4	Baillie Gifford Life Limited	129,839	4.1%
179,326	6.0	CBRE Global Multi-Manager	205,181	6.4%
23,354	0.8	Darwin Property Investment Management	25,687	0.8%
3,001,601			**2,994,788**	

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

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

Market value 31 March 2015 £000	% of total fund	Security	Market value 31 March 2016 £000	% of total fund
393,877	12.4	Legal & General World Developed Equity Index	380,744	11.9
276,450	8.7	Legal & General UK Equity Index	255,392	8.0
163,459	5.2	Standard Life Global Absolute Return Strategies	173,119	5.4

Note 18a: Classification of financial instruments

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

As at 31 March 2015				As at 31 March 2016		
Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs		Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial assets			
350,859	0	0	Fixed interest securities	342,581	0	0
161,260	0	0	Index linked securities	168,470	0	0
1,908,092	0	0	Equities	1,851,024	0	0
199,410	0	0	Property unit trusts	225,690	0	0
360,061	0	0	Diversified growth	376,686	0	0
112,642	0	0	Private equity	129,353	0	0
3,082	0	0	Derivatives	70	0	0
0	77,218	0	Cash	0	64,294	0
			Other short term investments		37,000	
9,033	0	0	Other investment balances	8,649	0	0
0	31,654	0	Debtors	0	33,980	0
3,104,439	**108,872**	**0**	**Total financial assets**	**3,102,523**	**135,274**	**0**
			Financial liabilities			
-11,789	0	0	Derivatives	-6,331	0	0
-2,441	0	0	Other investment balances	-1,148	0	0
0	0	-5,561	Creditors	0	0	-6,655
0	0	0	Borrowings	0	0	0
-14,230	**0**	**-5,561**	**Total financial liabilities**	**-7,479**	**0**	**-6,655**
3,090,209	**108,872**	**-5,561**		**3,095,044**	**135,274**	**-6,655**

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

31 March 2016	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets through profit & loss	2,848,936	93,353	160,234	3,102,523
Total financial assets	**2,848,936**	**93,353**	**160,234**	**3,102,523**
Financial liabilities				
Financial liabilities through profit & loss	7,479	0	0	7,479
Total financial liabilities	**7,479**	**0**	**0**	**7,479**
Net financial assets	**2,841,457**	**93,353**	**160,234**	**3,095,044**

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

Note 18c: Book cost

The book cost of all investments at 31 March 2016 is £2,585million (£2,489million at 31 March 2015).

Note 19: Outstanding commitments

At 31 March 2016 the Fund held part paid investments on which the liability for future calls amounted to £91million (£98million as at 31 March 2015).

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

Risk and risk management

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

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

a) **Market risk**

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

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

Other price risk

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

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

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

Other price risk – Sensitivity Analysis

The WM Company has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2015/16 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2016 £000	Change	Value on increase £000	Value on decrease £000
UK equities	776,665	10.01%	854,409	698,921
Overseas equities	1,074,359	9.32%	1,174,489	974,229
Fixed interest bonds	342,581	5.61%	361,800	323,362
Index linked	168,470	9.48%	184,441	152,499
Cash	64,294	0.01%	64,300	64,288
Other short term investments	37,000	0.01%	37,004	36,996
Property	225,690	1.74%	229,617	221,763
Alternatives	129,353	6.45%	137,696	121,010
Diversified growth fund	376,686	3.90%	391,377	361,995
Other assets	1,240	0.01%	1,241	1,239
Total Investment Assets	**3,196,338**	**6.60%(1)**	**3,407,296**	**2,985,380**

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

(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 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2015 £000		As at 31 March 2015 £000
77,218	Cash & cash equivalents	64,294
0	Other short term investments	37,000
350,859	Fixed interest securities	342,581
428,077	**Total**	**443,875**

Interest rate risk sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2016	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	64,294	64	-64
Other short term investments	37,000	37	-37
Fixed interest securities	342,581	343	-343
Total	**443,875**	**444**	**-444**

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

Currency risk

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

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

Currency risk – sensitivity analysis

The WM Company has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2015/16 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2015 £000	% Change	Value on increase £000	Value on decrease £000
Equities	983,313	6.24%	1,044,672	921,954
Fixed interest	211,966	6.24%	225,193	198,739
Property and Private Equity	102,975	6.24%	109,401	96,549
Diversified Growth	376,686	6.24%	400,191	353,181
Cash and Other Assets	10,433	6.24%	11,084	9,782
Total	**1,685,373**	**6.24%**	**1,790,541**	**1,580,205**

For comparison last year figures are included below.

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

b) Credit risk

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

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

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

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

The fund has agreed a total of £37m in short fixed term deposits as part of the treasury management strategy; these include £37 million of fixed term deposits with other Local Authorities.

Balance at 31 March 2015 £000	**Fixed Term Deposits**	**Balance at 31 March 2016 £000**
	Sheffield City Council	10,000
	The Wirral Metropolitan Borough Council	7,000
	Woking Borough Council	5,000
	Southend on Sea Borough Council	5,000
	Wiltshire Council	10,000
0	**Other short term investments**	**37,000**

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

The fund has a call account with Natwest Bank and Lloyds Bank, an account with a money market fund, managed by Goldman Sachs Asset management and a term deposit placed with Nationwide Building society. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £15 million.

Balance at 31 March 2015 £000		Balance at 31 March 2016 £000
	Term Deposits	
0	Nationwide	10,000
	Call account	
7,400	Natwest	12
0	Lloyds	5,031
	Money market fund	
15,000	Goldman Sachs	6,700
	Current account	
-193	HSBC	3,835
22,207	Internally Managed Cash	25,578
55,011	Externally Managed Cash	38,716
77,218	**Total Cash**	**64,294**

The fund's cash holding under its treasury management arrangements as at 31 March 2016 was £25.6million (£22.2million at 31 March 2015).

c) Liquidity risk

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

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

The fund has immediate access to the internally managed cash holdings and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2014/15 or 2015/16

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 2015/16 amounted to £65,019k (£64,074k in 2014/15).

2014/2015 £000		**2015/2016 £000**
42,996	Employers' current service contributions	43,370
18,834	Lump sum payments to recover the deficit in respect of past service	21,087
2,244	Payments into the fund to recover the additional cost of early retirement liabilities	562
64,074		**65,019**

ii) Surrey Pension Fund paid Surrey County Council £1,382k for services provided in 2015/16 (£1,662k in 2014/15).

2014/2015 £000		**2015/2016 £000**
252	Treasury management, accounting and managerial services	261
1,410	Pension administration services	1,121
1,662		**1,382**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2016 were £8,583k (£6,594k at 31 March 2015).

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. The post for Senior Specialist Advisor had only recently been created and filled by the end of 2014/15 and was excluded from the note for 2014/15 accounts. The role has sufficient influence within the management of the pension fund to warrant inclusion for 2015/16 and restated for 2014/15.

2014/15 £ (restated)	Position	2015/16 £	
22,313	Chief Finance Officer	22,484	1
67,659	Pension Fund & Treasury Manager	73,164	2
10,372	Senior Specialist Advisor	44,132	2
52,653	Senior Accountant (Alex)	53,662	3
152,998		**193,442**	

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

Note 23: Custody

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

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

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

Note 24 : Actuarial statement for 2015/16 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of funding policy

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

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

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

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

Funding Position as at the last formal funding valuation

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

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

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

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

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

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Surrey County Council, the Administering Authority to the Fund.

Experience over the year since April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time

Barry McKay FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
28 April 2016

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2015/16 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

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

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

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

Balance sheet

Year ended	**31 March 2015 £m**	**31 March 2016 £m**
Present value of promised retirement benefits	4,984	4,684

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2016 comprises £2,356m in respect of employee members, £873m in respect of deferred pensioners and £1,455m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £462m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	**31 March 2015**	**31 March 2016**
Inflation/pension increase rate	2.4%	2.2%
Salary increase rate	3.8%	3.7%
Discount rate	3.2%	3.5%

Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

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

*Future pensioners are assumed to be currently aged 45.

Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 15 April 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Barry McKay FFA
28 April 2016
For and on behalf of Hymans Robertson LLP

Note 26: Additional Voluntary Contributions

Market Value 2014/15 £000	Position	Market Value 2015/16 £000
9,613	Prudential	10,207
9,613		**10,207**

Additional Voluntary Contributions, net of returned payments, of £2.2million were paid directly to Prudential during the year (£2.1million during 2014/15).

Note 27: Statement of investment principles

Full details of the fund's investment policy are documented in the Statement of Investment Principles. This is published in the pension fund's full annual report and on the Surrey Pension Fund website.

Note 28: Annual report

The Surrey Pension Fund Annual Report 2015/2016 provides further details on the management, investment performance and governance of the Fund.

Accruals
An accounting concept that recognises income when it is earned and expenditure when it is incurred, and not when cash is transferred. The inclusion of debtors, creditors and deprecation are examples of accruals.

Amortisation
The process of writing down the value of an intangible asset over time in order to spread the cost of the asset over the period of its useful economic life.

Assets held for sale
Properties that are being actively marketed and sale is expected in the next 12 months.

Assets under construction
Assets not yet ready for use. This could be new building works or road construction.

Balances
Balances are maintained for future years' budgets and to provide a cushion against expenditure being higher or income lower than expected. Contributions to balances can either be a planned contribution from the revenue budget or a transfer of any revenue surplus at the year-end. The maintenance of an appropriate level of balances is a fundamental part of prudent financial management.

Business Rates
See Non-Domestic Rates (NDR).

Capital expenditure
Expenditure on the acquisition or enhancement of a non-current asset. The cost of maintaining an asset at its current value is revenue expenditure.

Capital adjustment account
A balance sheet item, unique to local authority accounting, that is central to the capital accounting regime. The balance on the account cannot be used, but reflects the extent to which, to date, capital funding of assets has preceded depreciation of those assets.

Capital financing requirement
This represents the council's underlying need to borrow for capital purposes. The year on year change will be influenced by capital expenditure in each year.

Capital receipts
Proceeds from the sale of non-current assets. The council earmarks capital receipts to finance future capital expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)
The professional accountancy institute that sets the standards for the public sector. CIPFA publishes the accounting codes of practice for local government.

The Code of Practice on Local Authority Accounting
The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a true and fair view of the financial position and transactions of a local authority. It is based on International Financial Reporting Standards (IFRS), and has been developed by CIPFA/LASAAC under the oversight of the Financial Reporting Advisory Board.

Community assets
Assets that the local authority intends to hold in perpetuity which have no determinable useful life and which may have restrictions on their disposal. Examples include the countryside estate and historic assets that are not used in service delivery.

Contingent Assets / Liabilities
Possible assets / liabilities, which may arise in the future if certain events, not wholly within the control of the authority, take place. Contingent assets / liabilities are not recognised in the accounts but are disclosed by way of a note if it is probable that an inflow / outflow of economic benefits will occur.

Corporate and democratic core
The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. It has two elements, corporate management and democratic representation and management. The activities within the corporate and democratic core are in addition to those, which would be incurred by a series of independent, single purpose bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

Creditors
Money owed by the council that is due immediately or in the short term. Creditors are an example of the concept of accruals.

Current service cost (pensions)
The increase in the present value of local government and firefighters' pension scheme's liabilities expected to arise from employee service in the current period.

Curtailment costs (pensions)
For a defined benefit scheme (such as LGPS and firefighters') an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Debtors
Money that is due to the council but which has not yet been received. Debtors are an example of the concept of accruals.

Defined benefit scheme (pensions)
A pension or other retirement benefit scheme that defines the employees benefits and is independent of contributions and investment performance. Defined benefit schemes may be funded (local government pension scheme) or un-funded (firefighters' pension scheme).

Depreciation
A charge to the revenue account to reflect the consumption or use of a tangible non-current asset in service delivery. There is a corresponding reduction in the value of the non-current asset.

Discounting
The process of determining the present value of a payment or a stream of payments that is to be received in the future. Given the time value of money, a pound is worth more today than it would be worth tomorrow given its capacity to earn interest. Discounting is the method used to figure out how much these future payments are worth today.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial instruments
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial year
The year of account, which runs from 1 April to 31 March.

Government grants
Financial assistance from central government, or its agents, in the form of cash transfers in return for compliance with certain conditions. These grants may be capital or revenue in nature.

Historic cost
The estimated value of an asset on the balance sheet based upon its original purchase cost less depreciation to date.

Impairment loss
The reduction in an asset's value due to physical deterioration or other factors beyond usual wear and tear.

Infrastructure assets
Non-current assets that cannot be taken away or transferred and from which benefit can only be derived through continued use. Examples of infrastructure assets are roads, bridges and footpaths.

Intangible assets
Intangible assets yield benefits to the council for more than one year but are without physical form. For example software licences and the development of website technology. Intangible assets are recorded at cost and amortised over their estimated useful economic life.

Interest cost (pensions)
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment properties
Any property (land or buildings) held solely for rental income or for capital appreciation or both. Investment properties are not used to support the strategy or service obligations of the local authority.

Leasing
This facility is a means to obtain the use of vehicles, plant and computer equipment without physically owning these items. Leases may be either operational, where the asset reverts to the lessor at contract end; or finance leases, where the assets passes to the lessee.

Lessee
A party to a lease agreement who makes payment to use an asset owned by another party.

Lessor
A party to a lease agreement who receives payment, from another party, for the use of an asset which they own.

Material
Information is said to be material if its omission or misstatement could influence the decisions users take on the basis of the financial statements. Materiality therefore relates to the importance or significance of an amount, transaction, or discrepancy. The assessment of what is material is a matter of professional judgment; the size and nature of the item under consideration must be taken into account in making this judgement.

Minimum revenue provision (MRP)
A statutory provision set aside for the repayment of external debt, equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.

Net current replacement cost
A method of valuation that estimates the cost of replacing or recreating an asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net realisable value
A method of valuation that estimates the open market value of an asset in its existing use (or open market value in the case of non-operational asset), less the expenses required realising the asset.

Non-Domestic Rates (NDR)
The rates paid by businesses. The amount paid is based on the rateable value of the premises they occupy (set by the Inland Revenue) multiplied by a national rate in the pound set by the government. The rates are collected by local authorities and paid over to the government. They are then redistributed to local authorities on the basis of the relevant population. Under the Business Rates Retention Scheme, locally collected business rates are shared between local and central government. In Surrey the business rates income is shared: 50% to central government, 40% to the district or borough council and 10% to the county council.

Non-distributable costs
Non-distributed costs are costs relating to retirement and unused and unusable shares of assets. These cannot be charged to current service revenue accounts.

Past service cost (pensions)
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept
An amount levied on another public body in respect of the council tax. The county council collects its council tax share from district councils through a precept, and pays the Environment Agency for land drainage.

Provisions
Amounts set aside for any liabilities or losses that are likely to be incurred, but which are uncertain as to the amounts or the dates on which they will arise.

Prudential Code for Capital Finance in Local Authorities
The Prudential Code is a professional code of practice that supports local authorities in taking capital investment decisions. The code requires local authorities to set their own borrowing limits based upon affordability, sustainability and prudence.

Public Works Loan Board
A government agency providing long term loans to Local Authorities to finance part of their *Capital Expenditure*.

Reserves
These are amounts set aside for specific purposes. The council has discretion on whether it wishes to set aside these amounts as distinct from sums set aside in provisions. Movements on reserves are therefore charged or credited to the revenue account after the net cost of service provision has been determined. Revenue reserves are classified as earmarked reserves or as unallocated reserves or balances.

Revenue expenditure
Expenditure incurred on day to day running costs and confined to accounts within one financial year.

Revenue Expenditure Funded by Capital under Statute (REFCUS) is capital expenditure which does not give rise to an asset owned by the council. Examples include capital expenditure on foundation and voluntary aided schools.

Revenue Support Grant (RSG)
The principal way that central government funds local government revenue expenditure. This grant is non-specific and is based upon the government's assessment of how much a local authority should spend to provide a common level of service.

The Service Reporting Code of Practice (SeRCOP) sets out the financial reporting guidelines for local authorities, it supplements the principles and practices set out in the Code of Practice in Local Authority Accounting and aims to achieve consistency and comparability in the presentation of local authority service expenditure.

Soft Loans
Loans made by the authority at less than the prevailing market rate of interest.

Useful life
The period over which the council will benefit from the use of a non-current asset.