

2007/08

# Financial Statements

For the Year Ended 31st March 2008



*'leading for tomorrow'*



INVESTOR IN PEOPLE

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# **SURREY HEATH BOROUGH COUNCIL ANNUAL REPORT**

## **Statement by Michael Willis, Chief Executive**

As a new arrival to Surrey Heath, I bring something of a fresh pair of eyes to the activities of the Council. It's apparent to me that while the Council has had its difficulties in the past, it is on an upward path. Our annual assessment by the Audit Commission for 2006/07 was favourable; our rate of improvement in our external performance indicators was in the top 25% of the country; our Best Value Performance Indicators have consistently shown improvement, and our Contact Centre continues to provide a better and improving level of service to those who have to do business with the Council.

The above comments very much relate to how we are doing as an organisation. It is also important to know that we have got on and achieved civic improvements for the people of Surrey Heath. Recent progress includes:

- The Atrium development will be completed in November 2008 which will be the impetus for a further stream investment in various parts of the town, including Main Square, the High Street and the A30 frontage;
- The refuse contract is also due for renewal in 2009, with the plan to move to wheeled bin collections during 2009/10.
- A feasibility study has been agreed to examine provision of civic facilities on the land east of Knoll Road.

Whilst we have made progress as an organisation in the things we provide and facilitate for our citizens, we have our challenges as well. The main one that we face is of maintaining and improving our financial sustainability. While our financial position has improved of late, we are still faced with the spectre of rising costs and falling real income. While the Council is working hard to improve services, it must be done from a sound financial basis.

Thus, as we have worked to achieve financial sustainability in recent years, so that work will continue. We will have one eye on how we can improve our services, with the other firmly fixed on our cost base to ensure that we live within our means.



Michael Willis  
Chief Executive

# Financial Review of 2007/08 by the Head of Financial Services

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## INTRODUCTION

It is my pleasure to introduce the Council's Statement of Accounts for 2007/08. In this review it is my intention to explain some of the major features of the financial year.

The purpose of the Financial Statements is to give electors, those subject to locally levied taxes and charges, members of the Council, employees and other interested parties, clear information about the finances of Surrey Heath Borough Council. They provide information on:

- The cost of Services
- Sources of Income
- Assets and Liabilities

The statements are in a format that meets legal and professional accounting requirements. I hope that it also provides a readable and understandable guide to the financial affairs of Surrey Heath Borough Council.

## NEW FEATURES IN THESE STATEMENTS

There have been further significant changes to the format and content of the accounts for this year following on from the changes in 2006/07.

These changes are as a result of the continuing desire to make public sector accounts more compliant with "Generally Accepted Accounting Practices" or "UK GAAP". Although there is no clear definition, this is taken to mean that Local Authority Accounts are expected to bring their accounting policies and practices into line with those used by companies. The practices are driven by law, statements from the accounting bodies and common consensus.

The main changes introduced in 2007/08 are:

- The adoption of the requirements in Financial Reporting Standards 25,26 and 29 in respect of Financial Instruments. A Financial Instrument is defined as "any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another". The main changes relate to the way that derivatives and loans are treated in the accounts.
- New rules have been brought in this year in relation to capital. The Fixed Assets Restatement Account and Capital Financing Reserve have been replaced by the Revaluation Reserve and Capital Adjustment Account. Assets are required to be re-valued every 5 years. All upward revaluations are credited to the revaluation reserve whereas all downward revaluations "Impairments" must be shown as a charge to the Income and Expenditure account (unless this cancels a previous revaluation). These charges are then reversed out so as not to affect Council Tax.
- The Statement of Internal Control is replaced by an Annual Governance Statement. The Framework outlines 6 core principles of good governance, focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and leads the community. The framework emphasises good governance therefore the process and statement should be corporately owned.

Sadly even though there have been a number of changes over the past few years these are set to continue into the future. These will address further areas where there is non compliance with UK GAAP and also to comply with the requirements of the International Financial Reporting Statements.

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## **OVERALL FINANCIAL OUTLOOK**

Surrey Heath Borough Council has a difficult set of financial challenges to face up to over the next few years.

In the 1990's Surrey Heath benefitted from a relatively high Government Grant and the ability to raise Council Tax to finance services required by the electors. However the reduction in Government Grant in real terms from 2000 onwards, and the capping regime, meant that it became increasingly difficult to maintain a balanced budget. The gap between income and expenditure was financed from reserves which had the effect in 2005/06 of reducing the general fund to £683k. Such a reduction forced the council to embark on a savings program to remove £1.2m from base budgets. This involved service reorganisations and structural changes such as the introduction of the contact centre.

Under Comprehensive Spending Review 2007 increases in government grant have been fixed at 1% for 2008/09 and ½% for the two years after that leading to a real terms reduction in grant given that inflation is currently running at 4%. Surrey Heath has one of the lowest grants in terms of total expenditure in the country. The grant has been calculated assuming a level of Council Tax that the council is unable to charge because of the capping regime. In addition the council has seen its abilities to increase the revenue it can raise severely curtailed in areas such as planning and search fees due to factors beyond its control such as the Special Protection Area and increase in the number of personal search companies.

In addition there have been new cost pressures imposed by Government such as the Concessionary Fares Scheme, Comprehensive Area Assessment, etc which are not fully financed. This is in addition to inflationary pressures.

In 2007/08 Surrey Heath has almost managed to balance its outturn with only £39,000 being taken from general fund reserve to cover in year operations. This is more than covered by the £368,000 surplus achieved on investment income however this cannot be relied upon year on year. The budget for 2008/09 contained a challenging savings target of £350,000 savings to achieve a balanced budget and this is going to be the recurring theme for the years to come.

## **INCOME AND EXPENDITURE ACCOUNT – GENERAL FUND**

The Income and Expenditure Account is a summary of the resources generated and consumed by the council in the year. It reports the net cost of all the functions for which Surrey Heath Borough Council is responsible and demonstrates how the cost has been financed from general government grant and income from local taxpayers. It includes all day to day expenses for the services provided by the Council and related income on an accruals basis as well as transactions measuring the value of fixed assets actually consumed and the real value of retirement benefits earned by employees in the year.

The outturn on the Income and Expenditure Account is a deficit of £1,572,000 which is very different to the movement on the General Fund Balance for the year which is a surplus of £329,000. This is because there are substantial differences between the capital accounting entries (depreciation and impairment) and charges for financing capital expenditure, and between the charges for pensions in this account compared to the amount actually paid to the pension fund. The deficit shown on the Income and Expenditure account does not mean that drastic action needs to be taken to cut expenditure or raise Council Tax. The statement of Movement on

General Fund Balances reconciles the movement on the Income and Expenditure Account with the statutory provision that local authorities need to take when setting the Council Tax.

The main reasons for the difference are:

- Depreciation and Impairment charged to services: Local authorities, in line with companies, charge depreciation in their accounts in accordance with GAAP principles. However Depreciation and Impairment are not items that can be charged to Council Tax nor are they funded by government grant hence they are reversed out in the Statement of Movement on the General Fund Balance.
- Deferred Charges: This is the name given to expenditure that counts as capital expenditure for statutory purposes but is an expense under UK GAAP.
- Capital Losses and Profits: Losses on disposals are charged to the Income and Expenditure account in line with UK GAAP and then reversed out in the Statement of Movement on the General Fund Balance.
- Pension costs: The Statement of Accounts includes pension costs calculated in accordance with FRS17 accounting standard. The actual amounts payable in cash to the pension fund, set by the fund actuary, are the basis for the charge to local taxes.

#### Comparing our performance to the 2007/08 Budget

The budget is used for a number of purposes. It is used to set the council tax and decide the level of reserves. It provides information on the allocation of resources to services. It is also the basis for budgetary control that ensures that money is being spent as intended and variations can be promptly identified and acted upon. During the year monthly budget monitoring was carried out and reports submitted to Management Board and Members to enable them to be informed of the performance against the budget .The table below compares the original budget with the actual performance for 2007/08:

	<b>2007/08 ORIGINAL BUDGET</b>	<b>2007/08 ACTUAL OUTTURN</b>	<b>VARIANCE</b>
<b><u>PORTFOLIO'S</u></b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Corporate	740	507	-233
Customer Care	3,599	3,485	-114
Economy and the Environment	5,110	4,664	-446
Leader	374	323	-51
Regulatory Services	2,386	2,335	-51
Resources,Performance and Audit	3,426	3,414	-12
Less: staff vacancy Margin (achieved in each service)	-156	0	156
Less: Internal Asset charges (Not council taxed for)	-2,521	-2,441	80
Less: Other adjustments	31	-13	-44
Less: Investment Interest	-1,450	-1,819	-369
<b>NET EXPENDITURE</b>	<b>11,539</b>	<b>10,455</b>	<b>-1,084</b>
Transfers to and from Reserves	41	202	161
Council tax Collected	-6,290	-6,290	0
Government Grant	-675	-675	0
Share of Business Rates Pool	-4,021	-4,021	0
<b>DECREASE/INCREASE IN GENERAL FUND</b>	<b>594</b>	<b>-329</b>	<b>-923</b>

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The reduction in net expenditure, ignoring investment interest, of £715,000 is proof that the steps being taken by the council to reduce expenditure is having a positive effect. However it remains to be seen whether these savings are recurring and hence reduce on going costs in the future. During the year there were significant savings on the General Fund Service expenditure the largest of which are listed below:

- Camberley Theatre (£40k)
- Housing Strategy and Development (£90k)
- Camberley town centre (£144k)
- Community Services (£76k)
- Community Support (£129k)
- Housing Benefits (£44k)
- Parking Services (£178k)
- Sports Centres (£186k)
- Street Cleansing (£90k)
- Policy and Partnerships (£53k)
- Controlled Parking (£92k)
- Corporate Land Management (£229k)

Most of these savings were due to reductions in staff costs however some also relate in part to a change in the way that asset rentals are calculated and accounted for.

There have also been some overspends or reduced income which are listed below:

- Renovation Grants (£69k)
- Building control Fees (£34k)
- Land Charges loss of income (£79k)

Other overspends were cancelled out by compensatory savings in the year.

### Government Grants

The council received a formula grant, made up of a general grant and a redistribution of non-domestic rates from the government of £4.696m. This was an increase of £57,000 on the previous year or 1.2%. The grant is forecast to increase by 1% in 2008/09 and then ½% for the 2 years after that.

### Treasury Management

The Council has significant reserves which it manages in house using investment guidelines called Prudential Indicators which are agreed by members annually. These stipulate the type of investments which can be made, risk profile and investment periods. All investments are made as deposits with banks and building societies. No equities or other investments are held by the Council. During the year the Council managed £30m and made a return of £1.818m which was £368,000 above budget. The interest returns from investments are vital to maintain current service levels.

### **PENSION FUND**

Surrey Heath Borough Council is a contributor to the statutory pension fund administered by Surrey County Council on behalf of all the local authorities in Surrey. Employees make a statutory contribution of 6% (changed from 1/4/08 to sliding scale) of their pay to the pension fund. The fund actuary (Hymans Robinson) calculates the position for each contributing body separately and undertakes a valuation of the fund every 3 years. This valuation sets out the employer's contribution for the next three years.

The last four valuations have shown that the pension fund is in deficit. At 31<sup>st</sup> March 2004 the fund was projected to be £8.116m in deficit, however the latest valuation at 31<sup>st</sup> March 2008 has reduced this to £6.1m. This is because assets have performed well but also back funding contributions amounting to £540k pa have also been made to clear the deficit. The actuarial review made the following comments for Surrey Heath:

- Funding Level of 89% (compared with 80% in 2004)
- Total contribution rate of 21.1% per annum
- Additional annual contributions of £348k per annum to clear deficit over the next 20 years

Pensions funding is becoming a significant cost for the Council. However steps are being taken to increase employee contributions and also to offer incentives for commutation of benefits which works out cheaper in the longer term.

Unlike many public sector schemes the Surrey Pension scheme is funded and current pensions are not paid for by Council Tax payers.

### **STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

Not all gains and losses experienced by a local authority are reflected in the Income and Expenditure account. Gains and losses from asset revaluations and pension actuarial valuations are shown on this statement as part of the movement in reserves.

### **BALANCE SHEET**

This shows the financial position of the Council as a whole and summarises its assets and liabilities and balances and reserves at the Council's disposal at the year end. It excludes charitable funds administered for third parties.

### **COLLECTION FUND – LOCAL TAXATION**

The Collection Fund shows the net expenditure requirements for local services charged by Surrey County Council, Surrey Police Authority, Parishes and Surrey Heath Borough council and the income raised from Council Tax and Business Rates.

In the 2007/08 the Collection fund showed a deficit of £1.060m. This represents an excess over what was precepted against what was collected. As part of Council Tax setting for 2008/09 a deficit was declared of £800k which should go some way to recovering this amount. It should be noted that this deficit does not represent unpaid council tax. It is in fact due to rating devaluations and fewer new properties which has meant that the council tax base has shrunk by more than was predicted.

The table below shows the council tax band D charges for 2006/07 and 2007/08

<b>Band D Council Tax for 2006/07 and 2007/08</b>			
	<b>2006/07</b>	<b>2007/08</b>	<b>Increase</b>
	<b>£</b>	<b>£</b>	<b>%</b>
Surrey County Council	966.69	1,009.62	4.4%
Surrey Police	163.26	171.27	4.9%
Surrey Heath Borough council	161.28	165.16	2.4%
<b>TOTAL AT BAND D (Excluding parishes)</b>	<b>1,291.23</b>	<b>1,346.05</b>	<b>4.2%</b>

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Surrey Heath takes its duties of collection and recovery very seriously indeed. In 2007/08 the council collected 99.4% of Council Tax due and 99.5% of National Non Domestic Rates due which puts it in the top 5 nationally. Arrears stood at £1.271m for council tax at 31/3/08 compared to £1.485m the year before. For non domestic rates the arrears for 2007/08 were £675k compared to £735k the year before.

### **CAPITAL FINANCE**

Capital Expenditure in the year amounted to £2.2m. This was financed out of reserves, capital receipts, grants and contributions. Major capital schemes entered into were as follows:

- £540k on disabled facilities grants
- £471k on maintenance and replacements
- £623k on IT projects
- £403k on restructuring costs for which permission to capitalise was obtained

The Arena leisure centre refurbishment at a cost of £1.3m was due to take place during 2007/08 but had to be deferred for operational reasons.

Capital receipts amounting to £10.4m form the main source of funding for capital. There is also an additional £9.8m in revenue reserves which could be used for capital. This can be supplemented by borrowing if required in the future.

The council is conducting a strategic review of all its assets with a view to disposing of surplus assets to release funds for use elsewhere.

### **USE OF RESOURCES ASSESSMENT**

The Use of Resources Assessment is an Auditor judgement about the council's performance in relation to five themes: financial reporting, financial management, financial standing, internal control and value for money. The judgement evaluates how well councils manage their financial resources to support their strategic priorities, improve services and achieve value for money.

In March 2008 Surrey Heath was rated as "Fair" which means it is performing at an average level. Although the number of themes rated as "good" increased over the year this was not sufficient to increase the overall rating for the Council.

### **AUDIT**

Interested members of the public have the statutory right for 20 working days to inspect the accounts before the audit is completed. For 2007/08 the inspections dates are between the 28<sup>th</sup> July and 22<sup>nd</sup> August at Surrey Heath House and the appointed day for raising questions with the external auditors is 29<sup>th</sup> August 2008. Please contact me if you need further information.

### **FINANCIAL PLANNING**

Each year the Council revises its Medium Term Financial Forecast. This outlines spending and taxation plans for the next 5 years as well as highlighting particular problems. This document is available on the council's website and the last one was approved in August 2007. The strategy is to ensure that the council achieves a sustainable economic position within the 5 year term of the forecast.

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## **CONCLUSION**

The Financial Statements are intended to give electors, those subject to locally levied charges and taxes, Members of the Council, employees and other interested parties clear information about the Councils finances. I would welcome any comments which would help improve this information and make it clearer for users.

Surrey Heath Borough Council remains committed to use all its resources be they financial, human or physical for the maximum benefit of its residents. The intention is to create a council that is financially sustainable so as to support the community in which we live.

On page 11 I have set out in a statement the responsibilities of the Council, and myself as Head of Finance, for the accounts. This shows the requirements of the legislation together with my professional and legal responsibilities for the financial statements.

Finally I would like to acknowledge the support of the Members and staff, particularly in the Finance Department, in their creation of these statements and supporting schedules.

## **FURTHER INFORMATION**

Further information can be obtained from the finance department at Surrey Heath House. General information is available on the website and in the newsletter Heathscene which is distributed to every house in the borough.



**Kelvin Menon BSc ACA  
Head of Financial Services**

**Date: 17 June 2008**

# **Independent Auditor's report to the Members of Surrey Heath Borough Council**

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## **Opinion on the financial statements**

We have audited the Authority accounting statements and related notes of Surrey Heath Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Surrey Heath Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Surrey Heath Borough Council, as a body, 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 Surrey Heath Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Chief Finance Officer and auditors**

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority accounting statements present fairly the financial position of Surrey Heath Borough Council and its income and expenditure for the year in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. Our responsibilities do not extend to any other information.

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## **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority [and Group] accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority accounting statements and related notes.

## **Opinion**

In our opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and

KPMG LLP  
Chartered Accountants  
London  
30 September 2008

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## **Authority's Responsibilities**

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 regularly to review the adequacy and effectiveness of these arrangements.

## **Auditor's Responsibilities**

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

## **Conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, We are satisfied that, in all significant respects, Surrey Heath Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

## **Certificate**

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP  
Chartered Accountants  
London

30 September 2008

# Statement of the Responsibilities for the Statement of Accounts

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## The Council's responsibilities

- 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 Surrey Heath, that officer is the Head of Financial Services;
- Manage its affairs to secure, economic, efficient and effective use of resources and to safeguard its assets;
- Approve the Statement of Accounts.

The Financial Statements for 2007/08 were approved by the Executive on 17<sup>th</sup> June 2008 and I am responsible, for the acknowledgement as Members of our responsibilities, for the adoption of the Financial Statements for the year ended 31<sup>st</sup> March 2008.

**Councillor Moira Gibson**

**Leader of the Council**

**Date: 17<sup>th</sup> June 2008**

## The Head of Financial Services' Responsibilities

The Head of Financial Services is responsible for the preparation of the authority's statement of accounts in accordance with proper practices set out in the CIPFA/LASAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing these Statements of Accounts, the Head of Financial Services has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with Codes of Practice.

The Head of Financial Services has also:

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

I certify that the Financial Statements for 2007/08 represent fairly the financial position of the Council and its income and expenditure for the year ended 31<sup>st</sup> March 2008.

**Kelvin Menon, BSc, ACA**

**Head of Financial Services**

**Date: 17<sup>th</sup> June 2008**

# Annual Governance Statement

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## **1 SCOPE OF RESPONSIBILITY**

Surrey Heath Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Surrey Heath Borough Council has developed, approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/ SOLACE Framework “Delivering Good Governance in Local Government”. A copy of this code will be available shortly on the Council’s website at [www.surreyheath.gov.uk](http://www.surreyheath.gov.uk). This statement explains how the Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a Statement on Internal Control.

## **2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The Governance Framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and activities through which it accounts to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. Whilst the framework provides a robust mechanism to help manage risk to a reasonable level, it cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide an acceptable rather than an absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Surrey Heath Borough Council for the year ended 31st March 2008 and up to the date of approval of the annual Statement of Accounts.

## **3 THE GOVERNANCE FRAMEWORK**

The Council’s control environment encompasses the strategies, policies, plans, procedures, structures, processes, attitudes, behaviour and actions required to deliver good governance for the residents of, and visitors to Surrey Heath. The key elements of good governance arrangements in Surrey Heath Borough Council are:

### **Communicating the Authority’s Vision**

The Council’s strategic objectives have been aligned to take into account the link between Central Government priorities and established priorities for the Council as identified with its

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partners, engagement with the public and translating the Communities' priorities into a Community Plan in conjunction with our partners.

Developing and publishing the Council's Vision and Corporate Objectives and Key Priorities along with details of how those priorities will be met. The Council's Corporate Plan is published on the website and is reviewed regularly. The Corporate Land and Key Priorities feed into the Service Plans which set out the financial and performance objectives of each service for the year and are used for twice yearly monitoring towards those targets.

The Council's Corporate Plan (2006 – 2015) was reviewed in 2007 and new Priorities were agreed. These priorities will be reviewed annually and progress published in the Council Magazine, Heathscene and on the website.

Key project teams have been established to focus the Council's vision and achieve the best outcome for the Council. These include the Facilities and Asset Management Group, Budget Process Group, the Town Centre Group and the Partnering team. The Management Board has been charged with overall responsibility to ensure that Governance Finance and Policy Officers are also included.

### **Ensuring quality outcomes and efficient use of resources**

The Council is developing good performance management and data quality arrangements including the development of the TEN management system and monitoring progress regarding priorities and the Council's service targets which include a comprehensive set of service plans. These are monitored half yearly and are scrutinised by the relevant Committee in open session. Statutory Performance indicators are monitored through regular reporting to directorate management team meetings through to a Best Value Performance Indicator Group which includes Members who monitor and report as appropriate.

Performance targets and outcomes are reported to stakeholders in the annual Best Value Performance Plan. This Plan is legally required to be produced by the Council on an annual basis, setting out performance targets for the year and reporting on the previous year's performance against these targets.

The Council seeks to obtain value for money through reviewing and seeking continuous improvement with effective procurement arrangements. It is the intention of the Council to further enhance these arrangements by making the most of centrally negotiated framework agreements available through the Office for Government Commerce (OGC). The Council is also a member of the Surrey Procurement Network which achieves countywide procurement opportunities.

The Council has adopted the "Local Code of Corporate Governance" in accordance with the latest guidance from the CIPFA/SOLACE Framework for corporate Governance. Whilst the code informs the Annual Governance Statement, the code is a living document which will be updated and improved upon throughout the year.

Management of Risks is carried out at Member, corporate and service level. The Council is reviewing its Risk Management Strategy in 2008 including getting a clearer understanding of the Council's risk profile and enhanced reporting and actioning of significant risks. A Risk Management Group of senior officers meets quarterly to manage reviews of risk. This group then reports to Management Board and Scrutiny Committees. The Council's Internal Audit

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Service undertake risk assessments on all their audits and incorporate this information into the Risk Group.

The financial management of the Council is conducted in accordance with the financial rules set out in Part 4 of the Constitution, which includes the financial regulations. The Council has a Statutory Service Head who fulfils the role of the Section 151 Officer in accordance to the Local Government Act 1972. This Service Head is a fully participating member of the Management Board. The Council has in place a Financial and Capital strategy and an Asset Management Strategy which are regularly reviewed through the Capital Asset Working Group and the Management Board.

The Council maintains an internal audit service in partnership with Spelthorne Borough Council, which operates to the standards set out in the “Code of Practice for Internal Audit in Local Government in the UK”.

The Council has an objective and professional relationship with the Audit Commission, the Council’s external auditors and statutory inspectors as evidenced in the Annual Audit Letter

### **Facilitation of Policy and Decision Making**

The Council has agreed a Constitution that sets out how it operates, how decisions are made, and the procedures that are followed to ensure that these are efficient, proportionate, transparent, and accountable. This Constitution I was fully reviewed in 2007 and is subsequently reviewed on an on-going basis by the permanently established Constitution Review Working Group. As a result of these reviews amendments are regularly being proposed to further strengthen the Constitution.

There is a scheme of delegation that clearly sets out the levels at which decisions can be made.

Decisions taken under delegated powers are recorded and are reported on a regular basis to the relevant Scrutiny Committee. Meetings of these committees are forward planned, publicised and open to the public.

The Forward Plan contains the key decisions that the Council proposes to make. The Forward Plan is published every month and covers the four months’ period commencing on the first day of each month. The Forward Plan is available for public inspection 14 days before the beginning of each month. Senior officers are collectively involved in producing the document.

The Council operates an Executive arrangement with a Leader and six port-folio holders who collectively decide the major policy and strategy of the Council.

Four Scrutiny Committees also meet in accordance with the annual timetable of meetings to review decisions and actions taken by the Executive and other Council functions. They also review, monitor and scrutinise the performance of the Council in relation to its policy objectives, performance targets, action plans and relationships with external partnership bodies and organisations. The committees are Policy & Audit, Leisure & Environment, Community and External Partnerships.

The Standards Committee takes a proactive approach to ensuring high levels of good governance, ethical behaviour and transparency throughout the Council’s decision making processes.

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All formal Council meetings in open session are recorded in the interest of transparency and open democracy. Copies of the recordings are available to the public.

### **Developing, Communicating and Embedding codes of conduct**

Members have, in accordance with the Local Government Act 2000, adopted the National Code of Conduct. Employees are governed by a local code of conduct. There is a Members and Officers relationship protocol, a Planning Code of Practice for Members and Officers and an IT Code of Practice for Members all representing best practice. All these codes are contained within the Constitution.

The Conditions of Service for Officers covers the standards of conduct expected of all staff in the Council. These are developed by the Joint Staff Consultative Group consisting of members and staff representatives and communicated through the staff representatives and via the Council's intranet. This is supplemented by job descriptions issued to all staff that set out clearly what their individual objectives are.

Underpinning the Service planning and performance process is the Appraisal Development Scheme for all staff which sets and reviews team and individual targets and achievements as well as identifying training needs. Significant enhancements to the performance element of the scheme are being introduced by the Chief Executive during 2008. The external demonstration of the Council's commitment in these areas is demonstrated by the external assessment and continued award of the Investors In People award

### **Internal Audit, the Audit Committee and Governance Arrangements**

The Policy & Audit Scrutiny Committee is responsible for considering the effectiveness of the Council's system of internal control. This Committee performs the core functions as set out in CIPFA guidance.

The Council maintains an Internal Audit Service in partnership with Spelthorne Borough Council, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. Compliance with these standards is reviewed annually by the Policy & Audit Scrutiny Committee.

Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control and where relevant, making recommendations for improvement. The implementation of recommendations is subsequently checked by Internal Audit. Internal Audit performance is reported half yearly to the Committee and includes reporting non-compliance with recommendations. The end of year report includes an opinion on the overall adequacy and effectiveness of the Council's internal control environment. The Policy & Audit Scrutiny Committee may summon Service managers to explain any such non-compliance. At least two formal audit meetings are held by this committee each year.

Internal Audit has direct access and reporting lines to all senior management, including the Chief Executive, Leader of the Council and Chair of the Policy & Audit Committee.

The Policy & Audit Committee, which includes appointed independent members, meets on a regular basis, at least quarterly, to receive the reports of both Internal and External Audit and have the power to refer matters of concern to the Executive or other committees and to require a response.

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The Council has a designated Monitoring Officer (Head of Legal and Corporate Services) who is responsible for ensuring compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service and Head of Finance, the Monitoring Officer will report to the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. Specific Protocols existed for both the Monitoring officer and the Section 151 Officer.

Direction related to Corporate Governance issues is given by the Corporate Governance Group consisting of the Monitoring Officer, the Section 151 Officer, the Head of Audit & Partnering and chaired by the Director of Support Services. The group meet regularly throughout the year.

The Council has an Anti Fraud and Corruption policy and strategy in place. This includes a Whistleblowing policy, Disciplinary Policy and Equalities Policy. These policies are communicated to all staff and contractors.

### **Financial Management of the Council**

The system of financial management within the Authority is structured through Standing Orders and Financial Regulations which are in accordance with CIPFA's guidance. A framework of regular management information, administrative procedures (including division of duties), management supervision, and a system of delegation and accountability support these. Such procedures seek to ensure that transactions are authorised and that material errors or irregularities are either prevented or would be detected within a timely period.

Maintenance of the system of financial control is undertaken by service managers at directorate and corporate level and is overseen by the Section 151 officer who reports as appropriate to Lead Members, Scrutiny, Executive and Council.

### **Ensuring Compliance with Established Policies, Procedures, Laws and regulations**

The Council's Management Board is responsible for ensuring that through its individual members it establishes and maintains effective systems of internal control, complies with legislation, the Council's Constitution, Standing Orders, and Financial Regulations. This includes responding to recommendations by Inspectorates.

The respective roles of the Section 151 Officer and the Monitoring Officer ensure legality, financial prudence, and transparency in transactions and their importance is recognised by their full participation at the Council's Management Board.

The Council also places reliance on external assurance providers, such as the Audit Commission, and any recommendations arising are acted upon and monitored through the scrutiny process. The Council has a public complaints procedure that allows the Local Government Ombudsman to investigate and report its findings. This ensures that lessons can be learned to prevent repeated occurrences.

Formal complaints are co-ordinated by the Council's Contact Centre and regularly reported to senior management and members. The complaint procedure is well publicised on the Council's internet and intranet and by leaflet. In addition the Council has also introduced as a procedure to deal with unreasonably persistence and unreasonable complaints behaviour.

### **Procedures for whistle-blowing and for receiving and investigating complaints**

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A strong ethical and performance framework is in place to enable officers and Members of the Council to operate effectively in their respective roles, which allows the pursuit of excellence in service delivery. The Council has formalised an Anti-Fraud and Anti-Corruption Strategy, which provides measures to enable confidential public and officer concerns to be raised with the Council.

The Council is establishing an Investigations Panel, whose primary role will be to review and monitor progress in the investigation of cases of misappropriation and impropriety, and to ensure that such matters are managed with due regard to the Council's policies and procedures.

The Council has a Corporate Fraud team responsible for investigating Benefit fraud, Corporate fraud and Members Code breaches. The team embed the anti-fraud culture by training and involvement in the induction of staff. All members of the team are fully trained to Police and Criminal Evidence Act standard.

In addition, a formal complaints policy exists to deal with other matters of public concern regarding the services provided by the Council.

#### **Ensuring development needs for Members and Officers are met**

The Council is committed to developing the skills of both Members and officers in order to enable a continuous improvement in the services provided. The Council is a holder of the Investors in People award.

All officers are covered by the Appraisal Development scheme which ensures that their performance and development needs are reviewed on a twice yearly basis. This is backed up by regular informal one to ones, team meetings and directorate meetings. A full training programme, the Corporate Training Plan, is in place which links directly to the performance objectives for each grade of officer.

A full training programme for members has been in place for a number of years and is designed to ensure they have all the necessary skills and legislative training. There is a full induction process for members and specific officers have been designated with training responsibilities for Members.

The Council is working in partnership with other Surrey districts to provide a cost effective and wide ranging training programme to meet the needs of Officers at all levels.

#### **Engagement and Consultation with the Community**

The Council is fully committed to community engagement and consultation. The Council works in close partnership with many community and voluntary groups to ensure effective delivery of its services.

#### **Partnership Arrangements**

The Council currently delivers a wide range of services which often involve working in partnership with others, many of which involve considerable levels of funding. It is committed to investigating a wide range of partnering opportunities in line with central government expectations and in order to seek better value for money and resilience of service.

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A Partnerships team has been set up to proactively engage with potential partners with a view to joint working. The team have also reviewed the governance issues created by partnerships.

It is a requirement of the Statement of Recommended Practice (SORP) 2006 that, “Where an authority is in a group relationship with other entities and undertakes significant activities through the group, the review of the effectiveness of the system of internal control should include its group activities.”

Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control within group activities and where relevant, making recommendations for improvement. The implementation of such recommendations is subsequently checked by Internal Audit.

#### **4 REVIEW OF EFFECTIVENESS**

Surrey Heath Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Governance Group who have responsibility for the development and maintenance of the governance environment, the Head of Audit and Partnering’s annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council is committed in reviewing its governance framework and takes seriously the requirement to demonstrate its effectiveness. All areas and suggested sources of evidence have been reviewed in accordance with the guidance issued on preparing this statement. Evidence has been gathered across all of the Council’s Services and Members have been engaged, initially through a questionnaire process.

In producing the Annual Governance Statement (AGS), the Council has established a Corporate Governance Group with responsibility for overseeing the production of evidence, evaluating the information supplied, and preparing the actual statement. The Corporate Governance Group is also responsible for monitoring progress against the agreed action plan when any issues have been identified.

The process that has been applied in maintaining and reviewing the effectiveness of the system of governance includes:

- The Council’s Scrutiny Committees and Members can call in any decision that has been made but not yet implemented, to enable them to consider whether the decision is appropriate. Both the Policy & Audit Committee and the Standards Committee receive Governance reports.
- An Audit Committee is in place which is recognised as good practice. In line with CIPFA best practise guidance, the Audit Committee will perform the first annual self-assessment of their own effectiveness in 2008/09 and will act on recommendations identified.
- Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. The requirements of External Audit and risk modelling are used to formulate the annual work programme approved by the Policy & Audit Committee. The Internal Audit Service is subject to regular inspection by the Audit Commission who

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place reliance on the work carried out by the section. The current rating of the service is good.

- The Internal Audit service is subject to regular scrutiny by the Audit Committee who approve the annual plan and the audit work produced
- The System of Internal Audit within the Authority is reviewed annually against the CIPFA Code of Practice for Internal Audit in the United Kingdom (2006)
- The Standards Committee, with an independent chair and one independent member, regulates and oversees the national code of conduct and the members' and officers' protocol.
- The Head of Legal & Corporate Services (the Monitoring Officer) has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect and also ensure high standards of ethical governance are maintained. He reports regularly to the Standards Committee and also has responsibility for ensuring lessons are learnt from corporate complaints and local ombudsman enquiries received
- Each year, the Risk Management Group review the Corporate Risk Management Framework to ensure its continued relevance to the Council. The Corporate Risk Management Group receives quarterly updates to the risk registers bringing their attention to significant risks. Risk registers are recorded and reviewed via the Performance Management Framework system.
- The Head of Finance is the designated Section 151 officer and reports regularly on the discharge of those statutory duties, the Head of Audit and Partnering is the responsible officer for money laundering.

The Policy & Audit Committee, have been advised on the implications of the result of reviews of the effectiveness of the governance framework by our internal and external advisors and a plan to address any weaknesses and ensure continuous improvement of the system is in place.

## **5 SIGNIFICANT INTERNAL CONTROL ISSUES**

The Management Board and Members of the Council have considered the evidence provided by the Corporate Governance Group with regards to the production of the Annual Governance Statement.

In previous years the Statement on Internal Control identified items which required improvement, and the Council has taken significant action to address those issues in particular a considerable amount of work has been done in the areas of governance of partnerships and also in the areas of officer and member training and development.

There were no significant issues affecting the Council's governance framework however the Council is constantly looking to improve the governance framework and so has identified a number of actions needed to further strengthen existing systems:

## Achievement of 2007/2008 Areas of improvement

The following Significant Control issues were identified in the Statement of Internal Control for the previous year

<p>Council wide re-organisation to be more customer focused</p>	<p><i>Ensure that an acceptable level of service is maintained during the latter stages of the change programme, and that the revised arrangements being implemented provide adequate management controls and information.</i></p> <p><b>Service levels to customers have been closely monitored throughout the year by the project group. Where this has indicated problems then action has been taken in the form of changing processes or employing additional resources. However there is still a need for more emphasis on the entire “customer Journey” and to this end a review is being conducted on the most effective way of delivering improved customer experience. Performance information shows continued improvement in the Contact Centre with good progress in terms of service to the public.</b></p>
<p>Development of The Atrium, Camberley</p>	<p><i>Current programme envisages the completion of the project by the end of the financial year. The Council’s Project Management Team (PMT), responsible for dealing with landlord issues will have a vital role in monitoring and reporting progress during the construction phase.</i></p> <p><b>The Project Management Team for the Atrium have monitored and supported the project throughout the year. They are responsible for dealing with the landlord and ensuring that issues are resolved. In this they are supported and advised by a range of external advisors providing legal estates and costing advice. This requirement is likely to be required until the completion of the project in November 2008. Issues relating to the development of Camberley Town Centre are now considered by a coordinating group chaired by the Chief Executive.</b></p>
<p>Risk management</p>	<p><i>Implementation of the Risk Management across all services completed by the beginning of the</i></p>

	<p><i>year – Corporate Risk Register produced together with service Risk Registers.</i></p> <p><b>Training on risk management has been provided to all staff and risk registers have been completed for each service. Reports are regularly made to members and risk management is now embedded in the organisation. Internal Audit coordinate risk activities within the audit work. The Head of Audit and Partnering will be chairing the Risk Management Group for 2008/09.</b></p>
Partnership Working	<p><i>Need to develop overall strategy with regard to potential partners – will there be cost savings? Does it work? Does it achieve mutual benefit? Initial project initiation documentation completed.</i></p> <p><b>Partnership opportunities explored with a number of potential partners. These range from local authorities to private companies. Any partnership must answer the simple questions: Does it provide a better service and Does it save money? A number of new partnership arrangements are being progressed through the Partnerships team.</b></p>
Procurement Strategy	<p><i>On-going completion of the strategy and introduction across all services and contracts during 2007/08.</i></p> <p><b>Procurement strategy rolled out across the Council in 2007/08 thus making procurement higher profile. Work is still needed to ensure embedded in organisation. Working with partners in the Surrey Procurement Network to benefit from countywide initiatives. With the increasing use of framework agreements to aid securing additional value for money.</b></p>
Performance Management	<p><i>Complete implementation of TEN performance management software, the first phase of which was completed September 2005.</i></p> <p><i>Continual development of relevant local performance indicators.</i></p> <p><b>TENS implemented at the end of 2007/08 with all Performance Indicators put on. Further development of this system over the next year.</b></p>
Financial Management	<p><i>Review current processes and procedures and</i></p>

	<p><i>implement any necessary improvements during 2007/08.</i></p> <p><i>Achievement of savings target (£1.3m by 31<sup>st</sup> March 2008).</i></p> <p><i>Respond to DCLG refusal to capitalise re-organisation redundancy costs.</i></p> <p><b>Savings target achieved as one off savings during the year. DCLG asked to reconsider capitalisation refusal but still refused. New financial framework being developed throughout this is financial year.</b></p>
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**Governance Issues identified for 2008/09**

Camberley Town Centre developments	Ongoing management of the project by the Camberley Town Centre Coordinating Group - the current economic downturn may have a negative impact on the financial returns from the various projects which will have a significant impact on the Council.
Arena Leisure Centre	Governance issues relating to the completion of full contracts.
Concessionary Fares	The financial commitment of the Council remains unclear until detailed ridership figures are available. The provision of the scheme may need reassessment in the light of unrecoverable potential costs.
Waste Disposal	Possibility of significantly increased costs with a resultant impact on other council services as a result of re-tendering and potential changes to provision of service.
Special Protection Area	With the continued imposition of the Special Protection Area this is having a negative effect on income and the ability of the Council to meet its housing targets. Plans for mitigation may be expensive and not deliver the outcome anticipated.
Governance in partnerships	As the partnership programme continues to expand, including the possibility of preferred partnerships, the issues of governance requirements for the areas increases. The Council needs to ensure that its partnership objectives continue to be met whilst ensuring that good workable governance arrangements remain in place.
Human Resources	As a result of recent experiences, the Council needs to review and strengthen its disciplinary and associated procedures to ensure that staff are treated fairly and to ensure that the Council is properly protected should  action need to be taken.

	As a result of the age profile of its employees and potential shortfalls in the availability of certain professions in the future, there needs to be clear policies to ensure that the Council's services do not deteriorate due to the difficulties of filling vacant posts.
Customer Services	The Contact Centre development needs to continue to maximise the extent of services handled thereby increasing customer satisfaction and experience whilst minimising additional costs.
Procurement	Further work needed to ensure that best practice in procurement is embedded across the organisation.

**6 LEADER AND CHIEF EXECUTIVE STATEMENT OF ASSURANCE**

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

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Michael Willis  
Chief Executive

17 June 2008

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Councillor Moira Gibson  
Leader of Surrey Heath Borough Council

17 June 2008

# Statement of Accounting Policies

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## 1. General

The Statement of Accounts summarises the transactions for 2007/08 financial year and the position at the year-end 31 March 2008. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007, A Statement of Recommended Practice (the SORP) and the Best Value Accounting Code of Practice 2007: (BVACOP) which are issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and franked by the Accounting Standards Board.

## 2. Accounting Convention

The accounting convention adopted in these financial statements is historical cost modified by the revaluation of land, buildings, plant and vehicles.

## 3. Accounting Concepts

In preparing the Statement of Accounts the Council has particular regard to the accounting concepts within the SORP. The precise existence and values of assets, liabilities, income and expenditure may be uncertain and where this is the case, professional judgement is used to estimate. In doing so the Council adheres to the accounting concepts set out below to ensure that the accounts present fairly its financial position and performance.

- **Relevance:** The information in the accounts is useful in assessing the Council's stewardship of public funds and for making economic decisions.
- **Reliability:** The information in the accounts is complete, prudently prepared, reflects the substance of transactions and is free of deliberate or systematic bias or material errors.
- **Comparability:** A consistent approach to accounting policies is used in preparing the accounts to ensure that it may be compared to previous years. Where there is a change in accounting policy that has a material effect of the information, this has been disclosed.
- **Understandability:** The information in the statement is capable of being understood by users having a reasonable knowledge of business and economic activities and accounting and a willingness to study with reasonable diligence the information provided.
- **Materiality:** In using its professional judgement the Council has considered the size and nature of any transaction, or set of transactions. An item is considered to be material where its omission or misstatement would reasonably change the substance of the information presented in the accounts.
- **Accruals:** The non-cash effects of transactions have been reflected in the statements for the financial year in which they occur, not when any cash is received or paid.
- **Going concern:** The accounts have been prepared on the assumption that the Council will continue to provide operational services for the foreseeable future.

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- Primacy of Legislative Requirements: The Council operates through the power of statute. Where legislation prescribes the express treatment of transactions then the accounting concepts outlined above may be over-ruled.

#### **4. Provisions**

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate revenue account when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not, that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant revenue account.

#### **5. Reserves**

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

Certain reserves are kept to manage accounting processes for tangible fixed asset and retirement benefits and they do not represent usable resources for the council – these reserves are explained in the relevant policies below.

#### **6. Government Grants and Other Contributions (Revenue)**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

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## 7. Government Grants and Other Contributions (Capital)

Where grants or contributions are received either from the government grant or a third party contribution that are identifiable to fixed assets with a finite useful life, the amounts are credited to Capital Grants and Contributions Deferred Account. The balance is then written down to service accounts over the useful life of the asset to match the depreciation charged on the asset to which it relates.

## 8. Pensions

Employees of the council are members of the Local Government Pension scheme administered by Surrey County Council. The Local Government Scheme is accounted for as a defined benefit scheme.

The liabilities of the Surrey pension scheme attributable to Surrey Heath Borough 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 earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a high quality corporate bond (as measured by the yield on the iBoxx Sterling Corporates Index, AA over 15 years).

The assets of the Surrey pension fund attributable to Surrey Heath Borough Council are included in the balance sheet at their fair value as set out in the table below:

<b>Asset Class</b>	<b>Valuation method used</b>
Quoted securities	Mid-market value
Unquoted securities	Professional estimate
Unitised securities	Average of the bid and offer rates
Property	Market value

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

- **Current Service Cost:** The increase in liabilities as result of years of service earned this year, allocated in the Income and Expenditure Account to the revenue account of services for which employees worked.
- **Past Service Cost:** The increase in liabilities arising from current year decisions whose effect relates to years of service earned in previous years, debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
- **Interest Cost:** The expected increase in the present value of liabilities during the year as they move a year closer to being paid, debited to Net Operating Expenditure in the Income and Expenditure Account.

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- Expected return on assets: the annual investment return on the fund assets attributable to Surrey Heath Borough Council based on an average of the expected long-term return, credited to Net Operating Expenditure in the Income and Expenditure Account.
  - Gains/losses on settlements and curtailments: The results of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited to the Net Cost of Services in the Income and Expenditure Account as part of the Non Distributed Costs.
  - Actuarial gains and losses: Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Statement of Total Recognised Gains and Losses.
  - Contributions paid to the Surrey pension fund: Cash paid as employer's contributions to the pension fund.

Statutory provisions prevent the changes introduced by FRS17 from impacting on council tax levels. The legislation requires that the difference between the charge to taxation and the FRS17 charge, be financed by an appropriation to a Pension Reserve. The pension costs charged to the Council's accounts in respect of its employees are equal to the contributions paid to the funded pension scheme for these employees.

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision of the award.

The Balance Sheet discloses the net liability in relation to retirement benefits. The assessment process used to compile the figures takes account of the most recent actuarial valuation updated to reflect current conditions. Therefore the figures presented are based on the actuary's latest calculations. The assumptions used by the actuary are in accordance with the Code and are mutually compatible.

The government have announced a package of changes to the Local Government Pensions scheme and intend that new regulations will come into force from April 2008. In the meantime, the figures for the cost of pensions included in the Income and Expenditure Account, Statement of Total Recognised Gains and Losses and Balance Sheet have been based by the actuary on the following assumptions:

- Employees continue to earn new benefits in line with the Regulations as they stood as at 31 March 2008
- No allowance has been made for the removal of the 'rule of 85' for new entrants from 1 October 2006 as the actuary considers that the effect is likely to be immaterial to the figures in the accounts, and
- Allowance has now been made for the effect of 25% of members electing to exchange part of their pension for additional tax-free cash at retirement, as permitted from April 2006.

Notes to the Income and Expenditure Account, the Balance Sheet and the Statement of Total Recognised Gains and Losses provide further information about the Scheme, estimates of the amounts necessary to meet future pension liabilities, and in particular the shortfall in the Pension Fund.

## 9. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to H M Revenues & Customs and all VAT paid is recoverable from them.

## 10. Overheads and Support Services

In 2007/08 support service costs (Establishment, Public Offices, Office Services, Financial Services and ICT) were identified by trading area in 11 Internal Service Units. The expenditure in each unit is recharged to programme areas as operational management on the basis of Service Level Agreements negotiated between Service Unit Managers.

The cost of overheads and support services are charged to services that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2006*. The total absorption costing principle is used – the full cost of overheads and support services are shared between the users in proportion to the benefits received, with the exception of:

- Corporate and democratic core – costs relating to the council’s status as a multi-functional democratic organisation
- Non-distributed costs – the cost of discretionary pension benefits awarded to employees retiring early and settlements and curtailments, and of unused overheads.

The basis of charges to services is set out below:

<b>Support Service</b>	<b>Basis of Allocation</b>
Civic Offices	Area occupied
Computing Services	Estimated usage, number of terminals and printers, etc.
Central expenses (banking and audit costs)	Estimated usage
Legal, committee servicing, office support	Estimated time spent by staff
Payroll services	Number of employees
Payments to creditors	Invoices processed
Debtors accounting and collection	Number of invoices sent to debtors
Internal audit	Audit days
Financial advice	Time allocations
Income and expenditure accounting	Number of cost codes
Budgeting and final accounts	Turnover
Cash collection and accounting	Number and type of transactions
HR	Number of employees
Other managerial and professional services	Estimated time spent by staff

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## 11. Intangible Fixed Assets

Intangible Fixed Assets are assets that do not have a physical substance but are controlled through custody or legal rights. Each asset is held in the books at cost value and is amortised to the appropriate revenue account on a systematic basis over its useful economic life.

## 12. Tangible Fixed Assets

Tangible Fixed assets are assets that have physical substance and are held for use in the provision of services or for administration purposes on a recurring basis. Expenditure that can be capitalised in this way includes:

- Acquisition, reclamation, enhancement or laying of land;
- Acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures;
- Acquisition, installation or replacement of moveable or immovable plant, machinery, apparatus, vehicles and vessels.

In this context, enhancement means the carrying out of works, which are intended to:

- Lengthen substantially the useful life of the asset; or
- Increase substantially the open market value of the asset; or
- Increase substantially the extent to which the asset can or will be used for the purposes of or in conjunction with functions of the local authority.

**Recognition:** Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the service it provides are for more than one financial year.

**Measurement:** Assets are initially measured at cost, comprising all the expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement basis:

- Operational land and properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use.
- Investment properties and assets that are surplus to requirements are included in the balance sheet at the lower of net current replacement cost and net realisable value. In the case of investment properties, this is normally open market value.
- Infrastructure assets and community assets are measured at depreciated historical cost.

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### **13. Impairment**

Impairment is caused by either a consumption of economic benefits or a general fall in Prices. The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Where attributable to a clear consumption of economic benefits. The loss is recognised in the relevant service revenue account.
- Other impairments reflecting a general fall in prices are recognised in the fixed asset restatement account.

### **14. Disposal of Assets**

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure account as part of the gain or loss on the disposal. Receipts from disposals are credited to the Income and Expenditure account as part of the gain or loss of the disposal (i.e. netted off the carrying value of the assets at the time of disposal).

Under the statutory framework of local authority, profits (or losses) on the disposal of fixed assets are not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital financing account from the statement of movement on the general fund balance to make the necessary adjusting entries.

### **15. Charges to Revenue for Fixed Assets**

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service.
- Amortisation of intangible fixed assets attributable to the service.

Amounts set aside from revenue to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately in the Statement of Movement on the general fund balance.

The Council is not required to charge depreciation, impairment losses or amortisations to Council Tax. These transactions are therefore reversed in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Financing Account.

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**16. Deferred Charges**

Deferred charges represent expenditure which may be capitalised under statutory provisions, but does not result in the creation of tangible fixed assets (e.g. grants to third parties). Deferred charges incurring during the year have been written off to the relevant service account in the year. A transfer to reverse these transactions is made from the Capital Financing Account to the Statement of Movement on the general Fund Balance so that there is no impact on the level of Council tax.

**17. Debtors and Creditors**

Revenue and capital transactions are recorded on the basis of income and expenditure. No adjustments were necessary in respect of internal debtors and creditors in 2007/08.

**18. Stocks and Work in Progress**

Stocks and work in progress on works rechargeable to outside bodies or persons are stated at cost price. This does not comply with the SORP, which states that stock should be valued at the lower of cost or net realisable value, although the sums involved are not significant.

**19. Investments**

Deposits at banks and similar investments are accounted for at their nominal value. Investments that are accounted for as fixed assets are reviewed for impairment in accordance with FRS 11. Investments are made only with approved organisations as set out in the Treasury Management Policy Statement.

**20. Other Investment**

The War Stock is not shown at cost but at market value as at 31<sup>st</sup> March 2008.

**21. Provisions for Bad and Doubtful Debts**

The carrying amount of debtors is adjusted for doubtful debts. Known uncollectible debts are written off.

**22. Contingent Assets and Liabilities**

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence of one or more future events not wholly in the Councils control. Contingent assets are not recognised in the revenue accounts or the balance sheet, but are disclosed in the notes to the consolidated balance sheet.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more future events not wholly in the Councils control. Contingent liabilities are not recognised in the account as items of expenditure, but are disclosed in the notes to the consolidated balance sheet.

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### 23. Leases

Where assets are acquired under operational leases the rentals payable are charged to revenue as and when they become due. These assets do not appear in the Balance Sheet as they are not owned by the Council. Assets acquired under finance leases are included in the Balance Sheet at an amount based on the net investment of the lease.

### 24. Group Accounts

Local authorities are required to comply with the requirement that, where they have interests in subsidiaries, associated companies and joint ventures that are material in aggregate, they must prepare the revenue account and the balance sheet based on the financial results for the whole of the group. Surrey Heath Borough Council does not have any interests of this type and therefore group accounts do not apply.

Surrey Heath Borough Council is involved with several registered charities details of which can be found on Page 70.

The Full Council acts as Trustees of Frimley Recreation Ground Charity and Frimley Sand and Gravel Pit Charity but does not act as Trustee of the mayor's Charity.

Three Councillors are appointed as Trustees of the Henry Smiths's Charity and the Miss A E Gomm Charity along with non-Council Trustees.



# Income and Expenditure Account 2007/08

2006/07		2007/08		
Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
	Note			
1,133	Central Services to the Public	2,397	1,161	1,236
8,067	Cultural, Environmental & Planning Services	12,108	4,177	7,931
-98	Highways, Roads and Transport Services	2,191	2,490	-299
1,114	Housing Services	14,138	12,826	1,312
1,032	Social Services	1,604	453	1,151
2,313	Corporate and Democratic Core	3,099	28	3,071
1,300	Non Distributed Costs	16	0	16
<b>14,861</b>	<b>Net Cost of Services</b>	<b>35,553</b>	<b>21,135</b>	<b>14,418</b>
425	Parish Council Precepts			449
-1,504	Interest and investment income			-1,819
38	Pension interest cost and expected return on pensions assets			-41
<b>13,820</b>	<b>Net Operating Expenditure</b>			<b>13,007</b>
-6,446	Demand on the Collection Fund			-6,739
-3,888	Contribution from the non-domestic rates			-4,021
-751	General government grants			-675
<b>2,735</b>	<b>Deficit for the year</b>			<b>1,572</b>

## Statement of Movement on the General Fund Balance

2006/07 £'000		2007/08 £'000
2,735	Deficit for the year on the Income and Expenditure Account	1,572
-4,188	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	-1,902
<b>-1,453</b>	<b>Increase in General Fund balance for the Year</b>	<b>-330</b>
<b>-683</b>	<b>General Fund Balance brought forward</b>	<b>-2,136</b>
<b>-2,136</b>	<b>General Fund Balance carried forward</b>	<b>-2,466</b>

# Income and Expenditure Account 2007/08

## Note of Reconciling items for the Statement of Movement on the General Fund Balance

2006/07 £'000	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	2007/08 £'000
-265	Amortisation of intangible fixed assets	-1,219
-765	Depreciation and impairment of fixed assets	-975
32	Government Grants Deferred amortisation	55
0	Write downs of deferred charges to be financed from capital resources	0
0	Net loss on sale of fixed assets	0
-1,632	Net charges made for retirement benefits in accordance with FRS17	-1,364
<b>-2,630</b>		<b>-3,503</b>
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>	
0	Minimum revenue provision for capital financing	0
0	Capital expenditure charged in-year to the General Fund Balance	66
1,113	Employer's contributions payable to the SCC Pension Fund and retirement benefits payable direct to pensioners	1,735
<b>1,113</b>		<b>1,801</b>
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	
-2,671	Net Transfer to or from earmarked reserves	-200
<b>-2,671</b>		<b>-200</b>
<b>-4,188</b>	<b>Net additional amount required to be credited to the General Fund balance for the year</b>	<b>-1,902</b>

## Statement of Total Recognised Gains and Losses

2006/07 £'000		2007/08 £'000
	<b>Restated</b>	
2,735	Deficit for the year on the Income and Expenditure Account	1,572
-7,258	-Surplus arising from movements on Capital Financing	-102
0	-Surplus arising on revaluation of fixed assets	-461
-323	Deficit on the Collection Fund	489
-3,661	Actuarial -gains on pension fund assets and liabilities	-5,170
0	Actuarial - gains on pension fund assets and liabilities prior year adjustment	-360
<b>-8,507</b>	Total recognised - gains / losses for the year	<b>-4,032</b>

# Balance Sheet 2007/08

2006/07 £'000		Note	2007/08 £'000	2007/08 £'000
<b>Fixed Assets</b>				
0	<b>Intangible Fixed Assets</b>		0	0
<b>Tangible Fixed Assets</b>				
<b>Operational Assets:</b>				
24,863	Other land & buildings		24,287	
850	Vehicles, plant & equipment		1,080	
44	Infrastructure assets		40	
800	Community assets		800	
26,557				26,207
<b>Non-operational Assets:</b>				
20,725	Properties		21,136	
0	Assets under construction		1	
0	Surplus assets held for disposal		0	
				21,137
<b>47,282</b>	<b>Total Fixed Assets</b>	<b>22</b>		<b>47,344</b>
3,005	Long-term investments	<b>27</b>		11,633
363	Long-term debtors	<b>28</b>		361
<b>50,650</b>	<b>Total Long-term Assets</b>			<b>59,338</b>
<b>Current Assets</b>				
54	Stocks and work in progress	<b>29</b>	53	
5,162	Debtors	<b>30</b>	3,864	
23,912	Investments	<b>31</b>	14,563	
6	Cash and bank	<b>32</b>	300	
<b>79,784</b>	<b>Total Assets</b>			<b>78,118</b>
<b>Current Liabilities</b>				
0	Short-term borrowing		0	
4,880	Creditors	<b>33</b>	4,591	
479	Bank overdraft		0	4,591
<b>74,425</b>	<b>Total Assets less Current Liabilities</b>			<b>73,527</b>
<b>Long Term Liabilities</b>				
35	Provision	<b>34</b>	35	
14,548	Liability related to defined benefit pension scheme	<b>6</b>	9,618	9,653
<b>59,842</b>	<b>Total assets less Liabilities</b>			<b>63,874</b>

# Balance Sheet 2007/08

2006/07 £'000 (Restated)	Financed By	Note	2007/08 £'000
<b>CAPITAL</b>			
0	Revaluation Reserve	<b>38 &amp; 49</b>	461
11,514	Usable Capital Receipts Reserve	<b>39</b>	10,407
47,108	Capital Adjustment Account	<b>37 &amp; 49</b>	46,705
115	Deferred Capital Credits	<b>36</b>	82
141	Deferred Capital Receipts	<b>41</b>	177
<b>REVENUE</b>			
26	Capital Contributions Unapplied	<b>40</b>	0
25	Government Grants & Contributions Unapplied	<b>42</b>	0
4,076	Earmarked Reserves	<b>43</b>	4,311
9,820	Revenue Reserves	<b>44</b>	9,943
- 14,548	Pensions Reserve	<b>6</b>	- 9,618
<b>Revenue Funds</b>			
- 571	Collection Fund	<b>45</b>	- 1,060
2,136	General Fund		2,466
<b>Total net worth</b>			<b>63,874</b>

# Cash Flow Statement 2007/08

<b>2006/07</b>		<b>2007/08</b>		
£'000	Revenue Activities	Note	£'000	£'000
	<b>Cash Outflows</b>			
9,881	Cash paid to and on behalf of employees		9,844	
14,251	Other operating cash payments		14,488	
32,016	National Non-Domestic Rate payments to National Pool		30,431	
41,639	Precepts paid		44,382	
8,992	Housing Benefit paid out		9,300	
20	Payments to Capital Receipts Pool		24	
<b>106,799</b>				<b>108,469</b>
	<b>Cash inflows</b>			
985	Rents		1,378	
45,658	Council Tax		47,653	
31,298	National Non-Domestic Rate Income		30,654	
740	Contribution from NNDR pool		675	
12,236	Revenue Support Grant		12,566	
3,888	DWP Grant for benefits		4,021	
102	Other Government grants	48	31	
12,016	Cash received for goods and Services		10,136	
20	Other operating cash receipts		44	
<b>106,943</b>				<b>107,158</b>
<b>144</b>	<b>Net Cash Flow On Revenue Activities</b>	<b>46</b>		<b>-1,311</b>
	<b>Returns on Investments and Servicing of Finance</b>			
	<b>Cash Outflows</b>			
-105	Interest paid		-214	
	<b>Cash Inflows</b>			
1,509	Interest received		1,838	
1,404				1,624
	<b>Capital Activities</b>			
	<b>Cash Outflows</b>			
-869	Capital schemes		-2,100	
-3,000	Long Term Investments Made		-10,000	
-8,491	Other Capital Expenditure		0	
	<b>Cash Inflows</b>			
267	Capital Grant		201	
8,742	Sale of fixed assets		889	
1,000	Long Term Investments Repatriated		6,000	
332	Other Capital Income		78	
-2,019				-4,932
<b>-471</b>	<b>Net Cash Flow Before Financing</b>			<b>-4,619</b>
	<b>Management of Liquid Resources</b>			
58	Net Decrease in Short Term Deposits			5,392
	<b>Financing</b>			
	<b>Cash Outflows</b>			
0	Loan repayments		0	
-23	Lease payments		0	
	<b>Cash Inflows</b>			
0	Loans Raised		0	
<b>-23</b>				<b>0</b>
<b>-436</b>	<b>Net Increase / (-)Decrease in Cash</b>	<b>47</b>		<b>773</b>

# Notes to the Core Financial Statements 2007/08

## 1. Analysis of items in Cost of Services

The following paragraphs explain in more detail the content of some of the lines in the Cost of Services section of the Income and Expenditure Account:

2006/07		Gross Expenditure	2007/08	Gross Income	Net Expenditure
Net Expenditure		£'000	£'000	£'000	£'000
<b>Cultural, environmental and planning services</b>					
3,430	Environmental Services				
3,546	Cultural Services				
<u>1,091</u>	Planning Services				
<b><u>8,067</u></b>	<b>Total</b>		4,947	1,442	3,505
			4,471	1,159	3,312
			<u>2,690</u>	<u>1,576</u>	<u>1,114</u>
			<b><u>12,108</u></b>	<b><u>4,177</u></b>	<b><u>7,931</u></b>
414			12,871	12,541	330
157			365	0	365
<u>543</u>	<b>Housing Services</b>		<u>902</u>	<u>285</u>	<u>617</u>
<b><u>1,114</u></b>	Housing Benefits		<b><u>14,138</u></b>	<b><u>12,826</u></b>	<b><u>1,312</u></b>
	Renovation Grants				
	Other housing services				
	<b>Total</b>				

Other housing services include the cost of the council's housing strategy, housing advice, homelessness and Home Assistance loans.

**Social Services** comprise of a range of services for older people and disabled people. They include day centres, meals for the elderly and disabled, community transport services (including our dial-a-ride service), community alarms and grants to partner organisations including Voluntary Services Surrey Heath.

**Corporate and democratic core** comprises all the costs of the members (Councillors) activities and those activities that provide the infrastructure that allows both Council services to be provided and the information that is required for public accountability.

**Central Services to the public** include the costs of local tax collection, elections, emergency planning, local land charges and general grants.

## 2. Interest and Investment Income

	£'000
Total interest received	1,896
Less: Net interest allocated to Earmarked and Revenue Reserves	-69
Less: Net interest allocated to Charity Accounts and Deposits	-8
<b>Interest allocated to the General Fund</b>	<b><u>1,819</u></b>

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### 3. Parish Council Precepts

	£
Bisley	54,132
Chobham	63,000
West End	75,500
Windlesham	256,690
	<u>449,322</u>

### 4. Provisions for loan repayments

When the annual payment in respect of the financing costs of Improvement Grants was made by the Council it was paid in a lump sum (i.e. commuted) and the Council would have incurred annual revenue losses.

### 5. Provision for Bad and Doubtful Debts

The provision has increased in 2007/08 by £2,836 to £326,090.

### 6. Pension Scheme Benefit

#### Introduction

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

#### Nature of the Scheme

Surrey Heath Borough Council is a contributor to the Local Government Pension Scheme which is administered by Surrey County Council and regulated by Government. This is a funded, defined benefit scheme. Then pensions and the index linked pension increases are met from the Surrey Fund. Contributions to the fund are made by staff, currently 6% of pensionable salary. This contribution will change to a sliding scale from 1 April 2008. Retired employees receive index linked pensions related to their final pay and length of service.

#### Pension Fund Disclosures

The accounting of pension costs is made in accordance with the accounting standard FRS17 – Accounting for Retirement Benefits. FRS17 is based on a simple principle – that the organisation should account for retirement benefits when it is committed to give them, even if the actual payment may be made some years in the future.

#### Transactions relating to Retirement Benefits

Council recognises the cost of retirement benefits in the Income and Expenditure Account when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, legislation states that the charge we are required to make against Council Tax is based on the cash payable in the year, so the real costs of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and in the Statement of Movement in the General Fund Balance for the year.

<b>Income and Expenditure Account</b>	<b>2006/07</b>		<b>2007/08</b>	
	<b>£000</b>	<b>% of payroll</b>	<b>£000</b>	<b>% of payroll</b>
Net cost of Service				
Current service cost	1,594	23.6%	1,389	20.2%
Past Service cost	0	0%	16	0.2%
Net Operating expenditure				
Interest cost on pension scheme liabilities	3,168	46.9%	3,482	50.6%
Expected Return on assets in the scheme	-3,130	-46.3%	-3,523	51.1%
<b>Net Charge to income and Expenditure Account</b>	<b>1,632</b>	<b>24.1%</b>	<b>1,364</b>	<b>19.8%</b>

### **Statement of Movement in the General Fund Balance**

Reversal of net charges made for retirement benefits in accordance with FRS 17	-1,632		-1,364	
Actual amount charged against the General Fund for pensions in the year (employers contributions payable)	1,113	13.1%	1,736	20.1%

### **Current Service Cost**

The Current service cost is an estimate of the true economic cost of employing people in a financial year, earning years of service that will eventually entitle them to a lump sum and pension when they retire. It measures the full liability estimated to have been generated in the year (at today's prices) and is thus unaffected by the fund being currently in deficit. It is based upon the most recent actuarial valuation adjusted by updated financial assumptions to reflect conditions

### **Past Service Costs**

These arise when an employer makes a commitment to provide a higher level of benefit than previously promised where such a benefit did not previously exist. For example this could relate to added years in relation to early retirement

### **Interest cost**

The interest cost needed to unwind the discount applied in calculating the current service cost. As members of the scheme are one year closer to receiving their pension, the provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values

### **Expected Return on assets**

The expected return is a measure of the average rate of return (income from dividends, interest, gains on investments etc) expected on actual assets held by the scheme for one year. It is not intended to reflect the actual realised return on the scheme but a longer term measure based on the assets in the fund and expected returns. The assumptions made by the actuary on expected returns are set out later in this note.

### **Cash payments to the Pension fund**

The following payments were made to the Pension Fund in absolute terms:

	2006/07		2007/08	
	£000	% of payroll	£000	% of payroll
Regular employer contributions	854	10.1%	881	10.2%
Added Years awarded for retirees in previous years	0		0	
Lump sum contributions for early retirees in the year	0		315	3.6%
Back-funding towards fund deficit	<u>259</u>	<u>3.0%</u>	<u>540</u>	<u>6.3%</u>
<b>Total Payments to pension Fund</b>	<b><u>£1,113</u></b>	<b><u>13.1%</u></b>	<b><u>£1,736</u></b>	<b><u>20.1%</u></b>

### **Assets and Liabilities in relation to Retirement Benefits**

**Liabilities** of the scheme are the pension benefits that form part of the terms and conditions of the employment of the Council's staff. Although these will not be payable to staff until they retire the council has a commitment to make these payments. The liabilities are measured on an actuarial basis estimating the future cash flows that will arise from the liabilities (based on mortality rates etc) discounted to present values

**Assets** are the attributable share of the investments held in the pension scheme measured at fair value at the balance sheet date.

The authority's share in the total scheme's assets has decreased from 2.90% in 2006/07 to 2.72% in 2007/08. This decrease has a potential impact of a reduction of £3.059m on the authority's share in the scheme's assets. However, the existing share in the scheme's asset is adequate to fund the pension liability.

#### **Status of figures**

The most recent full actuarial valuation of the fund was made at the 31<sup>st</sup> March 2007. This was carried out by the funds actuary Hymans Robertson and the contribution rate payable by the council was set at 15.7%.

For the purpose of FRS17, the actuary has calculated its valuation of year end pension scheme assets by rolling forward asset valuations taken at 31 December 2007. Readers should be aware of the degree of estimation needed to provide these figures however they are only for FRS17 purposes and have no effect on the calculations needed for funding purposes

### **Summary of Assets and Liabilities**

At the 31<sup>st</sup> March 2008 the council had the following underlying attributable share of the Fund's overall assets and liabilities for pensions. This does not mean that that legal title or obligation has passed from the fund to the council hence only the net deficit has been included in the financial statements.

<b>Local Government Pension Scheme</b>	
2006/07	2007/08
£'000	£'000

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### **Estimated liabilities in scheme**

Present Value of Scheme Liabilities	-60,745	-53,114
Present Value of Unfunded Liabilities	<u>-3,462</u>	<u>-3,461</u>
<b>Total Value of Liabilities</b>	<b>-64,207</b>	<b>-56,575</b>
Estimated market value of assets in scheme	<u>49,659</u>	<u>46,957</u>
<b>Net asset / -liability</b>	<b><u>-14,548</u></b>	<b><u>-9,618</u></b>

The total liability of £9,618,000, based on the actuary's valuation represents the underlying commitment Surrey Heath had in the long run to pay retirement benefits. This figure is a snapshot at 31<sup>st</sup> March 2008 and based on a number of financial assumptions outlined below.

The present value of scheme liabilities for 2006/07 was based on the authority's computation. However, the present value of scheme liabilities for 2007/08 was based on the actuary's valuation report.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. This is because the deficit on the Local Government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary. Also on an annual basis the current service cost, in respect of the Pension Scheme, will increase as members of the scheme approach retirement.

### **Financial Assumptions**

The main assumptions used by the actuary for FRS17 accounting purposes are as follows:

	<b>Local Government Pension Scheme</b>		
	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
Prices Increases	3.1%	3.2%	3.6%
Salary Increases	4.6%	4.7%	5.1%
Pension Increases	3.1%	3.2%	3.6%
Rate for discounting scheme liabilities	4.9%	5.4%	6.9%

In addition the actuary has assumed that 25% of members of the scheme will opt to exchange part of their pension for additional tax-free cash at retirement.

The fund guarantees that pensions will increase in line with the RPI. Hence the long term pension increase will match inflation. The rate of discounting scheme liabilities is derived from the yield on long dated, high quality corporate bonds at the FRS17 valuation date.

### Value of attributable assets

The assets available to Surrey Heath and the Surrey Pension fund have been valued at fair value, principally mid market for investments and open market for property. They consist of the following classes and are shown with their expected rate of return:

#### Asset classification:

	Long Term Return 31/03/06		Long Term Return 31/03/07		Long Term Return 31/03/08	
	%	£'000	%	£'000	%	£'000
Equity investments	7.4%	34,660	7.8%	36,754	7.7%	33,356
Bonds	4.6%	8,140	4.9%	8,848	5.7%	8,991
Property	5.5%	2,620	5.8%	3,100	5.7%	3,428
Cash	4.6%	780	4.9%	956	4.8%	1,182
<b>Total</b>	<b>6.8%</b>	<b>46,200</b>	<b>7.1%</b>	<b>49,658</b>	<b>7.1%</b>	<b>46,957</b>

### Changes in Pension Liability

The movement in the net pension liability at the 31<sup>st</sup> March 2008 is set out below. The changes are analysed out to show where the elements of the change have been charged in the Council's accounts:

	Year to 31Mar 2007 £'000	Year to 31Mar2008 £'000
<b>Deficit of the Fund as at 1<sup>st</sup> April 2007</b>	<b>-18,170</b>	<b>-14,908</b>
Items charged to Income and expenditure account		
Current service cost	-1,594	-1,389
Past service costs	0	-16
Curtailments and Settlements	-509	-516
Net return on assets	-38	41
Items in the movement in the general fund balance		
Actual contributions paid	1,864	2,000
Actuarial gains and losses	3,539	5,170
<b>Deficit in the fund at 31<sup>st</sup> March 2008</b>	<b>-14,908</b>	<b>-9,618</b>

The Council is responsible for all pension payments relating to added years benefits it has awarded. In 2007/08 these amounted to £540,000 representing 6.3% of gross pay.

No discretionary amounts were paid during 2007/08.

### Actuarial Gains and Losses

Actuarial gains and losses are accounted for as a balance sheet item and reflected in the Statement of Total Recognised Gains and Losses. Actuarial gains and losses may arise on both scheme assets and liabilities. For scheme assets they comprise the difference between the expected return and the actual return. For liabilities they can arise due to actual events that did not coincide with the actuarial assumptions or there has been a change in assumptions.

These are as follows:

	Year to 31Mar2007 £'000		Year to 31Mar 2008 £'000	
Difference Between the Expected and Actual Return on Assets	-1	0%	-5,165	-11.0%
Experience Gains / (Losses) on Liabilities	109	0.2%	1,767	3.1%
Changes in financial assumptions	<u>3,431</u>	5.3%	<u>8,568</u>	15.1%
<b>Actuarial Gains / Losses Recognised in accounts</b>	<b><u>3,539</u></b>		<b><u>5,170</u></b>	

### **Further information**

Further information can be found in the Surrey County Council Annual report which is available from the County Treasurer at Surrey County Council

## **7. Reserves and Other Payments**

The table below shows amounts financed/charged to the income and expenditure account paid out of/to reserves.

Appropriations to (+) / from (-) Funds were as follows:-

	General Fund		Total
	Interest £'000	Appropriations £'000	£'000
<b>Reserves:</b>			
Capital	0	-10	-10
Car Park Reserve	0	-19	-19
<b>Sub Total</b>			<b>-29</b>
<b>Earmarked Reserves:</b>			
Atrium Public Art	2	0	2
Community Fund New	0	-63	-63
Commuted Sums	34	0	34
Crime and Disorder Fund	0	7	7
Deepcut Village : Alma -Dettingen	24	-4	20
Heatherside: Multi-Use Games Area	8	0	8
Insurance	0	-5	-5
Land Drainage	0	-278	-278
Modernisation Fund	0	-71	-71
Old Dean Toddlers Playground	1	-1	0
Repairs and Renewals Fund	0	301	301
Safer Surrey Heath	0	10	10
<b>Sub Total</b>			<b>-35</b>
<b>Others: Third Party Payments*:</b>			
Charity Accounts	8	0	8
<b>Sub Total</b>			<b>8</b>
	<b>77</b>	<b>-133</b>	<b>-56</b>

\*Third Party Payments refer to funds belonging to Charitable organisations where the

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Council invests any surpluses and pays interest earned on an annual basis. Frimley Sand and Gravel Charity benefited from £7,000 of the £8,000 interest earned in the year.

## **8. Income from Collection Fund**

The total amount transferred from the Collection Fund in respect of Council activities including Parish Council Precepts in 2007/08 was £6,739,029 (£6,446,395 in 2006/07), representing an increase of 4.5%.

## **9. Collection Fund Deficit Contribution**

It was estimated that there would be a £800,000 balance on the Collection Fund as at 31st March 2008 in respect of both Community Charge and Council Tax. This was taken account of when the Council Tax was set in February 2008. The actual deficit is larger due to the fact that there was a larger than predicted number of rating band reductions in the period

## **10. Non-Domestic Rates From Central Pool**

All business rates collectable are paid to a central pool managed by the Government which, in turn, is redistributed to local authorities on the basis of resident population. The net amount received in 2007/08 was £4,021,187 (£3,887,986 in 2006/07) representing an increase of 3.4%.

## **11. Revenue Support Grant**

Central Government supports local authorities to enable them to provide services at a level the Government deem to be appropriate. The grant is distributed so that if each receiving authority was to budget at the level of its Formula Spending Share (FSS) then, subject to certain qualifications, all billing authorities could set broadly the same Council Tax for dwellings listed in the same valuation band. The Revenue Support Grant received in 2007/08 was £674,837 (£750,520 in 2006/07) representing a reduction of 10.1%.

## **12. Agency Services**

The Council carried out works for the management on an agency basis for Surrey County Council (SCC) for the two gypsy sites within the Borough, Swift Lane and Kalima.

Gross Expenditure :	<b>2006/07</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
SCC - Gypsy Sites	170	169

Additionally, at its meeting on 26/04/05 (minute 262/E refers), the Executive agreed to enter into an Agency Agreement with SCC for Decriminalised Parking Enforcement (DPE) and Controlled Parking Zones in Surrey Heath, subject to no cost to the council for DPE related works.

Gross Expenditure :	<b>2006/07</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
SCC – DPE	195	212
SCC – CPZ	149	181

### 13. Section 137

Section 137 of the Local Government Act 1972 enables the Council to spend up to the product of £1.90 per head of relevant population (£152,587 in 2007/08) on functions not specifically authorised by any other power, provided that the expenditure is beneficial to the residents of the Borough. The Local Government Act 2000 granted new powers enabling the Council to promote the well being of the area. During 2007/08 £45,665 (£27,339 in 2006/07) was spent under S137 powers. The areas of expenditure were:

	2006/07 £000	2007/08 £000
Leisure & Community Services Grants	27	28
Community Fund Grants	0	18
	<hr/> 27	<hr/> 46

### 14. Publicity Expenditure

Expenditure on publicity as defined in Section 5 (1) of the Local Government Act 1986 amounted to £228,220. The areas of expenditure were:

	2006/07 £000	2007/08 £000
Camberley Theatre	64	68
Heathscene Magazine	31	36
Planning Applications	38	28
Public Relations	2	2
Advertising for staff vacancies	51	74
Other	18	20
	<hr/> 204	<hr/> 228



Topping Out at the Atrium

### 15. Building Control Trading Account for 2007/08

The Local Authority Building Control Charges Regulations (SI1998/3129) require the disclosure of information regarding the setting of charges for the administration of the building control function.

However, certain activities performed by the Building Control Section cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control Section divided between the chargeable and non-chargeable activities.

<b>Building Regulations Charging Account 2007/08</b>	<b>Chargeable</b>	<b>Non Chargeable</b>	<b>Total Building Control</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Expenditure:</b>			
Supplies & Services	18,820	2,880	21,700
Contracted Services	26,550	1,360	27,910
Management Costs (excl. Corporate Services)	305,020	128,600	433,620
<b>Total Expenditure:</b>	<b>350,390</b>	<b>132,840</b>	<b>483,230</b>
<b>Income:</b>			
Building Regulation charges	344,790	0	344,790
Miscellaneous	4,930	0	4,930
<b>Total Income</b>	<b>349,720</b>	<b>0</b>	<b>349,720</b>
<b>(-)Surplus / Deficit for Year</b>	<b>670</b>	<b>132,840</b>	<b>133,510</b>

There are no other Trading Accounts required under BVACoP.

The Council is obliged to meet at least 100% of the chargeable costs of running a Building Control Service over the three-year period to 31 March 2008

The year 1<sup>st</sup> April 2007 – 31<sup>st</sup> March 2008 is the final year of the third 3-year period relating to the Building Control Trading Account. During this period the Council made a net deficit of £670 (0.2%) of the chargeable costs.

## 16. Operating Lease Rentals

The Council is using four Meals on Wheels vans financed under the terms of an operating lease. Telephone equipment is also leased by Community Services, a printer by Reprographics and two vending machines by Camberley Theatre. In 2007/08 £18,518 was paid under these arrangements (2006/07 £23,141).

Future payments required under the lease are:

2008/09	21
2009/10	13
2010/11	1
<b>Total</b>	<b>35</b>

The Council's accounting treatment of Operating Leases complies with SSAP 21.

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## 17. Emoluments

<i>Salary Band</i>	<i>Employees</i>	
	2006/07	2007/08
£ 50,000 - £ 59,999	3	9
£ 60,000 - £ 69,999	7	9
£ 70,000 - £ 79,999	1	0
£ 80,000 - £ 89,999	3	1
£ 90,000 - £ 99,999	0	2
£100,000 - £109,999	1	1
£110,000 - £119,999	1	0
£120,000 - £129,999	0	2
£130,000 - £139,999	1	0
£140,000 - £149,999	0	0
£150,000 - £159,999	0	0
£160,000 - £169,999	0	0
£170,000 - £179,999	0	0
£180,000 - £189,999	0	0
£190,000 - £199,999	1	0

The above emoluments table includes basic pay, performance bonuses, loyalty bonuses, shift allowances, overtime enhancements, redundancy payments, pay in lieu of notice, Returning Officer's fees, car benefits, car allowances and medical benefit allowance.

## 18. Members' Allowances

Local Authorities are required to disclose the amounts paid to each member\*. In 2007/08 Members' allowances of £270,310 were made (£262,740 in 2006/07).

\* These details are published in the local press annually.

## 19. External Auditors

The Audit Commission of England appoints the Council's External Independent Auditors. The Council's external auditors are:

**KPMG LLP, 38<sup>th</sup> Floor, 1 Canada Square, Canary Wharf, London E14 5AG.**

In Surrey Heath Borough Council incurred the following fees relating to external audit and inspection:

	2006/07	2007/08
	£	£
Code of Audit Practice*	85,000	92,900
Statutory Inspection**	5,739	13,994
Grant Certification	<u>19,832</u>	<u>23,535</u>
	<u>110,571</u>	<u>130,429</u>

\* The work under the Code of Audit Practice includes Planning & Control, Financial Systems Audit and Fraud & Corruption.

\*\* Statutory Inspections were carried out by the Audit Commission.

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## **20. Related Party Transactions**

The Council is required to disclose material transactions with related parties. Related parties are individuals or organisations that have the potential to control or influence the Council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

This note exemplifies transactions between related parties and the council.

### **Central government**

Central government has effective control over the general operations of Surrey Heath Borough Council. It is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (for example housing benefits).

### **Members of the council**

Members of the Council have direct control over the Council's financial and operating policies. Each year the Monitoring Officer invites members to declare such interest including related parties and these are recorded in the Register of Members Interests. During 2007/08 there were no reported material transactions

### **Officers and Staff**

The council operates a code of conduct whereby all staff are required to disclose any pecuniary and non-financial interest with related parties. No significant transactions have been disclosed.

The Council has significant financial transactions with both Surrey County Council and Surrey Police Authority and these are included in Collection Fund Income and Expenditure Account. In addition the Council has a partnership arrangement for the provision of audit services with Spelthorne Borough Council.

## **21. Revenue Receipts**

During 2007/08 the Council had no revenue receipts. In 2006/07 the Council received no revenue receipts.

## 22. Fixed Assets

Movements in fixed assets:

	Community Assets £'000	Equipment /Vehicles £'000	Infra- structure £'000	Land & Buildings £'000	Total Fixed Assets £'000
<b>Net book value of assets at 31 March 2007</b>	800	850	44	24,863	26,557
<b>Movement in 2007/08</b>					
Capital Expenditure - New Assets (Cash)	0	668	0	180	848
Additions / Adjustments (Non Cash)	0	0	0	0	0
Disposals	0	-98	0	-175	-273
Revaluations	0	0	0	16	16
Transfers	0	0	0	0	0
Depreciation	0	-340	-4	-578	-922
Assets under construction	0	0	0	0	0
Impairment	0	0	0	-19	-19
<b>Net book value of assets at 31 March 2008</b>	<b>800</b>	<b>1,080</b>	<b>40</b>	<b>24,287</b>	<b>26,207</b>

Movements in non-operational assets:

	Total Non-Operational Assets £'000
<b>Balance as at 01/04/07</b>	20,725
Accumulated depreciation and impairment	0
<b>Net book value of assets at 31 March 2007</b>	20,725
<b>Movement in 2007/08</b>	
Additions / Adjustments (Non Cash)	0
Disposals	0
Revaluations	445
Depreciation	0
Impairment	-34
Transfers	0
Assets under Constructions	1
<b>Net book value of assets at 31 March 2008</b>	<b>21,137</b>

As the council uses the reducing balance method of calculating depreciation it is unable to show historic cost as only the net figure is kept. The Council is therefore not complying with SORP as the first two lines of the Fixed Asset note have not been disclosed.

Much of the expenditure, which the Council can properly charge to capital for capital control purposes (and therefore finance from capital resources), will not necessarily increase the value of assets for capital accounting purposes.

Non operational assets have increased principally as a result of the development of land owned by the Council by a third party developer and its consequent revaluation to the net present value of estimated future rents receivable.

**Other land and buildings** include all the operational assets used in the delivery of services by the Council not categorised elsewhere. Expenditure is included in the balance

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sheet at net current replacement cost. Examples of assets in this category are leisure centres, buildings in parks, offices and depots and car parks.

Any expenditure on **vehicles, plant and equipment** falling below the Council's de minimis level of £10,000 is charged directly to the Income and Expenditure Account.

**Infrastructure assets** are inalienable assets, expenditure on which is recoverable only by continued use of the asset created. Expenditure is included in the balance sheet at historical cost less depreciation where appropriate. The sum shown relates to the construction costs of various local highways and access roads none of which are currently depreciated on the grounds that the estimated useful life of these assets would make any depreciation charge immaterial.

**Community assets** are assets which the authority intends to hold in perpetuity and that have no determinable useful life. There are often restrictions on their disposal (for example as a result of covenants or trust status). Examples of community assets are parks and allotments.

Expenditure is included in the balance sheet at historical cost. Most of our community assets are land holdings and depreciation is not normally applicable to this type of asset. Any buildings or other assets situated within these areas are separately categorised and depreciated accordingly.

**Non Operational Assets** are assets held by the Council but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the Council. Examples of these assets are investment properties, assets under construction, and assets that are surplus to requirements, pending sale or redevelopment.

**Disposals** comprise the writing out of assets sold or otherwise disposed of at book value.

**Impairment** occurs when assets have materially changed in value during the period under review. Examples of events and circumstances that indicate an impairment may have incurred are physical damage to a fixed asset (e.g. as a result of fire), obsolescence (e.g. a computer or computer system that no longer provides a useful service), or a major restructuring.

## 23. Depreciation & Amortisation Methods

Depreciation on a straight line basis is provided for on all tangible fixed assets with a finite useful life from the date of purchase. Depreciation is not charged on the land element of the valuation. Assets in the course of construction are not depreciated until they are brought into use.

Amortisation on a straight line basis is provided for on all intangible assets from the date of purchase.

In general terms the following depreciation and amortisation policy is followed:

<b>Asset Class</b>	<b>Depreciation period</b>
Vehicles	From 2 to 10 years dependant on estimated useful life
Equipment (IT)	Up to 5 years

Infrastructure	10 years
Land & Buildings	From 20 to 50 years dependant on estimated useful life

## 24. Valuation Disclosure

All of the authority's properties are valued on rolling programme with approximately 20% being re-valued each year. The valuations were carried out by an external independent valuer - Vail Williams, a firm of Chartered Surveyors.

It should be appreciated that valuation of assets is not a precise science. A number of assumptions must be made to come to a valuation. For example, values can change depending on the existing financial climate. In particular, it must be understood that the valuations do not necessarily mean the price the asset might fetch on the open market: for instance, land currently valued as recreation space will have a completely different valuation if deemed in the future to be surplus to requirements and available for sale as building land. It is emphasised that the valuations are of assets in existing use.

**Operational properties** of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset. Operational properties of a non specialised nature were valued by reference to the open market value of equivalent assets of similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use.

**Non-operational properties** were valued by reference to their open market based on existing use.

## 25. Capital Expenditure

An analysis of total capital expenditure and its financing is given below:

<b>Expenditure</b>	<b>£'000</b>
Improvement Grants	540
Other Deferred Charges	854
Fixed Assets – Including those under construction	850
	<u>2,244</u>
<b>Financing</b>	<b>£'000</b>
Capital Accruals	177
Capital Grants – Housing	175
Capital Grants – Other	51
Capital Receipts	1,834
External Contributions	40
	<u>2,277</u>
Financed Accruals	<u>-33</u>
	<u><u>2,244</u></u>

The items of capital expenditure in the year were:

	<b>£'000</b>
Camberley Theatre	90
Capitalisation of Restructuring Costs Section 16 Approved	403

Computer Equipment/Software	643
Housing Grants (Disabled Facilities)	491
Improvement Grants/Assistance	49
Organisational Review	2
Parks and Open Spaces	93
Property Improvements	231
Town Centre Art Works	1
Vehicle / Equipment and other R & R items	241
	<b>2,244</b>

The total amount of contractually committed capital expenditure as at 31<sup>st</sup> March 2008 was £32,000. Non contractually committed capital expenditure totalled £1,560,000.

The capital schemes are:	Contractually committed £'000	Non- contractually committed £'000
Arena Improvement Works	0	1,277
Blackwater Valley Projects	0	14
Burial Provision	0	12
Community Transport Vehicle	32	0
IT Equipment / Software Schemes	0	201
Recycling Scheme	0	9
Public Art Work	0	47
	<b>32</b>	<b>1,560</b>

## 26. Deferred Charges - Intangible Fixed Assets

	Balance at 01/04/07 £'000	Expenditure £'000	Amounts Discharged £'000	Balance at 31/03/08 £'000
Improvement Grants	-	540	540	-
Other	-	854	854	-
	-	<b>1,394</b>	<b>1,394</b>	-

## 27. Long Term Investments (maturity greater than 12 months)

	As at 31/03/07 £'000	As at 31/03/08 £'000
Banks/Building Societies – including accrued interest of £633,000	3,000	11,633
Long Term Government Stock	5	0
	<b>3,005</b>	<b>11,633</b>

## 28. Long Term Debtors

	As at 31/03/07 £'000	As at 31/03/08 £'000
Car Purchase Advances	5	0

Charges on Properties	242	277
Home Assistance Act 2002 Loans	41	47
Loan to Sports Organisation	16	8
Mortgages	59	29
	<b>363</b>	<b>361</b>

	<b>31/03/07</b>	<b>31/03/08</b>
Number of Car Purchase Advances	3	0
Number of Charges on Properties	74	77
Number of Home Assistance Act 2002 Loans	6	8
Number of Loans to Sports Organisations	1	1
Number of Outstanding Mortgages	19	10

## 29. Stocks and Work in Progress

	<b>As at 31/03/07 £'000</b>	<b>As at 31/03/08 £'000</b>
Camberley Theatre	6	5
Printing	8	7
Refuse/Recycling Materials	28	29
Miscellaneous - 7 other stock locations	12	12
	<b>54</b>	<b>53</b>

## 30. Debtors

	<b>As at 31/03/07 £'000</b>	<b>As at 31/03/08 £'000</b>
<b>GROSS DEBTORS</b>		
Collection Fund – Taxpayers	2,214	1,948
Government Departments	1,865	1,560
Local Authorities	139	195
Payments in advance	323	263
Sundry Debtors	1,895	1,041
	<b>6,436</b>	<b>5,007</b>
<b>Provision for Bad and Doubtful Debts</b>		
General Debtors	323	326
Council Tax and NNDR arrears	951	817
	<b>1,274</b>	<b>1,143</b>
<b>NET DEBTORS</b>	<b>5,162</b>	<b>3,864</b>

### 31. Temporary Investments (maturity less than 12 months)

	As at 01/04/07	As at 31/03/08
	£'000	£'000
Banks/Building Societies	23,912	14,558
Long Term Government Stock	0	5
	<u>23,912</u>	<u>14,563</u>

### 32. Cash in hand & at bank

	As at 01/04/07	As at 31/03/08
	£'000	£'000
Petty Cash Imprest Accounts	6	6
Cash at Bank / - Overdraft	-479	294
	<u>473</u>	<u>300</u>

Surrey Heath Borough Council currently has an agreed bank overdraft limit of £2,500,000.

### 33. Creditors

	As at 01/04/07	As at 31/03/08
	£'000	£'000
Deposits	31	30
Government Departments	348	477
Local Authorities	0	109
Receipts in Advance	3,221	2,833
Sundry Creditors	1,280	1,142
	<u>4,880</u>	<u>4,591</u>

### 34. Provision

	As at 31/03/07	Receipts	Payments	As at 31/03/08
	£'000	£'000	£'000	£'000
Blackwater Valley Capital Works	35	0	0	35
<b>Provisions Total:</b>	<u>35</u>	<u>0</u>	<u>0</u>	<u>35</u>

The authority is committed to contribute a further £35,000 towards the Blackwater Valley Leisure Projects Capital Programme.

The work is expected to be completed during 2008/09.

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## 35. Financial Instruments: Risk

The authority's activities expose it to a variety of financial risks:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the authority;
- Liquidity Risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market Risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates.

The authority's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the treasury team using the guidelines contained within the annual treasury management strategy approved by Council annually. The council has always aimed to balance security against return.

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions as well as credit exposures to the authority's customers. Deposits are not made with banks and financial institutions unless they are rated independently with a score of A- or better. For those building societies which are not rated total assets must exceed £1bn. The authority has a policy of not lending more than £5m to those institutions rated AA- or better, or £2.5m to those rated A- or better or £2m to unrated building societies.

Based on experience of defaults by banks and financial institutions over the last 5 years the council has minimum credit risk and does not anticipate any defaults by its counterparties in relation to deposits. However the maximum exposure to default by a single institution to the authority is £3m and the minimum is £1m.

Credit risk exposure on customer debts is minimal since any doubtful debts have already been provided against and the remainder are all deemed to be collectable

### **Liquidity Risk**

The authority has no borrowings or loans and is able to access a short term overdraft facility of £2.5m should this be needed for cash flow purposes. In addition loans are also available from the Public Works Loan Board if required. The council maintains a cash flow forecast which predicts when significant payments have to be made and thus gears its treasury management policy to make sure that investments mature in time to meet these commitments.

### **Market risk**

#### **Interest Rate Risk**

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. This is minimised by the council fixing the interest rates on the investments it holds at inception.

#### **Price Risk**

The council does not hold any shares and is thus not exposed to this risk.

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### Foreign Exchange Risk

The council has no financial assets or liabilities denominated in a foreign currency and thus has no exposure to exchange rate risk.

### Soft Loans

A review was undertaken of all loans made by the authority. The council only has one loan at a reduced rate to Camberley Rugby Club. This amounts to £24,686 and of this £17,782 is subject to no interest and the remainder to 10% interest. This loan is being repaid in instalments and should be repaid by 2012. This loan was not thought of as being material enough to disclose

### Derivatives

A review was made of the Council's treasury commitments at the year end. All treasury activity is based around investments and the Council make fixed term deposits/loans to a limited number of banks and building societies. The interest rate is fixed at the outset and the investments are held to maturity. No fair value adjustment is required as the deposits are not tradable prior to maturity

### Loans

The council does not hold any loans. It does sometimes operate an overdraft for operational reasons but this will be at the prevailing market interest rates

### Embedded Derivatives

A review was made of the larger contracts held by the Council. The contract for refuse disposal and parks maintenance does include an inflationary uplift linked to the CPI index. These are embedded derivatives within a main host contract. However the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics of the host contracts (e.g. the provisions for the price increase do reasonably reflect the how the cost of the service is likely to change in that both will rise by the CPI index). As this is the case the embedded derivative does not need to be separated and hence no further work is necessary.

## 36. Deferred Capital Credits

	As at 01/04/07 £'000	As at 31/03/08 £'000
Amenity Loan	16	29
Sale of Council Houses	59	8
Home Improvement Assistance Act Loan	40	45
	<b>115</b>	<b>82</b>

These amounts are to be received by instalments over an agreed period of time.

## 37. Capital Adjustment Account

This account is made up of a number of entries and has been created by the amalgamation of the Capital Financing Account and the Fixed Asset Restatement Account in SORP 2007. This was to bring local authority accounting in to line with Corporate Accounting.

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The account is debited with the historical cost of acquiring, creating or enhancing fixed assets over the life of those assets. Examples are:

- Depreciation and Impairment losses
- Adjustment to depreciation on a revaluation
- Book value of assets on a disposal less transfer from revaluation reserve
- Historical cost of deferred charges

The account will be credited with the resources set aside to finance capital expenditure. Examples are:

- Capital receipts posted out of Usable capital receipts reserve
- Direct revenue financing of capital
- Minimum revenue repayments (MRP) if required
- Capital grants passed through the I&E and Statement of Movement on the General Fund Balance as Government Grants deferred

As this account is in credit it shows that capital finance has been set aside at a faster rate than fixed assets have been consumed and the council therefore has a nominal surplus when comparing financing to consumptions of resources.

However it should be noted that this fund does not represent actual resources which can be expended by the authority.

The movement for the year is as follows:

	<b>2007/08</b>
	<b>£000</b>
<b>Balances brought forward:</b>	
Balance on Capital Financing Account at 1 <sup>st</sup> April 2007	27,019
Balance on Fixed Asset Revaluation Reserve at 1 <sup>st</sup> April 2007	20,089
<b>Financing of Capital Expenditure</b>	
Usable capital receipts	2,011
Financing from Funds	175
Deferred Government Grants	55
<b>Transfers to Statement of Movement on General Fund Balance</b>	
Depreciation	-922
Impairment	-53
Deferred Charges	-1,394
<b>Disposals of assets at Book Value</b>	-275
Balance carried forward at 31 <sup>st</sup> March 2008	<b>46,705</b>

### 38. Revaluation Reserve

The Revaluation reserve has been created this year as a result of changes under SORP 2007.

This reserve holds the accumulated gains on fixed assets arising from increases in value as a result of inflation or other factors. If a revalued asset is sold then the balance relating to that asset is written out of this reserve and against the capital adjustment account. Any impairment above a previously revalued amount on an individual asset must be written off through the Income and Expenditure account and then reversed through the Statement of movement on the General fund balance.

Revaluation gains are only realised when an asset is sold.

	<b>2007/08</b>
	<b>£000</b>
<b>Balances brought forward (new reserve)</b>	0
<b>Increase in value as a result of revaluation</b>	
Operational assets	16
Non Operational Assets	<u>445</u>
<b>Balance carried forward</b>	<u>461</u>

### 39. Usable Capital Receipts Reserve

These are capital receipts which are free to be used for capital purposes.

	<b>2006/07</b>	<b>2007/08</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 1st April</b>	<b>12,028</b>	<b>11,514</b>
Capital receipts in the year	2,156	928
Transfer from provision for credit liabilities	-690	0
Capital receipts used to finance capital expenditure	-1,960	-2,011
Pooling of capital receipts (see note)	-20	-24
<b>Balance as at 31st March</b>	<b><u>11,514</u></b>	<b><u>10,407</u></b>

Local authorities have to pay a proportion of specified housing related receipts into a government 'pool'. The SORP requires the sum payable to the pool to be disclosed as expenditure in the Income and Expenditure Account, matched by a corresponding appropriation from usable capital receipts.

Capital receipts received in the year (after deducting costs of sale) are as follows:

	<b>2006/07</b>	<b>2007/08</b>
	<b>£'000</b>	<b>£'000</b>
<b>Housing land and assets</b>		
<b><u>Sale of council dwellings:</u></b>		
Repayment of mortgages	34	30
<b><u>Other land and assets:</u></b>		
Sale of Hale Way	-	800
Sale of Guildford Road	1,500	-
Lease of Park Street	500	-
All other sales and miscellaneous receipts	122	98
<b>Total capital receipts in the year</b>	<b><u>2,156</u></b>	<b><u>928</u></b>

#### 40. Capital Contributions – Unapplied

These are contributions from external sources earmarked to assist in funding capital schemes but have not yet been used.

#### 41. Government Grants – Deferred

Where the acquisition of a fixed asset is financed either wholly or in part by a government capital grant, the amount of the grant is credited initially to the Capital Grants Deferred Account.

Amounts are released to the asset management revenue account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

#### 42. Government Grant – Unapplied

These are capital grants from various Government departments earmarked to assist in funding capital schemes but have not yet been used.

Government grants have been accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant will be received.

#### 43. Earmarked Reserves

	As at 01/04/07	Receipts	Payments	As at 31/03/08
	£'000	£'000	£'000	£'000
<b>Earmarked Reserves:</b>				
(a) Atrium Public Art	0	62	1	61
(b) Blackwater Valley and Developers Contributions	149	0	0	149
(c) Commuted Sums	614	0	5	609
(d) Community Fund 2002	594	0	63	531
(e) Crime and Disorder Partnership	51	63	56	58
(f) Deepcut Village Centre: Alma Dettingen	431	34	4	461
(g) Exhibits	0	1	0	1
(h) Heatherside: Multi Use Games Area	150	8	0	158
(i) Insurance Reserve Fund	145	16	5	156
(j) Land Drainage	421	260	278	403
(k) Modernisation Fund	256	0	71	185
(l) Old Dean Toddlers Playground	0	36	14	22
(m) Property Maintenance	192	85	0	277
(n) Repairs and Renewals	963	444	274	1,133
(o) Remediation Fund	45	0	0	45
(p) Safer Surrey Heath	65	12	15	62
<b>Earmarked Reserves Total:</b>	<b>4,076</b>	<b>1,021</b>	<b>786</b>	<b>4,311</b>

- (a) **Atrium Public Art** – This fund was set up to meet the on-going maintenance and insurance costs of the project.

- 
- (b) **Blackwater Valley and Developers Contributions** – This is a sum held to contribute towards the maintenance costs of the Blackwater Valley leisure projects. The balance includes miscellaneous contributions from developers.
  - (c) **Commuted Sums** – Funds contributed by developers for the maintenance of open spaces and amenities.
  - (d) **Community Fund 2002** – This fund is to make grants to community based organisations. This fund also includes the Environmental Bursary as the balance was transferred into the fund as per the Executive 2<sup>nd</sup> October 2007, minute 066/E refers.
  - (e) **Crime and Disorder Partnership** – The Crime and Disorder Act 1999 required a partnership to be set up to improve Community safety. This money will be used to fund the activities of mutual benefit to the whole partnership.
  - (f) **Deepcut Village Centre: Alma Dettingen** – This is a sum held to contribute towards structural maintenance and the eventual refurbishment of this Community facility.
  - (g) **Exhibits** – To enable the Museum to purchase items of historical and conservation value. The Museum makes an annual contribution to the fund.
  - (h) **Heatherside: Multi Use Games Area** – This Safer Surrey Heath partnership has set aside £150,000 to fund a Multi user Games Area in Surrey Heath. This is a facility where various ball games can be played in a safe environment.
  - (i) **Insurance Reserve Fund** - This Fund has been set aside for three reasons:-
    - a) in connection with the run down of the Municipal Mutual Insurance (MMI) and the potential contribution towards costs
    - b) to provide a credit guarantee for loans made under the Council's car loans scheme for officers
    - c) to deliver a risk management policy including: Risk Management, Business Continuity and Health and Safety.
  - (j) **Land Drainage** - finances the land drainage programme.
  - (k) **Modernisation Fund** – This fund is used to support the Council's drive for efficiency savings
  - (l) **Old Dean Toddlers Playground** – This fund has been set up from payments received from The Accent Foundation, Frimley Fuel Allotments, Beacon Church and parents support group for this project for the installation of the playground and future maintenance.
  - (m) **Property Maintenance** - to finance the planned preventative maintenance programme for the Council's properties.
  - (n) **Repairs and Renewals** - to finance the repairs and renewal of equipment, vehicles and plant.

- (o) **Remediation Fund** – This fund is used to fund works to restore land following illegal occupation.
- (p) **Safer Surrey Heath** – The Safer Surrey Heath Partnership receives funding from the Home Office and others which it allocates by way of grant to partners and other organisations to fund community safety projects. The reserve relates to grants/projects previously approved by the Partnership for which the funding is being held by the Council.

#### 44. Reserves

	As at 01/04/07	Receipts	Payments	As at 31/03/08
	£'000	£'000	£'000	£'000
(a) Capital	9,799	152	10	9,941
(b) Car Parks Reserve	21	0	19	2
	<b>9,820</b>	<b>152</b>	<b>29</b>	<b>9,943</b>

- (a) **Capital** - A revenue fund to support the capital reserves.
- (b) **Car Parks** - To ensure that increased operating costs or reductions in income do not impact directly on the General Fund.

#### 45. Revenue Balances

	As at 01/04/07	Receipts	Payments	As at 31/03/08
	£'000	£'000	£'000	£'000
Collection Fund	-571	81,534	82,023	-1,060
General Fund	2,136	34,389	34,060	2,465
Surplus/Deficit(-)	<b>1,565</b>	<b>115,923</b>	<b>116,083</b>	<b>1,405</b>

#### 46. Reconciliation of Income and Expenditure Account to Revenue Activities Cash Flow

	2006/07	2006/07	2007/08	2007/08
	£'000	£'000	£'000	£'000
Net Change in Revenue		1,776		-159
Change in Provisions	0		0	
Transfers to / from (-) Reserves	-2,248		307	
Change in Reserves and Provisions		<b>-2,248</b>		<b>307</b>
Interest in Revenue Accounts	-5		-3	
Interest on Balances	-1,497		-1,819	
Interest on Allocated Centrally.	-7		-8	
Interest on Fund Balances etc.	0		-8	
NNDR Interest Paid	97		206	
Interest Paid	8		8	
Leasing Payments	23		0	
Items in Other Sections		<b>-1,381</b>		<b>-1,624</b>
Adjustment for Debtors	655		597	
Adjustment for Creditors	1,332		-433	
Adjustment for Stock	10		1	
Adjustment for Debtors, Creditors and Stock		<b>1,997</b>		<b>165</b>

<b>Revenue Surplus / Deficit (-) reconciled to Revenue Activities</b>	<b>144</b>	<b>-1,311</b>
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#### 47. Analysis of Balances of Cash and Cash Equivalents

	As at 31st March 2007 £'000	As at 31st March 2008 £'000	Change £'000
Bank Balance	-479	773	294
Cash	6	0	6
	<b>-473</b>	<b>773</b>	<b>300</b>

#### 48. Analysis of Other Government Grants

	2006/07 £'000	2007/08 £'000
Housing Grants	27	24
Other Grant – Environmental Protection Agency	75	7
	<b>102</b>	<b>31</b>

#### 49. Detail of Movements on Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans.

<b>Reserves</b>	<b>Balance 1st April 2007 £'000</b>	<b>Net Movement in Year £'000</b>	<b>Balance 31st March 2008 £'000</b>	<b>Purpose of Reserve</b>
Revaluation Reserve	0	461	461	Store of gains on revaluation of fixed assets
Capital Adjustment Account	47,108	-403	46,705	Store of capital set aside to meet past expenditure
Usable Capital Receipts	11,514	-1,107	10,407	Proceeds of fixed asset sales available to meet future capital investment
Pensions Reserve	-14,548	4,930	-9,618	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet
Collection Fund	-571	-489	-1,060	Resources available to meet future running costs
General Fund	2,136	329	2,465	Resources available to meet future running costs
Earmarked Reserves	4,076	235	4,311	Money set aside for specific purposes
Other Reserves	10,127	76	10,203	Money set aside for specific purposes
<b>Total</b>	<b>59,842</b>	<b>4,032</b>	<b>63,874</b>	

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## 50. Contingent Assets

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence of one or more future events not wholly in our control.

- A Compulsory Purchase Order for land acquired during 2003/04 where ownership is unclaimed at 31<sup>st</sup> March 2008. Under the provisions of the Land Compensation Act 1961 the value of the land was assessed by the Lands Tribunal. Monies have been paid into the Supreme Court and if not claimed within 12 years will be refunded to the Council with compounded interest at the statutory rate. £128,000 is a prudent estimate of the financial effect in the year 2014/15.
- On the 2<sup>nd</sup> April the Department for Communities and Local Government announced that it was consulting on the “**Local Authority Business Growth Incentives Scheme (LABGI)**” payments for 2007/08. This is awarded for growth in the non-domestic rateable value base in the borough. An initial assessment indicates that Surrey Heath can expect to receive £7,116 for 2006/07 and £365,233 for 2007/08. However these amounts have not been confirmed and are contingent that the allocations do not change as a result of the consultation nor are subject to legal challenge as has been the case in the past. Hence they are not reflected in the financial statements at this time
- In November 2005 the Government and Surrey County Council (on behalf of the districts) signed a Local Public Service Agreement for Surrey. This agreement contained 12 ambitious targets of which 9 had been signed up to by Surrey Heath. Achievement of the target generates income by way of a grant from the government known as the Performance Reward Grant. The PRG grant is based upon the satisfactory achievement of the targets. Once 60% has been achieved by ALL of the partners as a whole, not just Surrey Heath the 60% of the PRG will be paid and then pro rata after that up to 100%. The amounts available range from £510k at 60% to £850k at 100%. At the end of the third quarter only 34% achievement had been reached so no amount has been recognised in these accounts

## 51. Contingent Liabilities

A contingent liability is a possible liability that arises from past events and whose existence will only be confirmed by the occurrence of one or more future events not wholly in our control.

The Council is in dispute with a contractor over the cost and quality of various works undertaken on the Council’s behalf. Currently the matter is in the hands of the court who will decide what the next stage is. The council believes that it has a very strong case and is confident of winning, however should the decision of the court go against the authority then the total potential exposure including costs could be up to £80,000.

The Council was a member of Municipal Mutual Insurance Limited. The Council is party to a reserve scheme arrangement with the company which was entered into in October 1993 after the company ceased trading in September 1992. The company has advised that the councils potential liability from unpaid claims is £110,365 for which the council has set up a reserve included elsewhere in these account. However this figure is contingent on the potential level of claims and a decision from the court as to

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when insurance liability crystallises. However due to the level of uncertainty it is not possible to quantify the maximum exposure.

**52. Post Balance Sheet Events**

There are no Post Balance Sheet events to be disclosed.

**53. Authorisation of the Statement of Accounts**

The statement of accounts was authorised for issue on the 18<sup>th</sup> June 2008 by Mr Kelvin Menon, ACA, Head of Financial Services for Surrey Heath Borough Council. The financial impact of any events taking place after the 31<sup>st</sup> March have been considered up until this authorisation date.

**54. Minimum Revenue Payment**

The council is required to make provision for any Minimum Revenue Payment as required by the regulations. No such payment was required for 2007/08 nor for 2006/07.



**Meals on Wheels Delivery**

# Collection Fund Income & Expenditure Account

## 2007/08

2006/07 £'000		Note	2007/08	
			£'000	£'000
	<b>Income</b>			
45,660	Income from Council Tax	55	47,659	
2,500	Council Tax Benefit	55	2,602	
30,602	Income collectable from business ratepayers	56	31,274	
	<b>Contributions</b>			
0	Adjustment of previous years community charge		0	
<u>78,762</u>				<u>81,535</u>
	<b>Expenditure</b>			
48,229	Precepts and demands from County, Police & District	60	50,672	
	<b>Business Rates</b>			
30,230	Payments to National Pool		30,762	
132	Costs of Collection		128	
	<b>Bad and doubtful debts/appeals</b>			
448	Write Offs		390	
-129	Provisions		-134	
97	Interest		206	
	<b>Contributions</b>			
-568	Contribution towards previous year deficit		0	
<u>78,439</u>				<u>82,024</u>
-323	Movement to Fund Balance			489
894	Surplus (-)/Deficit as at the 1st April 2007			571
<u>571</u>	<b>Surplus (-)/Deficit as at the 31st March 2008</b>	<b>58</b>		<u>1,060</u>

# Notes to the Collection Fund Income & Expenditure Account 2007/08

## 55. Council Tax

Council Tax income derives from charges raised according to the capital value of residential properties, which have been classified into eight valuation bands, based on market values estimated at 1991 prices. In order to calculate the total yield from Council Tax in a year it is necessary to convert the number of dwellings in each band to an equivalent number of Band D dwellings. The total number of Band D equivalent properties after discounts and allowance for losses on collection was 37,081 for 2007/08. This basic amount of Council Tax for a Band D property (average £1,374.56 in 2007/08 after allowance for parish precepts and special expenses) is multiplied by the proportion for the particular band given to produce the individual amount due.

Council Tax bills are based on the following numbers of properties and proportions for Bands A to H:

### Number of Properties and Proportion of Band D Charge:

	Number of Properties	After Adjustment for Discounts	Ratio	Tax Base
<b>Band A</b>	532	388	6/9	259
<b>Band B</b>	1,926	1,532	7/9	1,191
<b>Band C</b>	5,397	4,497	8/9	3,998
<b>Band D</b>	8,903	7,925	9/9	7,925
<b>Band E</b>	6,628	5,968	11/9	7,294
<b>Band F</b>	5,535	5,207	13/9	7,521
<b>Band G</b>	4,866	4,607	15/9	7,678
<b>Band H</b>	445	393	18/9	786
<b>Total</b>	34,232	30,517		36,652
		Losses on Collection		-185
		New Properties Band D Equivalent		125
		MOD Properties		489
				<u><u>37,081</u></u>

The income of £50,260,087 for 2007/08 was receivable from the following sources:

	<b>£</b>
Billed to Tax Payers	47,658,583
Council Tax Benefits	<u>2,601,504</u>
	<u><u>50,260,087</u></u>

## 56. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies the rate poundage (43.3p in 2006/07 and 44.4p in 2007/08) and, subject to the effects of transitional arrangements, the rates payable are calculated by multiplying the rateable values by the rate poundage. The Council is responsible for collecting rates due from the ratepayers in its area and pays the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of resident population.

The average rateable value for the Council's area is £85,202,863 for the year 2007/08 (£84,859,911 in 2006/07). Actual Rateable Value as at 31<sup>st</sup> March 2008 was £86,367,185 (31<sup>st</sup> March 2007 was £84,340,910).

	£'000
NNDR Rateable Value (£85.203 million) multiplied by the rate poundage (44.4p)	37,830
Less: Allowances and other Adjustments	-7,068
Contribution to pool in respect of 2007/08	<u>30,762</u>
Cost of Collection etc.	512
Total payments for NNDR	<u><u>31,274</u></u>

## 57. Contributions to Collection Fund surpluses and deficits

The part of the Collection Fund that relates to the Council Tax activities shows a deficit of £1,059,645 as at 31st March 2008. For determining the Council Tax for 2008/09, it was estimated that there would be a deficit of £800,000.

## 58. Collection Fund Balance Sheet as at 31<sup>st</sup> March 2008

	£
Net Taxpayers (net of Bad Debts provision)	-1,274,574
Debtors - Government Departments	1,454,189
Borrowing from the General Fund	-1,239,260
	<u><u>-1,059,645</u></u>
Collection Fund Balance	
Final Account deficit re Council Tax	-1,059,645
	<u><u>-1,059,645</u></u>

## 59. Bad & doubtful debts as at 31st March 2008

Provision for bad and doubtful debts in the Collection Fund as at 31st March 2008 amounted to £816,749

	£
Council Tax	636,000
National Non-Domestic Rates	80,749
	<u><u>816,749</u></u>

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The provision for Council Tax is based upon an analysis of the outstanding debts. The gross outstanding arrears were £1,270,788 and net arrears of £11,085 including credits of £1,259,703.

The provision for National Non-Domestic Rates is based upon a detailed assessment of the gross outstanding arrears of £676,702 and net arrears of -£469,670 including credits of £1,146,372.

No provision has been made for Community Charge. The gross arrears of £760 is believed to be recoverable.

The provisions are believed to reflect the likely level of write-off which will be made.

## **60. Precepts and Demands on the Collection Fund**

During 2007/08 the following Precepts/Demands were met by the Collection Fund:

	<b>£'000</b>
Surrey County Council	37,561
Surrey Police Authority	6,372
Surrey Heath Borough Council	6,739
	<hr/> <b>50,672</b> <hr/>

## The following notes are provided for information only and do not form part of the audited accounts.

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### Trust Accounts

The Council acts as Trustee for the following Charities:

- (a) **Frimley Recreation Ground Charity Reg. No. 1040714**
- (b) **Frimley Sand and Gravel Pit Charity Reg. No. 252731**
- (c) **Surrey Heath Borough Council Mayor's Charity. Reg. No. 1053311**

The Mayor's Charity was registered at 1st April 1996 and its purpose is to raise money for the cause or causes chosen by the current Mayor. (A new Mayor is appointed annually).

The Council appoints Trustees to the following Charities:

- (d) **Henry Smith's Charity Reg. No. 236367**
- (e) **Miss A E Gomm (Deceased) Charity Reg No. 233425**

	As at 31/03/07	Receipts	Payments	As at 31/03/08
	£	£	£	£
(a) Frimley Recreation Ground Charity	1,113	61	0	1,174
(b) Frimley Sand and Gravel Pit Charity	129,675	7,132	0	136,807
(c) SHBC Mayor's Charity	20,240	25,406	33,943	11,703
(d) Henry Smith's Charity	336	1,550	350	1,536
(e) Miss A E Gomm (Deceased) Charity	50,047	9,400	3,224	56,223
	<b>201,411</b>	<b>43,549</b>	<b>37,517</b>	<b>207,443</b>

The trustees of the Mayor's Charity are:

The Mayor

The Deputy Mayor

The Mayor from the preceding year

The Chief Executive to the Council

The Head of Financial Services

The trustees serve a term of three years.

Trust Fund balances, with the exception of the Miss Gomm Trust, are invested within the Council and credited at an internal rate of interest. The majority of excess monies within the Miss Gomm's Trust are invested with the Halifax Bank of Scotland plc.

## Physical Assets owned by the Council

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	As at 31st March 2007	As at 31st March 2008
Allotments	7	7
Camberley Theatre	1	1
Car Parks	26	25
Civic Offices	1	1
Club and Society Buildings	15	15
Community Centres	8	8
Day Centres	2	2
Depot	1	1
Other Land etc.	18	18
Parks & Open Spaces	97	97
Public Conveniences	13	13
Shops and Offices	33	33
Sports Centres	2	2
War Memorial/Gravel Yard	4	4
Workshops/Storage	9	9
Garages	6	6
Living Accommodation	2	2
Pavilions	6	6
Playgrounds	12	12
Shopping Centres	2	2
Sub Stations	8	8
Miscellaneous	6	6
	<b>279</b>	<b>278</b>

During the financial year 2008/09 it is planned to implement a Corporate Asset Management Database replacement system.

# Glossary of Terms and Abbreviations

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## **Accruals**

Income and expenditure is included in the accounts as the money is earned or incurred, not as it is received or paid. Local authorities accrue for both revenue and capital expenditure.

## **Actual Outturn**

The actual income and expenditure for a financial year disclosed by the final accounts.

## **Agency Services**

Services which are performed on behalf of another organisation. (e.g. Gypsy Sites and CPZ and DPE Parking activities are carried out by the Council on behalf of Surrey County Council).

## **Appropriations**

The transfer of assets (usually land or buildings) from one service to another.

## **Asset Charges**

The charge to revenue for the use of an asset.

## **Balances**

The accumulated surplus of income over expenditure.

## **Best Value**

It is a statutory duty to make arrangements to secure continuous improvements to the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

## **Billing Authority**

Responsible for determining the Council Tax base (number of Band D properties in the area), determining the Council Tax charge for the year, the billing and collection of Council Tax due.

## **Budget**

A document stating in financial terms the Council's policy for using resources over a specified period.

## **Capital Expenditure**

Money spent on assets that have a long-term value e.g. land, buildings, equipment.

## **Capital Programme**

A statement of proposed capital projects for current and future years.

## **Capital Project**

A project of a capital nature e.g. development of land.

## **Capital Receipts**

Proceeds from the disposal of capital assets such as land or other long term assets. Used to repay outstanding debt and to finance other capital expenditure. May not be used to finance revenue expenditure.

## **Collection Fund**

The Fund into which income from Council Tax Charges, Community Charge and National Non-Domestic Rates are paid and from which the precepting authorities receive money

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## **Community Asset**

An asset which the Council intends to hold in perpetuity and has no determinable finite useful life. Restrictions on its disposal may exist. Examples are historic buildings, museum exhibits and parks.

## **Contingency**

An amount of money set aside in the budget for unforeseen items of expenditure.

## **Credit Guarantee**

A credit guarantee is a provision for the non-repayment of loans.

## **Current Assets**

Assets such as stock or investments, which will be consumed or realised within the next financial year.

## **Current Liabilities**

Amounts which will become payable within the next financial year, such as creditors and bank overdraft.

## **Deferred Charges**

Items which although of a capital nature do not constitute capital assets, e.g. loans outstanding on improvement grants and losses on certain properties acquired for the extinguishing of industrial user rights.

## **Depreciation**

An accounting process used to spread the cost of an asset over its useful life.

## **Estimate**

Expected expenditure and income in a given year which, once approved by Council, forms the annual budget.

## **Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

## **Financial Reporting Standard (FRS)**

The rules by which accounts should be reported.

## **Formula Spending Share (FSS)**

Central Government's assessment of the Council's share of assumed national spending. It influences the distribution of Formula Spending Share.

## **General Fund**

The main fund of the Council into which all income is paid and out of which all expenditure is met. Revenue transactions are recorded in the General Fund revenue account.

## **Government Grants**

Sums paid by central government towards local government services. They may be either specific (i.e. in aid of particular services), e.g. towards improvement grants, or in aid of services generally, e.g. the Revenue Support Grant. Some government grants are also referred to as 'exchequer subsidies'.

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## **Housing Investment Programme (HIP)**

The approved capital expenditure programme relating to public and private sector housing funded by Housing Corporation grants, an Exchequer grant and the use of capital receipts.

## **Infrastructure Asset**

Fixed assets such as roads, bridges and footpaths.

## **Internal Service Unit (ISU)**

A trading account to which management costs for a particular activity are coded and recharged as support costs or operational management charges to individual service accounts.

## **Long Term Debtors**

Debts owed to the Council which will not be repaid within the next financial year.

## **Net Realisable Value**

The open market value of an asset less the expenses that would be incurred should the asset be sold.

## **Non-Operational Asset**

Fixed assets which are not used in the delivery of service. These include investment properties, surplus land and property and land awaiting development.

## **Operating Lease**

A lease other than a finance lease, where ownership of the asset does not pass to the Council.

## **Operational Asset**

Fixed assets such as land and buildings, vehicles, plant, equipment, infrastructure assets and community assets which are used in the delivery of services.

## **Pensions Reserve**

This fund is set aside in accordance with FRS17 to meet employer's statutory pension obligations under the Local Government Pension Scheme (LGPS).

## **Precept**

The amount an authority levies on a billing authority to pay for its services.

## **Provisions**

Provisions are set up for any liabilities and losses which are likely to be incurred in the future but where it is uncertain as to the amounts or the dates on which they will arise.

## **Rateable Value (RV)**

The value placed on all properties subject to rating, to which rate poundages are applied to arrive at rates payable.

## **Reserves**

Funds set aside from periodical contributions for future expenditure on specific items or as a contingency against future losses.

## **Revenue Expenditure**

Annual expenditure on services, consisting mainly of employees costs, and running expenses.

## **Revenue Support Grant (RSG)**

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Work in Progress is a job which at the end of the financial year is still in progress.

The grant paid by the Government to local authorities to bridge the gap between income from Council Tax, National Non-Domestic Rates (NNDR) and the Government's assessment of the need to spend as indicated by the Formula Spending Share.

### **Statement of Standard Accounting Practice (SSAP)**

The rules by which accounts should be prepared.

### **Stock**

Stock can be goods or other assets purchased for resale, consumable stores, raw materials and components purchased for incorporation into a product for sale, products and services in intermediate stages of completion, long term contract balances or finished goods.

### **'Trigger' Event**

A 'trigger event' may arise if MMI's liabilities exceed their assets when all outstanding claims have been assessed. In that case, an equitable proportion of settlements will require to be refunded.

### **Trust Funds**

The balance on funds administered by the Council as a Trustee.

### **Working Balance**

Sums retained within the accounts to meet the day-to-day requirements, e.g. expenditure incurred in anticipation of income and to meet possible future requirements of the year which cannot be identified in the Budget.

### **Work in Progress**

# Financial Statements 2007/08 Supporting Working Papers

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## Abbreviations

<b>ACoP</b>	Accounting Code of Practice
<b>BVACoP</b>	Best Value Accounting Code of Practice
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>DCLG</b>	Department of Communities and Local Government
<b>DWP</b>	Department of Work and Pensions
<b>FRS</b>	Financial Reporting Standard
<b>FSS</b>	Formula Spending Share
<b>HA</b>	Head of Audit
<b>HC</b>	Historic Cost
<b>HIP</b>	Housing Investment Programme
<b>ISU</b>	Internal Service Unit
<b>LGPS</b>	Local Government Pension Scheme
<b>MMI</b>	Municipal Mutual Insurance
<b>NNDR</b>	National Non-Domestic Rates
<b>NRV</b>	Net Realisable Value
<b>ODPM</b>	Office of the Deputy Prime Minister
<b>RSG</b>	Revenue Support Grant
<b>RV</b>	Rateable Value
<b>SORP</b>	Statement of Recommended Practice
<b>SSAP</b>	Statement of Standard Accounting Practice
<b>STRGL</b>	Statement of Total Recognised Gains and Losses