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**Surrey Heath Borough Council**  
**Audited Statement of Accounts 2012/13**

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## Explanatory Foreword

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### Explanatory Foreword Presented by the Executive Head of Finance

#### i) Introduction

I am pleased to be able to present to you the Statement of Accounts for the year 2012/13.

The Statement of Accounts is published to present a true and fair view of the financial position and transactions of the Council. Wherever possible it has been written in plain language but inevitably it contains technical terms. To help explain some of these terms a glossary can be found towards the back of this publication.

The Statement of Accounts comprises:

- Statement of responsibilities
- Core financial statements
- Notes to the core financial statements
- Supplementary financial statements
- Notes to the supplementary financial statements

The objective of each of the accounting statements is set out below.

#### ii) Statement of Responsibilities

This statement identifies the officer responsible for the proper administration of the Council's financial affairs. The purpose is for the Chief Finance Officer to sign under a statement that the accounts present a true and fair view of the financial position of the Council at the accounting date, and its income and expenditure for the year then ended.

#### iii) Core Financial Statements

*Movement in Reserves Statement* – this statement shows the movement in the year on the different reserves held by the Council, analysed into (a) *usable reserves* - those that can be applied to fund expenditure or reduce local taxation and (b) *unusable reserves* - those that cannot be applied to fund expenditure or reduce local taxation. The *surplus (or deficit) on the provision of services* line shows the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The "*net increase /decrease before transfers to earmarked reserves*" line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

*Comprehensive Income and Expenditure Statement* – this statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

*Balance Sheet* – this statement shows the value as at the balance sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations

on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line *Adjustments between accounting basis and funding basis under regulations*.

*Cash Flow Statement* – this statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

### **iv) Notes to the Core Financial Statements**

These provide support to the core financial statements, which inform the reader and give sufficient information to present a fuller understanding of the Council's activities.

### **v) Supplementary Financial Statements**

*Collection Fund* – this account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the Council in relation to non-domestic rates and council tax, and illustrates the way in which these have been distributed.

### **vi) Notes to the Supplementary Financial Statements**

These provide support to the supplementary financial statements which inform the reader and give sufficient information to present a good understanding of the Council's activities.

### **vii) Annual Governance Statement**

The *Annual Governance Statement* is not part of the Statement of Accounts, but is required to be included alongside it in the same publication, and as such is not covered by (a) the chief finance officer's certification or (b) the external auditor's report.

The objective of this statement is to fulfill the statutory requirement for the Council to conduct an annual review of the effectiveness of its system of internal control.

## **Service Expenditure**

### **viii) General Fund service revenue spending compared with budget**

The variance against budget and the effect on the General Fund for 2012/13 is shown in the table below.

## Explanatory Foreword

The 2012/13 outturn showed an over spend of £69k compared to budget. This headline though masks the actual performance of the Council which was significantly better than budgeted. Key point to take in to account are:

- Interest receipts increased in cash terms by £125k due to improved investment.
- The vacancy margin was exceeded by £128k.
- £330k of unbudgeted redundancy costs covered in year.
- £342k of carry forward budgets absorbed.
- £250k shortfall on Atrium rental income absorbed.
- Additional grants of £109k received.
- Although general fund has reduced in the year transfers to reserves have risen.

General Fund Revenue	2012/13 Budget £000	2012/13 Actual £000	General Fund Balances	2012/13 Budget £000	2012/13 Actual £000
<b>Net Cost of Services</b>	<b>11,104</b>	<b>11,435</b>	Balance at 1st April	(1,415)	(1,415)
Investment Interest	(180)	(367)	Net Balance to/(from) Fund	0	38
Income from Grants	(3,601)	(3,790)	<b>Balance at 31st March</b>	<b>(1,415)</b>	<b>(1,377)</b>
<b>Net Expenditure</b>	<b>7,323</b>	<b>7,278</b>			
Funded from reserves	(195)	465			
Funded by local taxpayers	(7,128)	(7,705)			
<b>Net Balance</b>	<b>0</b>	<b>38</b>			

Members have received reports during the year as to the performance against budget of individual services. Both Corporate Property and the Theatre suffered falls in income mainly due to economic climate. A renegotiation of the gate fee, and a continued increase in the level of recycling meant that Waste and Recycling was the best performing service this year.

In 2012/13 the Council used £0.5 million of earmarked reserves in support of revenue spend, and transferred £1 million into reserves. The biggest use of reserves, amounting to £0.3m, was to support the rental income from the Atrium which only achieved 25% of what was originally predicted due to the economic climate. This reduction has now been accounted for in full in the budget for 2013/14. The biggest transfers into reserves were the New Homes Bonus, SANGS (Suitable Alternative Natural Green Space) and PIC (Planning Infrastructure Contributions) of £0.5m.

### ix)Capital Spending

In 2012/13 the Council spent £0.9m on capital projects, compared with the forecast budget of £2.6m excluding property acquisition. Details of this expenditure are shown below:

	£000
Disabled/Renovation Grants	484
IT Equipment and Development	222
Car Parks	2
Investment Assets	90
Leisure and Parks	40
Other	69
	<b>907</b>

The actual outturn figure is below the forecast budget due to:

- a reappraisal of approved schemes, such as the Depot, in the light of the Council's financial situation and changes to service delivery.
- works, such as car park improvements, not being completed in year.

In 2012/13 capital receipts arising from the sale of assets amounted to only £0.028m, with the remainder of capital expenditure being financed from grants and historic capital receipts. Of the available receipts £0.4m were used during the year, leaving £3m for future capital expenditure. Capital receipts can only be generated from the sale of assets, and have been diminishing over recent years.

<b>Summary of Capital Schemes</b>	
	£000
Disabled/Renovation Grants	484
IT Equipment and Development	222
Car Parks	2
Investment Assets	90
Leisure and Parks	40
Other	69
	<b>907</b>

The actual outturn figure is below the forecast budget as a number of schemes were approved at the end of the financial year in addition to this the programme includes a number of major schemes that will be completed over more than one financial year. As capital is a diminishing resource each Capital bid is appraised to its benefits to Surrey Heath before being approved.

### **x) Brief note of significant items in the core financial statements**

Other than items already identified, there are no significant items in the core financial statements.

### **xi) Brief note of any material assets acquired or liabilities incurred**

There were no significant assets acquired or disposed of during the year.

### **xii) Brief note explaining significance of any pension liability or asset disclosed**

Details of the Council's pension liability calculated under IAS19 are shown at note 51 of the core financial statements.

Any surplus or deficit on the Council's pension fund is required to be shown within the balance sheet. In 2012/13 the estimated return on investments within the fund was £2.9m (£3.5m in 2011/12). The value of the Council's share of the pension fund administered by Surrey County Council has been assessed by the scheme's actuary as at 31<sup>st</sup> March 2013. The current valuation shows a deficit on the fund of £29.0m (previously £25.1m in 2011/12) based upon the nationally set criteria. The increase in liabilities is caused by greater life expectancy and very low annuity rates. The actual contributions payable by the Council are based upon the actuary's own assumptions in a valuation that is undertaken on a triennial basis. A valuation is currently being undertaken at 31<sup>st</sup> March 2013, but the results of this will not be available until the autumn.

## **Explanatory Foreword**

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### **xiii) Explanation of any material or unusual charge or credit in the accounts**

There were no exceptional items to disclose in 2012/13.

### **xiv) Significant changes in accounting policies**

There were no significant changes in the year.

### **xv) Any major change in statutory functions, or planned developments in service delivery**

The Council is exploring alternative delivery models for its services such as partnerships, joint ventures and social enterprise. However, no major changes are envisaged at present.

### **xvi) Brief note on the current borrowing facilities and capital borrowing**

The Council has not sought to borrow any funds during the year and as a consequence is debt free.

### **xvii) Summary of sources of funds available to meet capital expenditure plans**

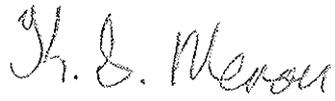
The main source of funding for future capital expenditure is capital receipts, which arise from the sale of assets, and funds put aside from revenue. The Council may borrow funds in the future to finance its capital program.

### **xviii) An explanation of the impact of the current economic climate on the council and the services it provides**

Through prudent actions in the past the Council has carried forward healthy reserves into 2013/14. This is against a background of reducing formula grant which has reduced by £1.75m over 3 years. It is expected that further cuts in funding of £1m can be expected over the next 4 years

The Council has suffered declines in some of its income streams due to the economic situation, in particular property rents and the theatre, and this has put extra strain on the budget. In the last few years the Council has taken £2m out of its cost base and headcount has fallen 20%. Whilst this is a significant achievement it is not likely to be enough to cope with the future financial challenges the Council will have placed upon it. With this in mind the Council is committed to, and continues with a program of continual transformation, working with partners and maximising

income in order to preserve front line services but recognises that it may not be possible to protect all services given the challenges ahead.



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**Kelvin Menon BSc ACA**  
**Executive Head of Finance**  
Surrey Heath Borough Council  
Surrey Heath House  
Knoll Road  
Camberley,  
Surrey GU15 3HD

27<sup>th</sup> June 2013

## Statement of Responsibilities

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### Statement of Responsibilities

#### The Executive Head of Finance's responsibilities

The Head of Finance is legally and professionally responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* - the Code.

In preparing this statement of accounts, I have:

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

The Executive Head of Finance has also:

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

#### Executive Head of Finance's certification

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at the reporting date and its income and expenditure for the year ended 31<sup>st</sup> March 2013.



**Kelvin Menon BSc ACA**  
**Executive Head of Finance**  
27<sup>th</sup> June 2013

### Executive Head of Finance's re-certification

These financial statements replace the unaudited financial statements certified and placed on the website on the 28<sup>th</sup> June 2013



**Kelvin Menon BSc ACA**  
**Executive Head of Finance**  
11th September 2013

Note 1 – A review of the Council's senior management structure was undertaken in the first part of 2012. Following this review, a revised senior management structure was introduced on 3<sup>rd</sup> September 2012. The Head of Finance's role was replaced with an Executive Head of Finance on this date

### The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of these affairs. In this Council, that officer is the Executive Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

### Council approval

The Statement of Accounts for the year to 31<sup>st</sup> March 2013 has been prepared and I confirm that these accounts were approved by the Performance and Audit Scrutiny Committee at its meeting on the 11<sup>th</sup> September 2013

**Councillor John May**  
**Chairman of Performance and Audit Scrutiny Committee**  
11<sup>th</sup> September 2013



## Core Financial Statements

### Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(surplus) or deficit on the provision of services' line shows the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the general fund balance for council tax setting purposes. The 'net (increase) / decrease before transfers to earmarked reserves' line shows the statutory general fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2011/12							2012/13							
General fund balance	Earmarked GF reserves	Capital receipts reserves	Capital grants unapplied	Total usable reserves	Unusable reserves	Total council reserves		General fund balance	Earmarked GF reserves	Capital receipts reserves	Capital grants unapplied	Total usable reserves	Unusable reserves	Total council reserves
£000	£000	£000	£000	£000	£000	£000		£000	£000	£000	£000	£000	£000	£000
(1,277)	(16,975)	(3,748)	0	(22,000)	(20,477)	(42,477)	<b>Opening balance</b>	(1,415)	(16,127)	(3,410)	(14)	(20,966)	(23,554)	(44,520)
1,409	0	0	0	1,409	0	1,409	(Surplus) or deficit on provision of services	3,422				3,422	0	3,422
		0		0	(3,452)	(3,452)	Other comprehensive income and expenditure					0	(1,079)	(1,079)
1,409	0	0	0	1,409	(3,452)	(2,043)	<b>Total comprehensive income and expenditure</b>	3,422	0	0	0	3,422	(1,079)	2,343
(699)	0	338	(14)	(375)	375	0	Adjustments between accounting basis & funding basis under regulations	(3,652)	0	395	0	(3,257)	3,257	0
710	0	338	(14)	1,034	(3,077)	(2,043)	<b>Net (increase) / decrease before transfers to earmarked reserves</b>	(230)	0	395	0	165	2,178	2,343
(848)	848	0	0	0	0	0	Transfers (to) / from earmarked reserves	268	(268)			0		0
(138)	848	338	(14)	1,034	(3,077)	(2,043)	<b>(Increase) / decrease in year</b>	38	(268)	395	0	165	2,178	2,343
<b>(1,415)</b>	<b>(16,127)</b>	<b>(3,410)</b>	<b>(14)</b>	<b>(20,966)</b>	<b>(23,554)</b>	<b>(44,520)</b>	<b>Closing balance</b>	<b>(1,377)</b>	<b>(16,395)</b>	<b>(3,015)</b>	<b>(14)</b>	<b>(20,801)</b>	<b>(21,376)</b>	<b>(42,177)</b>

**Comprehensive Income and Expenditure Statement**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2011/12				2012/13		
Expenditure	Income	Net		Expenditure	Income	Net
£000	£000	£000		£000	£000	£000
2,726	(781)	1,945	Central services to the public	2,353	(881)	1,472
12,803	(4,272)	8,531	Cultural, environmental & planning services	12,963	(4,301)	8,662
914	(1,917)	(1,003)	Highways, roads & transportation	1,959	(2,068)	(109)
21,090	(19,784)	1,306	Housing services	22,600	(21,266)	1,334
1,193	(644)	549	Adult social care services	1,180	(835)	345
1,983	(8)	1,975	Corporate & democratic core	1,988	(13)	1,975
112	(41)	71	Non distributed costs	264	0	264
0	0	0	Gain on past service cost for pensions	0	0	0
<b>40,821</b>	<b>(27,447)</b>	<b>13,374</b>	<b>Cost of services</b>	<b>43,307</b>	<b>(29,364)</b>	<b>13,943</b>
			<i>Other operating expenditure</i>			
		476	Parish precepts			476
		2	Payments to Government housing capital receipts pool			2
		<b>478</b>				<b>478</b>
			<i>Financing and investment income and expenditure</i>			
		316	Pensions interest cost and expected return on pensions assets			741
		(288)	Interest receivable and similar income			(347)
		(555)	Income and expenditure in relation to investment properties and changes in their fair value			102
		<b>(527)</b>				<b>496</b>
		<b>0</b>	<i>(Surplus) or deficit on discontinued operations</i>			<b>0</b>
			<i>Taxation and non-specific grant income</i>			
		(7,670)	Council tax income			(7,705)
		(2,789)	Non domestic rates			(3,256)
		(1,132)	Non-ringfenced government grants			(534)
		(325)	Capital grants and contributions			0
		<b>(11,916)</b>				<b>(11,495)</b>
<b>Section one</b>		<b>1,409</b>	<b>(Surplus)/deficit on provision of services</b>			<b>3,422</b>
		(9,656)	(Surplus) or deficit on revaluation of property, plant and equipment assets			(4,381)
		6,204	Actuarial (gains) / losses on pension assets / liabilities			3,302
<b>Section two</b>		<b>(3,452)</b>	<b>Other comprehensive income and expenditure</b>			<b>(1,079)</b>
		<b>(2,043)</b>	<b>Total comprehensive income and expenditure</b>			<b>2,343</b>

## Core Financial Statements

### Balance Sheet

The Balance Sheet shows the value as at the balance sheet date of the asset and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. (for example the Capital Receipts Reserve which can only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between the accounting basis and funding basis under regulations"

2011/12			2012/13
£000		note	£000
	<b>Property, plant &amp; equipment</b>		
34,484	Other land and buildings	4	37,032
2,049	Vehicles, plant and equipment	4	1,880
91	Infrastructure assets	4	82
609	Community assets	4	609
237	Surplus assets not held for sale	4	237
22	Assets under construction	4	30
<b>37,492</b>	<b>Total property, plant &amp; equipment</b>		<b>39,870</b>
255	Heritage Assets	5	313
10,777	Investment property	7	10,120
4,583	Long term investments	8	427
341	Long term debtors	9	322
<b>53,448</b>	<b>Long term assets</b>		<b>51,052</b>
15,185	Short term investments	8	13,189
48	Inventories		42
1,912	Short term debtors	10	2,080
4,072	Cash and cash equivalents	11	11,438
<b>21,217</b>	<b>Current assets</b>		<b>26,749</b>
(4,894)	Short term creditors	12	(6,519)
<b>(4,894)</b>	<b>Current liabilities</b>		<b>(6,519)</b>
(132)	Long term creditors	8	(132)
(25,119)	Other long term liabilities - Pensions	29	(28,973)
<b>(25,251)</b>	<b>Long term liabilities</b>		<b>(29,105)</b>
<b>44,520</b>	<b>Net assets</b>		<b>42,177</b>
(1,415)	General Fund balance		(1,377)
(3,410)	Capital receipts reserve		(3,015)
(14)	Government Grants Unapplied		(14)
(16,127)	Earmarked reserves	3	(16,395)
<b>(20,966)</b>	<b>Usable reserves</b>		<b>(20,801)</b>
(13,826)	Revaluation reserve	13	(17,551)
(34,699)	Capital adjustment account	13	(32,752)
(27)	Deferred capital receipts	13	(23)
25,119	Pensions reserve	13	28,973
(254)	Collection fund adjustment account	13	(160)
133	Accumulated absences account	13	137
<b>(23,554)</b>	<b>Unusable reserves</b>		<b>(21,376)</b>
<b>(44,520)</b>	<b>Total reserves</b>		<b>(42,177)</b>

**Balance Sheet Supplement**

**Executive Head of Finance's re-certification**

These financial statements replace the unaudited financial statements certified and placed on the website on the 28<sup>th</sup> June 2013

**Kelvin Menon BSc ACA**  
**Executive Head of Finance**  
11<sup>th</sup> September 2013

**Members' re-approval**

The Statement of Accounts for the year to 31<sup>st</sup> March 2013 has now been audited and I confirm that these accounts were re-approved by the Performance and Audit Scrutiny Committee at its meeting on the 11<sup>th</sup> September 2013.

**Kelvin Menon BSc ACA**  
**Executive Head of Finance**  
11<sup>th</sup> September 2013

## Core Financial Statements

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### Cash Flow Statement

The cash flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flow arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the council.

2011/12			2012/13
£000		note	£000
(1,409)	Net (surplus) or deficit on the provision of services		(3,422)
345	Adjust net surplus or deficit on the provision of services for noncash movements		4,938
(843)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(261)
<b>(1,907)</b>	<b>Net cash flows from operating activities</b>		<b>1,255</b>
(5,113)	Investing activities	15	3,738
4,539	Financing activities	16	2,373
<b>(2,481)</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>7,366</b>
6,553	Cash and cash equivalents at the beginning of the reporting period		4,072
4,072	Cash and cash equivalents at the end of the reporting period	11	11,438
<b>(2,481)</b>	<b>Movement in cash</b>		<b>7,366</b>

## Notes to the Core Financial Statements

### 1 Accounting Policies

#### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31<sup>st</sup> March 2013. The Council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* ("**the Code**") and the *Service Reporting Code of Practice for Local Authorities 2012/13*, supported by International Financial Reporting Standards (IFRS).

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

#### 1.2 Accruals of income and expenditure

All transactions of the Council are accounted for in the year in which they take place, not simply when the cash payments are made or received.

Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the balance sheet.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

#### 1.3 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in a period of no more than 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

## Notes to the Core Financial Statements

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In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are payable on demand and form an integral part of the Council's cash management.

### 1.4 Exceptional items

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

### 1.5 Prior period adjustments, changes in accounting policies and estimates and errors

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

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

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

### 1.6 Charges to Revenue for Non-current Assets

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

- Depreciation attributable to the assets used by the attributable service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (if it has any borrowings) equal to an amount calculated by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### 1.7 Employee benefits

#### Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees

but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Termination benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the net cost of services in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

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

### **Post employment benefits**

Employees of the Council are members of the "Local Government Pension Scheme", administered by Surrey County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees for the Council.

### **Local Government Pension scheme**

The local government scheme is accounted for as a defined benefits scheme.

The liabilities of Surrey County Council's pension fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds. At December 2012 the discount rate was 4.5% (being 3.2% gilt yield plus 1.3% credit spread), (4.1% - using the iBox Sterling Corporate Index, AA over 15 years – December 2012).

The assets of Surrey County Council's pension fund attributable to the Council are included in the balance sheet at their fair value:

- quoted securities – mid market value
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

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

### **Current service cost**

The increase in liabilities as a result of the number of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

## Notes to the Core Financial Statements

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### **Past service cost**

The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs.

### **Interest cost**

The expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

### **Expected return on assets**

The annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

### **Gains/losses on settlements and curtailments**

The result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs.

### **Actuarial gains and losses**

Changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions are debited to the pension's reserve.

### **Contributions paid to Surrey County Council's pension fund**

Cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

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

### **Discretionary benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the local government pension scheme.

## **1.8 Events after the balance sheet date**

Events after the balance sheet date are those happenings, favourable or unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the statement of accounts is adjusted to reflect such events

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

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

### 1.9 Financial instruments

#### Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. The fair value of trade payables is taken to be the invoiced or billed amount.

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

#### Financial assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments, but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

#### Loans and receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. The fair value of trade receivables is taken to be the invoiced or billed amount.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where the Council makes a loan at less than market rate these are called soft loans. When these are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of the amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed

## Notes to the Core Financial Statements

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by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

### **Available-for-sale assets**

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Changes in fair value are balanced by an entry in the available-for-sale reserve and the gain/loss is recognised in the surplus or deficit on revaluation of available-for-sale financial assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payment due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains and losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

### **1.10 Foreign Currency Translation**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction

was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31<sup>st</sup> March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### 1.11 Government grants and other contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

### 1.12 Business Improvement Districts

A Business Improvement District (BID) Scheme operates in Camberley town centre. Collectively Camberley is made up of all the businesses in the town centre and aims to encourage people to visit the town centre and use the fantastic range of shops, entertainment and businesses services that it has to offer.

The scheme is funded by a BID levy paid by the town centre non-domestic ratepayers. The Council acts as the agent responsible for the collection of the BID levy.

### 1.13 Heritage Assets

Heritage Assets are assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage Assets were recognised as a separate class of assets for the first time in the 2011/12 financial statements in accordance with adoption of FRS30 and constitutes a change of accounting policy.

In 2012/13 the Civic Regalia was reviewed and revalued to ensure adequate insurance coverage was in place. This resulted in an increase of value of £0.058m to £0.107m.

## Notes to the Core Financial Statements

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The carrying amount of Heritage Assets is reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage, or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 1.6 in this summary of significant accounting policies.

Any disposals of Heritage Assets are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant, and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see note 1.18 in this summary of significant accounting policies).

### 1.14 Intangible Assets

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

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

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

Intangible assets are measured initially at cost, and are fully amortised in the Comprehensive Income and Expenditure Statement in the year that the expense was incurred.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation costs are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

### 1.15 Investment property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

### 1.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant and equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### **The Council as Lessee**

##### **Finance leases**

The Council does not currently have any finance leases where it is the lessee.

##### **Operating leases**

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

#### **The Council as Lessor**

##### **Finance leases**

The Council does not currently have any material finance leases where it is the lessor.

##### **Operating leases**

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

### 1.17 Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2012/13* - (SeRCoP).

## Notes to the Core Financial Statements

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The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Corporate and democratic core – costs relating to the Council's status as a multifunctional, democratic organisation.

Non distributed costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two categories are defined in SeRCoP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Cost of Services.

### 1.18 Property, plant and equipment

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

#### Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council; and the cost of the item can be measured reliably. A de minimis level of £10,000 (per individual item, or group of items forming a scheme where applicable) on property, plant and equipment is applied to capitalisation. Expenditure that (a) falls below the de-minimis level and (b) maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### Measurement

Assets are initially measured at cost comprising:

- the purchase price,
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

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

Assets included in the balance sheet at fair value are revalued on a rolling basis within a five year timeframe. Increases in valuations are matched by credits in the Revaluation Reserve to recognise unrealised gains. Gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified, they are treated as follows:

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

The Revaluation Reserve contains revaluation gains recognised since the 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated in to the Capital Adjustment Account.

### **Impairment**

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

Where impairment losses are identified, they are treated as follows:

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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

- buildings – straight-line method over the useful life of the property as estimated by the valuer
- plant and equipment, other than vehicles – straight-line method over the useful life of the item
- vehicles – reducing balance method at a rate of 20% per annum
- infrastructure –straight line method over useful life of the item

## Notes to the Core Financial Statements

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- intangibles – 100% in year of purchase

Where a property, plant or equipment asset has major components whose cost individually is significant in relation to the total cost of the asset, the components are depreciated separately.

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

### Component Accounting

Component accounting is required for any asset that is enhanced, acquired or revalued from 1<sup>st</sup> April 2010. From this date, any significant component part of an asset that has a different useful life to other parts of the asset will be depreciated separately. Where a component is replaced or restored the carrying amount of the old component shall be derecognised. This will only be considered for assets over £1m or which have capital spending greater than £0.2m

As at the 31<sup>st</sup> March 2013 there have been no material components recognised that have a significantly different useful life from that of the asset.

### Disposals and Non-current assets held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continued use, it is classified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the surplus or deficit on provision of services. Depreciation is not charged on assets held for sale.

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

Assets that are to be abandoned or scrapped are not classified as assets held for sale.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the "Other Operating Expenditure" line in the Comprehensive Income and Expenditure Statement as part of a gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow – the capital financing requirement. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

### 1.19 Provisions, Contingent Liabilities and Contingent Assets

#### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. 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 as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received, if the Council settles the obligation.

#### Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised into the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

#### Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### 1.20 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the General Fund Balance in the Movement in the Reserves Statement. When expenditure to be financed from a reserve is

## Notes to the Core Financial Statements

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incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. This reserve is then appropriated back to the General Fund Balance in the Movement in Reserves Statement so that there is no charge against council tax for the expenditure.

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

### 1.21 Revenue expenditure funded from capital under statute

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

### 1.22 Inventories and long-term contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of the Comprehensive Income and Expenditure Statement being charged in the year during which the cost of goods or services were received or provided.

### 1.23 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### 1.24 Accounting standards that have been issued but have not yet been adopted

The Code of Practice on Local Council Accounting in the United Kingdom 2012/13 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2013, the following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below.

**Amendments to IAS 1 Presentation of Financial Statements**– The changes require authorities to disclose separately the gains or losses reclassifiable into the Surplus or Deficit on the Provision of Services. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure required.

**Amendments to IFRS 7 Financial Instruments: Disclosures** – The change in accounting policy is in relation to the offsetting of financial assets and liabilities. This is not considered to have a significant impact on the financial statements.

**Amendments to IAS 12 Income Taxes** - This change in the accounting policy particularly affects investment properties. It is not considered that this change will affect the Statement of Accounts.

**Amendments to IAS 19 Employee Benefits** - There are a number of changes in relation in this that may affect the budgeted pension expense for the next financial year. The key change affecting LGPS employers relates to the expected return on assets. This will involve using the discount rate rather than the expected return on assets to calculate anticipated returns on assets such as equities. The Council will be working closely with its actuaries over the coming year to assess the full implications of this but it is likely to result in a larger pension expense being charged to the CIES.

**IFRS13 Fair Value Measurement** - The standard redefines fair value as exit price of an asset or liability from the perspective of market participants at the measurement date rather than its existing use. The Council will work with its valuers during the year to assess the implications.

### **1.25 Critical judgements in applying accounting policies**

In applying the accounting policies set out above in note 1, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgments made in the statement of accounts are:

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

### **1.26 Local Government Reform Affecting Local Government Accounting in 2013/14 – Non- Domestic Rates Reform (Business Rates Retention Scheme)**

The Local Government Finance Act 2012 introduces a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. It also enables local authorities to implement tax increment financing, giving them the ability to undertake borrowing against future business rates growth, supported by the forecast tax increment that accrues from additional development.

The new arrangements for the retention of business rates will come into effect on 1<sup>st</sup> April 2013. On this date, local authorities assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts previously paid over to Central Government in respect of 2012/13 and prior years. Previously such amounts would not have been recognised as income by local authorities, but would have been transferred to Central Government.

As at 1<sup>st</sup> April 2013, the Council's share of the estimated potential losses for prior year appeals was £0.321m.

### **1.27 Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions which take into account historical experience, current trends, professional knowledge and other various factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31<sup>st</sup> March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

## Notes to the Core Financial Statements

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.197m for every year that useful lives had to be reduced.
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £7.743m. However; the assumptions interact in complex ways. During 2012/13, the Council's actuaries advised that the net pension's liability has increased by £3.8m. This is principally because financial assumptions at 31 <sup>st</sup> March were less favorable than they were as 31 <sup>st</sup> March 2012.
Debtors	At 31 <sup>st</sup> March 2013, the Council had a balance of sundry debtors of £2.1m. A review of significant balances suggested that an impairment for doubtful debts of £0.526m was appropriate.	If collection rates were to deteriorate, a doubling of the amount of the impairment for doubtful debts would require an additional £0.101m to be set aside as an allowance.

This list does not include assets and liabilities that have been carried at fair value based on a recently observed market price.

### **1.28 Material items of income and expense**

All material items are disclosed on the face of the Comprehensive Income and Expenditure Statement.

### **1.29 Events after the Balance Sheet Date**

The Statement of Accounts were initially certified for issue by the Executive Head of Finance on the 27<sup>th</sup> June 2013. At the conclusion of the audit the Statement of Accounts will be recertified and re- issued and events taking place after this recertification are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31<sup>st</sup> March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## Notes to the Core Financial Statements

### 2 Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice for the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	Usable reserves			Movement in unusable reserves
	General fund balance	Capital receipts reserve	Capital grants unapplied	
2012/13	£000	£000	£000	£000
<b>Adjustments primarily involving the capital adjustment account</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>				
Charges for depreciation and impairment of non-current assets	(2,169)	0	0	2,169
Revaluation losses on property, plant and equipment	(64)	0	0	64
Movements in the market value of investment properties	(748)	0	0	748
Capital grants and contributions applied	496	0	0	(496)
Revenue expenditure funded from capital under statute	(484)	0	0	484
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(63)	0	0	63
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</b>				
Statutory provision for the financing of capital investment	0	0	0	0
Capital expenditure charged against the general fund balance	0	0	0	0
<b>Adjustments primarily involving the capital grants unapplied account</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0
Application of grants to capital financing transferred to the capital adjustment account	0	0	0	0
<b>Adjustments primarily involving the capital receipts reserve</b>				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	27	(27)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	425	0	(425)
Transfer from deferred capital receipts reserve upon receipt of cash	3	(3)	0	0
<b>Adjustments primarily involving the deferred capital receipts reserve</b>				
Transfer of deferred sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0
<b>Adjustment primarily involving the financial instruments adjustment account</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	0	0
<b>Adjustments primarily involving the pensions reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and expenditure Statement	(2,225)	0	0	2,225
Employer's contributions and direct payments to pensioners payable in year	1,673	0	0	(1,673)
<b>Adjustments primarily involving the collection fund adjustment account</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(94)	0	0	94
<b>Adjustments primarily involving the accumulated absences account</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4)	0	0	4
<b>Total adjustments</b>	<b>(3,652)</b>	<b>395</b>	<b>0</b>	<b>3,257</b>

## Notes to the Core Financial Statements

	General fund balances	Capital receipts reserve	Capital grants unapplied	Movement in unusable reserves
2011/12	£000	£000	£000	£000
<b>Adjustments primarily involving the capital adjustment account</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>				
Charges for depreciation and impairment of non-current assets	(938)	0	0	938
Revaluation losses on property, plant and equipment	0	0	0	0
Movements in the market value of investment properties	0	0	0	0
Capital grants and contributions applied	485	0	0	(485)
Revenue expenditure funded from capital under statute	(372)	0	0	372
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(71)	0	0	71
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</b>				
Statutory provision for the financing of capital investment	0	0	0	0
Capital expenditure charged against the general fund balance	0	0	0	0
<b>Adjustments primarily involving the capital grants unapplied account</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	12	0	(14)	2
Application of grants to capital financing transferred to the capital adjustment account	0	0	0	0
<b>Adjustments primarily involving the capital receipts reserve</b>				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	45	(45)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	380	0	(380)
Contribution from the capital receipts reserve towards administrative costs of noncurrent asset disposals	(2)	2	0	0
Transfer from deferred capital receipts reserve upon receipt of cash	(1)	1	0	0
<b>Adjustments primarily involving the deferred capital receipts reserve</b>				
Transfer of deferred sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0
<b>Adjustment primarily involving the financial instruments adjustment account</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	0	0
<b>Adjustments primarily involving the pensions reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and expenditure Statement	(1,692)	0	0	1,692
Employer's contributions and direct payments to pensioners payable in year	1,676	0	0	(1,676)
<b>Adjustments primarily involving the collection fund adjustment account</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	162	0	0	(162)
<b>Adjustments primarily involving the accumulated absences account</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(3)	0	0	3
<b>Total adjustments</b>	<b>(699)</b>	<b>338</b>	<b>(14)</b>	<b>375</b>

## Notes to the Core Financial Statements

### 3 Transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund Balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/13.

Reserve	note	Balance 1 April 2011	Transfers out 2011/12	Transfers in 2011/12	Balance 31 March 2012	Transfers out 2012/13	Transfers in 2012/13	Balance 31 March 2013
		£000	£000	£000	£000	£000	£000	£000
<b>Capital purposes</b>								
Revenue reserve	(a)	(10,636)	564	0	(10,072)	250	(165)	(9,987)
<b>Revenue purposes</b>								
Atrium development agreement	(b)	(717)	608	(3)	(112)	112	0	0
Atrium public art	(c)	(12)	0	0	(12)	0	0	(12)
Atrium S106 agreement	(d)	(487)	60	(3)	(430)	38	(2)	(394)
Blackwater Valley developers contributions	(e)	(145)	1	(6)	(150)	6	0	(144)
Chewing gum machine	(f)	(34)	3	0	(31)	9	0	(22)
Chobham and Town Team Partnership	(g)	0	0	0	0	0	(9)	(9)
Community fund 2002	(h)	(456)	15	0	(441)	31	0	(410)
Commuted sums	(i)	(849)	12	(9)	(846)	12	(4)	(838)
Crime and disorder partnership	(j)	(138)	0	(25)	(163)	19	0	(144)
Deepcut Village Centre: Alma Dettingen	(k)	(369)	0	(2)	(371)	0	(2)	(373)
Exhibits	(l)	(2)	0	0	(2)	2	0	0
Heatherside: multi-use games area	(m)	(162)	116	0	(46)	1	(1)	(46)
Insurance reserve fund	(n)	(226)	0	(13)	(239)	0	0	(239)
Land drainage	(o)	(403)	0	0	(403)	0	(1)	(404)
LLC Personal Search Revocation	(p)	(34)	0	0	(34)	0	0	(34)
New Burdens Fund	(q)	0	0	0	0	0	(81)	(81)
Modernisation fund	(r)	(32)	32	0	0	0	0	0
Old Dean toddlers playground	(s)	(22)	0	0	(22)	2	0	(20)
Olympic Fund	(t)	(4)	4	0	0	0	0	0
Personalisation and Prevention Partnerships	(u)	0	0	0	0		(115)	(115)
Planning S106 Agreements	(v)	(73)	0	(1)	(74)	0	(60)	(134)
Planning Tariff Contributions	(w)	(106)	25	(122)	(203)	40	(131)	(294)
Property maintenance	(x)	(444)	0	0	(444)	0	(64)	(508)
Recycling/Refuse equalisation	(y)	0	0	(250)	(250)	0	0	(250)
Remediation fund	(z)	(45)	0		(45)	0		(45)
Repairs and renewals	(aa)	(1,104)	106	(159)	(1,157)	115	(145)	(1,187)
Safer Surrey Heath	bb)	(7)	6	(6)	(7)	0	0	(7)
SANGS	(cc)	(468)	0	(105)	(573)	0	(125)	(698)
		(6,339)	988	(704)	(6,055)	387	(740)	(6,408)
		(16,975)	1,552	(704)	(16,127)	637	(905)	(16,395)

- a) **Revenue reserve** – this reserve is sourced from revenue to support capital expenditure.
- b) **Atrium development agreement** – this fund was set up to meet any shortfall on the projected rental income received in respect of The Atrium.
- c) **Atrium public art** – this fund was set up to meet the on-going maintenance and insurance costs of the project.
- d) **Atrium S106 Agreement** – this fund is made up of the developer contributions towards Town Centre Management Improvements as part of the Atrium Development legal agreement.
- e) **Blackwater Valley developer's 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.
- f) **Chewing gum machine** – this fund was set up from S106 income, to fund the projected 8 year life of the machine to cover the running costs and replacement of the machine.

- g) **Chobham and town team partnership** – A fund, granted by the Department of Communities and Local Government (DCLG), is held on behalf of Chobham BEE (Chobham Better Experience for Everyone) for planning and implementing improvements to Chobham High Street.
- h) **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.
- i) **Commuted sums** – these funds are contributed by developers for the maintenance of open spaces and amenities.
- j) **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.
- k) **Deepcut Village Centre: Alma Dettingen** – this is a sum held to contribute towards structural maintenance and the eventual refurbishment of this community facility.
- l) **Exhibits** – this fund is to enable the museum to purchase items of historical and conservation value.
- m) **Heatherside: multi use games area** – the Safer Surrey Heath partnership 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.
- n) **Insurance reserve fund** - this fund has been set aside for three reasons:
- in connection with the close of trading of the Municipal Mutual Insurance (MMI) and the potential contribution towards costs
  - to provide a credit guarantee for loans made under the council's car loans scheme for officers and;
  - to deliver a risk management policy including risk management, business continuity and health and safety.
- o) **Land drainage** – this fund finances the land drainage programme.
- p) **LCC personal search revocation** – this fund is to finance claims for refunds of fees, paid by way of Personal Searches of the Land Charges Register from 2005 to August 2010.
- q) **New burdens fund** – funding received from the DCLG in recognition of additional resources/works required by local authorities under the Localism Act.
- r) **Modernisation fund** – this fund is used to support the council's drive for efficiency savings
- s) **Old Dean toddlers playground** – this fund has been set up for this project from payments received from The Accent Foundation, Frimley Fuel Allotments, Beacon Church and parents support group for the installation of the playground and future maintenance.
- t) **Olympic Fund** – the London 2012 Olympics presents Surrey Heath with a once in a lifetime opportunity to benefit from a major sporting event. Through the provision of a dedicated Olympic Fund, the Council can help local sports and arts organisations make the most of the Games by inviting them to apply for funding to deliver inspirational projects and events.

## Notes to the Core Financial Statements

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- u) **Personalisation and prevention partnership** – funding provided by Surrey County Council (SCC) to enable the Council to invest in projects which through improved efficiency and increased income will benefit the older community.
- v) **Planning S106 Agreements** – this fund reflects developer contributions collected to fulfil specific financial obligations contained in S106 Agreements and are to be used for specific projects and purposes as detailed in the Section 106 Agreements.
- w) **Planning Tariff Contributions** – this fund reflects developer contributions collected via the Surrey Heath Developer Tariff Scheme for the provision of additional infrastructure projects in the borough in order to mitigate the impact of new development on local infrastructure.
- x) **Property maintenance** – this fund is used to finance the planned preventative maintenance programme for the council's properties.
- y) **Recycling/Refuse equalisation** - this fund has been set up to mitigate the effect of any fall in prices for recycled materials in future years.
- z) **Remediation fund** – this fund is used to fund works to restore land following illegal occupation.
- aa) **Repairs and renewals** – this fund is used to finance the repairs and renewal of equipment, vehicles and plant.
- bb) **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.
- cc) **SANGS** (Suitable Alternative Natural Green Space) – this fund was set up from developer contributions to fund the long term costs of mitigation for the Special Protection Areas (SPA).

## 4 Property, plant and equipment

### 4.1 Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Class type	Useful life range
Other buildings	10 to 50 years
Plant and equipment	2 to 10 years
Vehicles	20% on reducing balance method
Infrastructure	10 to 20 years

### 4.2 Construction Contracts

At 31<sup>st</sup> March 2013, the Council had not entered into any of contracts for the construction or enhancement of property, plant and equipment.

### 4.3 Revaluations

The Authority carries out a rolling programme that ensures that all material Property required to be measured at fair value is revalued at least every five years. All valuations are carried out externally by Hampshire County Council. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or the latest list prices adjusted for the condition of the asset.

	Other Land & Buildings £000	Surplus Assets £000	Total £000
Carried at historical cost	74	0	<b>74</b>
Value at fair value as at:			
31 March 2013	6,154		<b>6,154</b>
31 March 2012	13,298	141	<b>13,439</b>
31 March 2011	2,563		<b>2,563</b>
31 March 2010	14,671		<b>14,671</b>
31 March 2009	273	96	<b>369</b>
Total Cost or Valuation	<b>37,033</b>	<b>237</b>	<b>37,270</b>

## Notes to the Core Financial Statements

2012/13	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure	Community Assets	Surplus Assets	Assets Under Construction	Total PP&E
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2012	41,705	5,998	154	609	237	22	48,725
Additions	(45)	343	0	0	0	14	312
Donations	0	0	0	0	0	0	0
Revaluation Increases/(decreases) recognised in the revaluation reserve	3,953	0	0	0	0	0	3,953
Revaluation Increases/(decreases) recognised in the surplus / deficit on the provision of services	(101)	0	0	0	0	0	(101)
Derecognition - disposals	0	(59)	0	0	0	0	(59)
Derecognition - other	0	0	0	0	0	(6)	(6)
Assets reclassified (to) / from held for sale	0	0	0	0	0	0	0
Other movements in cost or valuation	0	0	0	0	0	0	0
<b>At 31 March 2013</b>	<b>45,512</b>	<b>6,282</b>	<b>154</b>	<b>609</b>	<b>237</b>	<b>30</b>	<b>52,824</b>
Accumulated depreciation and Impairment							
At 1 April 2012	(7,221)	(3,949)	(63)	0	0	0	(11,233)
Depreciation Charge	(1,665)	(453)	(9)	0	0	0	(2,127)
Depreciation written out to the revaluation reserve	370	0	0	0	0	0	370
Depreciation written out to the surplus / deficit on the provision of services	36	0	0	0	0	0	36
Impairment losses/reversals recognised in the revaluation reserve	0	0	0	0	0	0	0
Impairment losses/reversals recognised in the surplus / deficit on the provision of services	0	0	0	0	0	0	0
Derecognition - disposals	0	0	0	0	0	0	0
Derecognition - other	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	0	0	0	0	0	0
At 31 March 2013	(8,480)	(4,402)	(72)	0	0	0	(12,954)
<b>Net Book Value</b>							
<b>At 31 March 2013</b>	<b>37,032</b>	<b>1,880</b>	<b>82</b>	<b>609</b>	<b>237</b>	<b>30</b>	<b>39,870</b>
<b>At 31 March 2012</b>	<b>34,484</b>	<b>2,049</b>	<b>91</b>	<b>609</b>	<b>237</b>	<b>22</b>	<b>37,492</b>

Notes to the Core Financial Statements

2011/12	Other land & buildings	Vehicles, plant & equipment	Infrastructure	Community assets	Surplus assets	Assets under construction	Total PP&E
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>							
At 1 April 2011	34,552	5,733	154	414	242	0	41,095
Additions	21	336	0	0	0	22	379
Donations	0	0	0	0	0	0	0
Revaluation Increases/(decreases) recognised in the revaluation reserve	8,756	0	0	0	10	0	8,766
Revaluation Increases/(decreases) recognised in the surplus / deficit on the provision of services	(279)	0	0	0	(15)	0	(294)
Derecognition - disposals	0	(71)	0	0	0	0	(71)
Derecognition - other	0	0	0	0	0	0	0
Assets reclassified (to) / from held for sale	0	0	0	0	0	0	0
Other movements in cost or valuation	(1,345)	0	0	195	0	0	(1,150)
At 31 March 2012	41,705	5,998	154	609	237	22	48,725
<b>Accumulated depreciation and Impairment</b>							
At 1 April 2011	(8,103)	(3,416)	(54)	0	0	0	(11,573)
Depreciation Charge	(1,290)	(533)	(9)	0	0	0	(1,832)
Depreciation written out to the revaluation reserve	702	0	0	0	0	0	702
Depreciation written out to the surplus / deficit on the provision of services	28	0	0	0	0	0	28
Impairment losses/reversals recognised in the revaluation reserve	0	0	0	0	0	0	0
Impairment losses/reversals recognised in the surplus / deficit on the provision of services	1,267	0	0	0	0	0	1,267
Derecognition - disposals	0	0	0	0	0	0	0
Derecognition - other	0	0	0	0	0	0	0
Other movements in depreciation and impairment	175	0	0	0	0	0	175
At 31 March 2012	(7,221)	(3,949)	(63)	0	0	0	(11,233)
<b>Net Book Value</b>							
<b>At 31 March 2012</b>	<b>34,484</b>	<b>2,049</b>	<b>91</b>	<b>609</b>	<b>237</b>	<b>22</b>	<b>37,492</b>
<b>At 31 March 2011</b>	<b>26,449</b>	<b>2,317</b>	<b>100</b>	<b>414</b>	<b>242</b>	<b>0</b>	<b>29,522</b>

## Notes to the Core Financial Statements

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### 5 Heritage Assets

- 5.1 A reconciliation of the carrying value of heritage assets held by the Council is shown in the table below:

	<b>Museum</b>	<b>Civic Regalia</b>	<b>Other</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>				
1 <sup>st</sup> April 2012	158	49	48	<b>255</b>
<b>31<sup>st</sup> March 2012</b>	<b>158</b>	<b>49</b>	<b>48</b>	<b>255</b>
<b>Cost or Valuation</b>				
1 <sup>st</sup> April 2012	158	49	48	<b>255</b>
Revaluations	0	58	0	<b>58</b>
<b>31<sup>st</sup> March 2013</b>	<b>158</b>	<b>107</b>	<b>48</b>	<b>313</b>

#### 5.2 Civic Regalia

The Civic Regalia was revalued in 2012/13 for insurance purposes. This has resulted in an increase of £0.058m to £0.107m.

#### 5.3 Museum

Surrey Heath Museum holds a number of paintings and historic exhibits with an insurance valuation of £0.158m.

#### 5.4 Other

A modern piece of artwork that is displayed outside the Atrium. The value of this asset is separately identifiable at £0.048m.

### 6 Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that software is not an integral part of a particular IT system and is not accounted for as part of any hardware item recorded in Property, Plant and Equipment. Intangible assets include both purchased licences and internally generated software.

During 2012/13 £0.042m of expenditure was incurred on the enhancement and development of the Council's web services. In accordance with best accounting practice, this amount was fully amortised to revenue in 2012/13 and charged to the Corporate Resources Holding Account. It was then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

### 7 Investment Properties

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

## Notes to the Core Financial Statements

	2011/12	2012/13
	£000	£000
Rental income from investment property	(557)	(660)
Direct operating expenses arising from investment property	2	18
<b>Net (gain) / loss</b>	<b>(555)</b>	<b>(642)</b>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or towards repairs, maintenance or enhancement.

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

	2011/12	2012/13
	£000	£000
<b>Balance at start of the year</b>	<b>9,608</b>	<b>10,777</b>
Purchases	0	90
Net gains / (losses) from fair value adjustments	0	(747)
Transfers (to) / from property, plant and equipment	1,169	0
<b>Balance at end of the year</b>	<b>10,777</b>	<b>10,120</b>

## Notes to the Core Financial Statements

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### 8 Financial Instruments

8.1 The following categories of financial instruments are carried in the balance sheet:

	Long Term		Current	
	31 March	31 March	31 March	31 March
	2012	2013	2012	2013
	£000	£000	£000	£000
<b>Investments</b>				
Loans and receivables	4,583	427	15,185	13,189
Available-for-sale financial assets	0	0	3,531	11,049
<b>Total investments</b>	<b>4,583</b>	<b>427</b>	<b>18,716</b>	<b>24,238</b>
<b>Debtors</b>				
Loans and receivables	0	0	0	0
Financial assets carried at contract amount	341	322	1,912	2,080
<b>Total debtors</b>	<b>341</b>	<b>322</b>	<b>1,912</b>	<b>2,080</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	0	0	0	0
Financial liabilities carried at contract amount	(132)	(132)	(4,894)	(6,519)
<b>Total creditors</b>	<b>(132)</b>	<b>(132)</b>	<b>(4,894)</b>	<b>(6,519)</b>

### 8.2 Reclassifications

No financial instruments were reclassified during the year.

## 8.3 Income, expense, gains and losses

2011/12					2012/13					
Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	Total		Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	Total
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
0				0	Interest expense	0				0
0	0	0	0	0	Losses on derecognition	0	0	0	0	0
			0	0	Reductions in fair value				0	0
	0			0	Impairment losses		0			0
0	0	0	0	0	Fee expense	0	0	0	0	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>Total expense in surplus or deficit on the provision of services</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	(366)	(25)		(391)	Interest income		(270)	(97)	0	(367)
	0			0	Interest income accrued on impaired financial assets		0			0
0	0	0	0	0	Increase in fair value				0	0
0	0	0	0	0	Gains on derecognition	0	0	0	0	0
					Fee income	0	0	0	0	0
<b>0</b>	<b>(366)</b>	<b>(25)</b>	<b>0</b>	<b>(391)</b>	<b>Total income in surplus or deficit on the provision of services</b>	<b>0</b>	<b>(270)</b>	<b>(97)</b>	<b>0</b>	<b>(367)</b>
		0		0	(Gains) on revaluation			0		0
		0		0	Losses on revaluation			0		0
					Amounts recycled to the surplus or deficit on the provision of services after impairment			0		0
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(Surplus) / deficit arising on revaluation of financial assets in other comprehensive income and expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>0</b>	<b>(366)</b>	<b>(25)</b>	<b>0</b>	<b>(391)</b>	<b>Net (gain) / loss for the year</b>	<b>0</b>	<b>(270)</b>	<b>(97)</b>	<b>0</b>	<b>(367)</b>

## 8.4 Fair values of assets and liabilities

Financial liabilities, financial assets represented by loans and receivables, available for sale financial assets and long-term debtors and creditors are carried in the balance sheet at amortised cost, so changes in their fair value do not impact on the Comprehensive Income and Expenditure Statement. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- no early repayment or impairment is recognised
- cash flows arising from long term investments have been discounted at money market rates available for investments of similar remaining maturities on the balance sheet date.
- where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

## Notes to the Core Financial Statements

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	2011/12		2012/13	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	0	0	0	0
Long term creditors	(132)	(132)	(132)	(132)

	2011/12		2012/13	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and receivables	19,768	19,887	13,618	13,868
Long term debtors	341	341	321	321

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a fixed rate loan where the interest rate receivable is lower than the rates available for similar loans at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2013) attributable to the commitment to receive interest below current market rates. These figures include £1m invested with the Icelandic Banks which has had an impairment applied further details of which are shown below.

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

### 8.5 Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and went into administration. On 28<sup>th</sup> October 2011 the Icelandic Supreme Court ruled that UK local authorities' claims qualified as priority claims under Icelandic bankruptcy legislation. As a result the values of local authorities' claims have now been finalised and will at the very least be equal to the original deposit plus interest accrued to the 22<sup>nd</sup> April 2009 or, if earlier, the maturity date.

## 8.6 Impairment of Icelandic Investments

The Council has £429k with Landsbanki as follows:

Bank	Date Invested	Maturity Date	Interest Rate	Amount Invested	Carrying Value	Less Repaid	Interest Accrued	Net Impairment	Carrying Value
					31/03/2012	2012/13	2012/13	2012/13	31/03/2013
				£000	£000	£000	£000	£000	£000
Landsbanki	05/06/2007	05/06/2010	6.30%	1,000	570	(190)	35	14	429

The impairment of the original Landsbanki investment has been estimated by discounting the cash flows of the projected recoverable amounts to show the present value using the original annual interest rate. Adjustments to the assumptions will be made in future accounts as more information becomes available.

### Landsbanki

Landsbanki's winding up Board made an initial distribution on 17th February 2012 and further distributions were made on the 24<sup>th</sup> May 2012 and 5<sup>th</sup> October 2012 which came to 49.65% of the total. These were made in a basket of currencies consisting of Icelandic krona (ISK), US dollars and pounds sterling. Although the future pattern of distributions is not known based on the information available it has been assumed that there will 100% of the balance outstanding will be repaid.

With the exception of the ISK element of the distribution, the foreign currencies were converted into pounds sterling on the day of receipt. The ISK amount is subject to restrictions imposed by the Icelandic Government, and this part of the distribution has been paid into an escrow account which is earning interest at the 31<sup>st</sup> March 2017 at rate of 3.17%. As at 31<sup>st</sup> March 2013, the ISK was converted into pounds sterling to £8k and recorded on the balance sheet as a short term investment. The final repayment of this amount will depend on the prevailing exchange rate, and may therefore be lower than value recorded in sterling on the balance sheet as at 31<sup>st</sup> March 2013.

### Glitnir

Glitnir's winding up board made full and final distribution on the 16<sup>th</sup> March 2012. The distribution was made in a basket of currencies which, with the exception of the amount paid in Icelandic Kronor (ISK) were converted in to sterling on the day of receipt. The ISK amount is still subject to exchange restrictions imposed by the Icelandic government and is being held in an Escrow account earning interest over the year at between 3.4% and 4.2%. For accounts purposes at the 31<sup>st</sup> March 2013 the ISK was converted into £ sterling using a prevailing exchange rate giving a gain of £42k. The total balance of £639k is recorded on the balance sheet as a short term investment. The final repayment of this amount will depend on the lifting of exchange controls and the prevailing exchange rate and may therefore be lower than value recorded in sterling on the balance sheet as at 31<sup>st</sup> March 2013.

## Notes to the Core Financial Statements

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### 9 Long Term debtors

	31 March 2012	31 March 2013
	£000	£000
Car loans	1	0
Charges on properties	187	178
Housing loans	153	144
	<b>341</b>	<b>322</b>

Details of the Council's long term debtors are shown below.

### 10 Short term debtors

Details of the Council's short term debtors are shown below:

	31 March 2012	31 March 2013
	£000	£000
Central government bodies	82	80
Other local authorities	555	331
Sundry debtors	1,909	2,291
	<b>2,546</b>	<b>2,702</b>
Provision for impairment of bad debts	(634)	(622)
	<b>1,912</b>	<b>2,080</b>

### 11 Cash and Cash Equivalents

Details of the Council's cash and cash equivalents are shown below.

	31 March 2012	31 March 2013
	£000	£000
Cash held by the Council	6	7
Bank current accounts	535	382
Short term deposits	3,531	11,049
<b>Total cash and cash equivalents</b>	<b>4,072</b>	<b>11,438</b>

## 12 Short Term Creditors

Details of the Council's short terms creditors are shown below:

	31 March 2012	31 March 2013
	£000	£000
Central government bodies	(739)	(2,858)
Other local authorities	(2,191)	(1,423)
Other entities and individuals	(1,964)	(2,238)
	<b>(4,894)</b>	<b>(6,519)</b>

## 13 Unusable Reserves

### 13.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1<sup>st</sup> April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2011/12	2012/13
	£000	£000
Balance at 1 April	<b>(4,688)</b>	<b>(13,826)</b>
Upward revaluation of assets	(9,662)	(4,381)
Downward revaluation of assets and impairment losses not charged to the surplus / deficit on the provision of services	0	0
(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	(9,662)	(4,381)
Difference between fair value depreciation and historical cost depreciation	524	656
Amount written off to the Capital Adjustment Account	524	656
Balance at 31 March	<b>(13,826)</b>	<b>(17,551)</b>

### 13.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation,

## Notes to the Core Financial Statements

impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council.

The account also contains revaluation gains accumulated on property, plant and equipment before 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 5 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2011/12	2012/13
	£000	£000
<b>Balance at 1 April</b>	<b>(34,691)</b>	<b>(34,699)</b>
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i>		
Charges for depreciation and impairment of non-current assets	938	2,169
Revaluation losses on property, plant and equipment	0	64
Revenue expenditure funded from capital under statute	372	484
Amounts of non-current assets written off on disposal or sale as part of the (gain) / loss on disposal to the Comprehensive Income and Expenditure Statement	71	60
	1,381	2,777
Adjusting amounts written out of the Revaluation Reserve	(524)	(656)
Net written out amount of the non-current assets consumed in the year	857	2,121
<i>Capital financing applied in the year:</i>		
Use of the capital receipts reserve to finance new capital expenditure	(380)	(425)
Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	(437)	(355)
Application of grants to capital financing from the capital grants unapplied account	0	0
Statutory provision for the financing of capital investment charged against the General Fund Balance	0	0
Capital expenditure charged against the General Fund	(48)	(142)
	(865)	(922)
Movements in the market value of investment properties debited or (credited) in the Comprehensive Income and Expenditure Statement	0	748
Movements in the donated assets account credited in the Comprehensive Income and Expenditure Statement	0	0
<b>Balance at 31 March</b>	<b>(34,699)</b>	<b>(32,752)</b>

### 13.3 Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

## Notes to the Core Financial Statements

	2011/12 £000	2012/13 £000
<b>Balance at 1 April</b>	<b>(29)</b>	<b>(27)</b>
Transfer of deferred sales proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0
Transfer to the capital receipts reserve upon receipt of cash	2	4
<b>Balance at 31 March</b>	<b>(27)</b>	<b>(23)</b>

### 13.4 Pensions Reserve

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

	2011/12 £000	2012/13 £000
<b>Balance at 1 April</b>	<b>18,899</b>	<b>25,119</b>
Actuarial (gains) and losses on pensions assets and liabilities	6,204	3,302
Reversal of items relating to retirement benefits debited or (credited) to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	1,692	2,225
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,676)	(1,673)
<b>Balance at 31 March</b>	<b>25,119</b>	<b>28,973</b>

### 13.5 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from

## Notes to the Core Financial Statements

council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2011/12	2012/13
	£000	£000
<b>Balance at 1 April</b>	<b>(92)</b>	<b>(254)</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(162)	94
<b>Balance at 31 March</b>	<b>(254)</b>	<b>(160)</b>

### 13.6 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31<sup>st</sup> March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

	2011/12	2012/13
	£000	£000
<b>Balance at 1 April</b>	<b>130</b>	<b>133</b>
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3	4
<b>Balance at 31 March</b>	<b>133</b>	<b>137</b>

**14 This note has been removed as it is not required**

### 15 Cash flow statement – investing activities

The cash flows for investing activities include the following items:

## Notes to the Core Financial Statements

	2011/12	2012/13
	£000	£000
Purchase of property, plant and equipment, investment property and intangible assets	(1,081)	(848)
Purchase of short term and long term investments	(5,331)	(2,282)
Other payments for investing activities	0	6,838
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	43	30
Other receipts from investing activities	1,256	0
<b>Net cash flows from investing activities</b>	<b>(5,113)</b>	<b>3,738</b>

### 16 Cash flow statement – financing activities

The cash flows for financing activities include the following items:

	2011/12	2012/13
	£000	£000
Cash receipts of short and long term borrowing	1,042	2,178
Other receipts from financing activities	3,497	195
<b>Net cash flows from financing activities</b>	<b>4,539</b>	<b>2,373</b>

### 17 Amounts reported for resource allocation decisions

17.1 The analysis of income and expenditure by service on the face of the Comprehensive Income and expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Executive on the basis of budget reports analysed across portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges (apart from an estimate for asset charges) are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on an estimate of current service cost of benefits accrued in the year however this changes after the actuaries review
- expenditure on some support services is budgeted for centrally and not charged to portfolios
- some expenditure from reserves is not included within the budget reports that go to Executive

The income and expenditure of the Council's principal portfolios recorded in the budget reports for the year is as follows:

## Notes to the Core Financial Statements

Portfolio Income and Expenditure	Business	Regulatory	Community	Corporate	Finance	Transformation	Total
2012/13							
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(3,369)	(1,530)	(2,387)	(123)	(407)	(599)	(8,415)
Government grants	0	(77)	(557)	0	(20,303)	(12)	(20,949)
<b>Total income</b>	<b>(3,369)</b>	<b>(1,607)</b>	<b>(2,944)</b>	<b>(123)</b>	<b>(20,710)</b>	<b>(611)</b>	<b>(29,364)</b>
Employee expenses	1,233	1,406	1,471	435	922	786	6,253
Other service expenses	2,545	974	4,829	484	20,217	778	29,827
Support service recharges	787	934	894	441	1,399	380	4,835
<b>Total expenditure</b>	<b>4,565</b>	<b>3,314</b>	<b>7,194</b>	<b>1,360</b>	<b>22,538</b>	<b>1,944</b>	<b>40,915</b>
<b>Net expenditure</b>	<b>1,196</b>	<b>1,707</b>	<b>4,250</b>	<b>1,237</b>	<b>1,828</b>	<b>1,333</b>	<b>11,551</b>

Portfolio Income and Expenditure	Arts and Leisure	Built Environment	Community	Corporate	Finance	Leader	Total
2011/12							
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(1,342)	(2,873)	(2,935)	(108)	(882)	(85)	(8,225)
Government grants	(20)	0	(19,320)	0	(2)	0	(19,342)
<b>Total income</b>	<b>(1,362)</b>	<b>(2,873)</b>	<b>(22,255)</b>	<b>(108)</b>	<b>(884)</b>	<b>(85)</b>	<b>(27,567)</b>
Employee expenses	970	831	2,077	523	1,112	331	5,844
Other service expenses	1,714	1,134	23,819	432	743	477	28,319
Support service recharges	574	1,831	1,777	250	1,154	356	5,942
<b>Total expenditure</b>	<b>3,258</b>	<b>3,796</b>	<b>27,673</b>	<b>1,205</b>	<b>3,009</b>	<b>1,164</b>	<b>40,105</b>
<b>Net expenditure</b>	<b>1,896</b>	<b>923</b>	<b>5,418</b>	<b>1,097</b>	<b>2,125</b>	<b>1,079</b>	<b>12,538</b>

### 17.2 Reconciliation of portfolio income and expenditure to cost of services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2011/12	2012/13
	£000	£000
Net expenditure in the Portfolio Analysis	12,538	11,551
Net expenditure of services and support services not included in the analysis	836	2,392
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>13,374</b>	<b>13,943</b>

### 17.3 Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

## Notes to the Core Financial Statements

	Portfolio analysis	Services and support services not in analysis	Amounts not reported to management for decision making	Cost of services	Corporate amounts	Total
2012/13	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(8,415)	0	0	(8,415)	0	(8,415)
Financing and investment income and expenditure	0	0	0	0	(245)	(245)
Income from council tax	0	0	0	0	(7,705)	(7,705)
Income from non domestic rates	0	0	0	0	(3,256)	(3,256)
Past service gain on pensions	0	0	0	0	0	0
Government grants and contributions	(20,949)	0	0	(20,949)	(534)	(21,483)
<b>Total income</b>	<b>(29,364)</b>	<b>0</b>	<b>0</b>	<b>(29,364)</b>	<b>(11,740)</b>	<b>(41,104)</b>
Employee expenses	6,253	0	0	6,253	0	6,253
Other service expenses	29,827	0	0	29,827	0	29,827
Support service recharges	4,835	0	0	4,835	0	4,835
Depreciation, amortisation and impairment	0	0	2,392	2,392	0	2,392
Interest payments	0	0	0	0	741	741
Payments to housing pool	0	0	0	0	2	2
Precepts & levies	0	0	0	0	476	476
<b>Total expenditure</b>	<b>40,915</b>	<b>0</b>	<b>2,392</b>	<b>43,307</b>	<b>1,219</b>	<b>44,526</b>
<b>Surplus or deficit on the provision of services</b>	<b>11,551</b>	<b>0</b>	<b>2,392</b>	<b>13,943</b>	<b>(10,521)</b>	<b>3,422</b>

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	Portfolio analysis	Services and support services not in analysis	Amounts not reported to management for decision making	Cost of services	Corporate amounts	Total
2011/12	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(8,225)	0	0	(8,225)	0	(8,225)
Interest and investment income	0	0	0	0	(843)	(843)
Income from council tax	0	0	0	0	(7,670)	(7,670)
Income from non domestic rates	0	0	0	0	(2,789)	(2,789)
Post stock transfer capital receipts	0	0	0	0	0	0
Government grants and contributions	(19,342)	0	0	(19,342)	(1,457)	(20,799)
<b>Total income</b>	<b>(27,567)</b>	<b>0</b>	<b>0</b>	<b>(27,567)</b>	<b>(12,759)</b>	<b>(40,326)</b>
Employee expenses	5,844	0	0	5,844	0	5,844
Other service expenses	28,319	0	0	28,319	0	28,319
Support service recharges	5,942	0	0	5,942	0	5,942
Depreciation, amortisation and impairment	0	0	836	836	0	836
Interest payments	0	0	0	0	316	316
Payments to housing pool	0	0	0	0	2	2
Precepts & levies	0	0	0	0	476	476
<b>Total expenditure</b>	<b>40,105</b>	<b>0</b>	<b>836</b>	<b>40,941</b>	<b>794</b>	<b>41,735</b>
<b>Surplus or deficit on the provision of services</b>	<b>12,538</b>	<b>0</b>	<b>836</b>	<b>13,374</b>	<b>(11,965)</b>	<b>1,409</b>

## 18 Trading operations

18.1 The table below shows those operating units of the Council where service managers are required to operate within a commercial environment and balance their budget by generating income from other parts of the Council, other organisations and the general public.

	2011/12		2012/13	
	Turnover	(Surplus) / deficit	Turnover	(Surplus) / deficit
	£000	£000	£000	£000
Camberley Theatre	(806)	524	(622)	585
Car parks	(1,683)	(1,071)	(1,724)	(176)
Building control - chargeable	(276)	87	(268)	(50)
	<b>(2,765)</b>	<b>(460)</b>	<b>(2,614)</b>	<b>359</b>

## 18.2 Camberley Theatre

The Council owns and manages a theatre who put on a variety of productions. It is managed by an in-house team.

## 18.3 Car Parks

The car parks are owned and managed by the Council.

## 19 Agency services

19.1 The Council provides the following services on behalf of Surrey County Council through agency agreements:

- management of two gypsy sites at Swift Lane and Kalima,
- civil parking enforcement and controlled parking zones.

	2011/12	2012/13
	£000	£000
<b>Gypsy sites</b>		
Income	(167)	(174)
Expenditure	200	180
<b>(Surplus) / deficit on the agency arrangement</b>	<b>33</b>	<b>6</b>
<b>Parking services</b>		
Income		
Civil Parking Enforcement	(144)	(178)
Controlled Parking Zones	(151)	(214)
	<b>(295)</b>	<b>(392)</b>
Expenditure		
Civil Parking Enforcement	146	178
Controlled Parking Zones	153	214
	<b>299</b>	<b>392</b>
<b>(Surplus) / deficit on the agency arrangement</b>		
Civil Parking Enforcement	<b>2</b>	<b>0</b>
Controlled Parking Zones	<b>2</b>	<b>0</b>
	<b>4</b>	<b>0</b>
<b>Total (surplus) / deficit on the agency arrangements</b>	<b>37</b>	<b>6</b>

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### 20 Members' allowances

The Council paid the following amounts to members of the council during the year.

Local Authorities are required to disclose the amounts paid to each member; these are published annually on the Surrey Heath Borough Council website.

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Allowances	273	267
Travel and other allowances	2	3
Mayor	4	4
<b>Total allowances</b>	<b>279</b>	<b>274</b>

21 Officers remuneration

21.1 The remuneration paid to the Council's senior employees is as follows:-

Post holder information		Salary (including fees & allowances)	Expenses	Benefits in kind	Compensation for Loss of Office	Employers Pension Contributions	Sub Total	Returning Officer Amount	Total	Note
2012/13		£000	£000	£000	£000	£000	£000	£000	£000	
Chief Executive	2012/13	105	2	7	0	17	131	3	134	
	2011/12	98	2	7	0	15	122	8	130	
Deputy Chief Executive	2012/13	50	1	3	84	8	146	0	146	Employee left 8/10/12. Post deleted
	2011/12	89	1	6	0	14	110	0	110	
Head of Corporate Governance	2012/13	32	0	2	26	5	65	0	65	Employee left 2/9/12. Post deleted
	2011/12	70	0	5	0	11	86	0	86	
Executive Head of Finance	2012/13	45	0	4	0	7	56	0	56	New post 1/9/12
	2011/12	0	0	0	0	0	0	0	0	
Head of Corporate Finance	2012/13	31	0	2	0	5	38	0	38	Post deleted 31/8/12
	2011/12	73	0	6	0	12	91	0	91	
Executive Head of Corporate	2012/13	45	0	4	0	7	56	0	56	New post 1/9/12
	2011/12	0	0	0	0	0	0	0	0	
Head of Customer Relations	2012/13	31	0	2	0	5	38	0	38	Post deleted 31/8/12
	2011/12	69	0	6	0	11	86	0	86	
Executive Head of Transformation	2012/13	40	0	2	0	6	48	0	48	New post 1/9/12
	2011/12	0	0	0	0	0	0	0	0	
Head of Corporate Resources	2012/13	28	0	2	0	4	34	0	34	Post deleted 31/8/12
	2011/12	66	0	4	0	10	80	0	80	
Executive Head of Community	2013/13	40	0	3	0	4	47	0	47	New post 1/9/12
	2011/12	0	0	0	0	0	0	0	0	
Head of Neighbourhood Services	2012/13	28	0	2	0	6	36	0	36	Post deleted 31/8/12
	2011/12	66	0	5	0	10	81	0	81	
Executive Head of Business	2013/13	25	0	0	0	4	29	0	29	New post 1/9/12
	2011/12	0	0	0	0	0	0	0	0	Employee started 20/11/12
Head of Cultural & Commercial Services	2012/13	7	0	0	0	1	8	0	8	Post deleted 31/8/12
	2011/12	66	0	2	0	10	78	0	78	Employee left 7/5/12
Executive Head of Regulatory	2013/13	29	0	1	0	5	35	0	35	New post 1/9/12
	2011/12	0	0	0	0	0	0	0	0	Employee appointed to new role 1/12/12
Head of Planning, Development & Homes	2012/13	50	0	4	72	8	134	0	134	Post deleted 31/8/12
	2011/12	66	0	4	0	10	80	0	80	Employee left 31/12/12
Head of Legal	2012/13	4	0	0	0	1	5	0	5	New post 1/9/12
	2011/12	0	0	0	0	0	0	0	0	Employee started 11/3/13
Head of Human Resources	2012/13	32	0	0	0	5	37	0	37	New post 1/9/12
	2011/12	0	0	0	0	0	0	0	0	

## Notes to the Core Financial Statements

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A management team restructure took place at Surrey Heath Borough Council during 2012/13. The new structure removed the post of Deputy Chief Executive and the seven Heads of Service were replaced with a team of six Executive Heads of Service together with a Head of Legal and Head of Human Resources. The appointments to the new posts took place on 1<sup>st</sup> September 2012. As a result of the restructure, the services have been re-named, and there were some changes to the allocations of teams within the new structures.

### 21.2 Remuneration Bands

Council employees (including senior officers included in the table above) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts.

	<b>2011/12</b>	<b>2012/13</b>
Remuneration band	<b>number of employees</b>	<b>number of employees</b>
£50,000 - £54,999	6	4
£55,000 - £59,999	0	2
£60,000 - £64,999	0	1
£65,000 - £69,999	4	0
£70,000 - £74,999	5	2
£75,000 - £79,999	1	0
£80,000 - £84,999	1	2
£85,000 - £89,999	0	0
£90,000 - £94,999	0	0
£95,000 - £99,999	1	0
£100,000 - £104,999	0	0
£105,000 - £109,999	2	0
£110,000 - £114,999	0	1
£115,000 - £119,999	0	0
£120,000 - £124,999	0	0
£125,000 - £129,999	0	1
£130,000 - £134,999	0	0
£135,000 - £139,999	0	1
	<b>20</b>	<b>14</b>

## 21.3 Exit Packages

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

a Exit package cost band (including special payments)	b Number of compulsory redundancies		c Number of other departures agreed		d Total number of exit packages by cost band b + c		e Total cost of exit packages in each band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12 £	2012/13 £
£0 - £20,000	3	2	5	2	8	4	65,710	23,036
£20,001 - £40,000	0	0	4	2	4	2	118,430	61,304
£40,001 - £60,000	2	0	2	1	4	0	191,780	0
£60,001 - £80,000	0	1	1	0	1	1	62,550	71,615
£80,001 - £100,000	0	0	0	1	0	1	0	85,649
£100,001 - £150,000	0	0	1	0	1	1	103,130	100,696
<b>Total</b>	<b>5</b>	<b>3</b>	<b>13</b>	<b>6</b>	<b>18</b>	<b>9</b>	<b>541,600</b>	<b>342,300</b>

## Notes to the Core Financial Statements

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### 22 External audit costs

The Council has incurred the following costs in relation to the audit of the statement of accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

	2011/12	2012/13
	£000	£000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	94	55
Fees payable for the certification of grant claims and returns for the year	26	15
Fees payable in respect of other services provided by the auditor during the year	1	0
	<b>121</b>	<b>70</b>

### 23 Grant income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

	2011/12	2012/13
	£000	£000
<b>Credited to taxation and non specific grant income</b>		
Revenue support grant	(862)	(63)
Other grants	(270)	(471)
<b>Total</b>	<b>(1,132)</b>	<b>(534)</b>
<b>Credited to services</b>		
Administration grant	(400)	(377)
Council tax benefit grant	(3,629)	(3,737)
Rent allowance subsidy	(15,154)	(16,047)
Other grants	(484)	(788)
<b>Total</b>	<b>(19,667)</b>	<b>(20,949)</b>
<b>Total Grants</b>	<b>(20,799)</b>	<b>(21,483)</b>

The Council has no grants, contributions and donations that have yet to be recognised as income because they have conditions attached.

### 24 Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allow 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.

### 24.1 Central Government

Central government has effective control over the general operations of the 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 (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 17.3 on reporting resources allocation decisions.

### 24.2 Members

Members of the Council have direct control over the Council's financial and operating policies. One member is an employee of Guildford Borough Council but is not involved in contracting nor any activity paid for by Surrey Heath. Two members are also members of Surrey County Council but have no personal interest in any transactions. Grants totaling £148,805 were paid to 8 different voluntary organisations in which 13 members had an interest. The grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the register of members' interest, open to public inspection at Surrey Heath House during office hours.

The total of members' allowances paid in 2012/13 is shown in Note 20.

### 24.3 Officers

One officer declared an interest in Collectively Camberley. The Council acts as the agent responsible for the collection of the Collectively Camberley BID levy.

### 24.4 Other Public Bodies (subject to common control by central government)

The Council had significant financial transactions with both Surrey County Council and Surrey Police Authority details of which are shown in the Collection Fund Statement for 2012/13 on page 74.

## 25 Capital expenditure and capital financing

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

## Notes to the Core Financial Statements

	2011/12	2012/13
	£000	£000
<b>Opening capital financing requirement</b>	<b>0</b>	<b>0</b>
<b>Capital investment</b>		
Property, plant and equipment	356	277
Investment assets	0	90
Assets under construction	22	14
Intangible assets	115	42
Revenue expenditure funded from capital under statute	372	484
<b>Sources of finance</b>		
Capital receipts	(380)	(425)
Government grants and other contributions	(437)	(355)
Sums set aside from revenue	(48)	(127)
<b>Closing capital financing requirement</b>	<b>0</b>	<b>0</b>

## 26 Leases

### 26.1 Council as Lessee – Operating Leases

The Council leases four vans from Apetito to assist in providing the Meals on Wheels service to residents.

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

	31 March 2012	31 March 2013
	£000	£000
Not later than one year	11	19
Later than one year and not later than five years	13	90
Later than five years	0	0
	<b>24</b>	<b>109</b>

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

	2011/12	2012/13
	£000	£000
Adult social care	19	19
	<b>19</b>	<b>19</b>

### 26.2 Council as Lessor – Operating Leases

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

- for the provision of community services, such as sports facilities, tourism services and community centres, and
- for economic development purposes to provide suitable affordable accommodation for local businesses.

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

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	27	31
Later than one year and not later than five years	0	0
Later than five years	721	793
	<b>748</b>	<b>824</b>

## **27 Impairment Losses**

A revaluation of a proportion of the Council's property assets completed in 2012/13 revealed that a number of properties that had previously been impaired had increased in value. As a result £0.145m of prior year impairments relating to these properties was reversed out of the surplus/deficit on the provision of services in the Comprehensive Income and Expenditure Statement.

## **28 Termination Benefits**

The Council terminated the contracts of a number of employees during 2012/13 incurring liabilities of £0.342m (£0.542m in 2011/12). Termination benefits were paid to eighteen different officers as part of the Council's on going efficiency and transformation programme.

## **29 Defined Benefit Pension schemes**

### **29.1 Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

The Local Government Pension Scheme, administered locally by Surrey County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards

## Notes to the Core Financial Statements

are made. However there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

### 29.2 Transactions relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local government pension scheme	
	2011/12	2012/13
	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>		
<i>Cost of services:</i>		
Current service cost	1,149	1,115
Past service costs	0	111
Settlements and curtailments	227	258
<i>Financing and investment income and expenditure:</i>		
Interest cost	3,843	3,655
Expected return on scheme assets	(3,527)	(2,914)
Total post employment benefit charged to the (surplus) or deficit on the provision of services	1,692	2,225
<i>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</i>		
Actuarial gains and (losses)	(6,204)	(3,302)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	<b>(4,512)</b>	<b>(1,077)</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to surplus or deficit for the provision of services for post employment benefits in accordance with the code	4,512	1,077
<i>Actual amount charged against the general fund balance for pensions in the year:</i>		
Employers' contributions payable to scheme	1,455	1,444

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31<sup>st</sup> March 2013 is a loss of £25.8m.

**29.3 Assets and Liabilities in relation to Post-employment Benefits**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded liabilities: local government pension scheme		Unfunded liabilities: discretionary benefits arrangements	
	2011/12	2012/13	2011/12	2012/13
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	<b>70,511</b>	<b>76,660</b>	<b>0</b>	<b>0</b>
Current service cost	1,149	1,115	221	229
Interest cost	3,843	3,655	0	0
Contributions by scheme participants	430	392	0	0
Actuarial (gains) and losses	3,610	8,430	0	0
Benefits paid	(3,110)	(2,898)	(221)	(229)
Past service costs	0	111	0	0
Curtailments	227	258	0	0
<b>Closing balance at 31 March</b>	<b>76,660</b>	<b>87,723</b>	<b>0</b>	<b>0</b>

**29.4 Reconciliation of fair value of the scheme assets:**

	Local government pension scheme	
	2011/12	2012/13
	£000	£000
<b>Opening balance at 1 April</b>	<b>(51,612)</b>	<b>(51,541)</b>
Expected rate of return	(3,527)	(2,914)
Actuarial (gains) and losses	2,594	(5,128)
Employer contributions	(1,455)	(1,444)
Contributions by scheme participants	(430)	(392)
Benefits paid	2,889	2,669
<b>Closing balance at 31 March</b>	<b>(51,541)</b>	<b>(58,750)</b>

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

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £8.0m (2011/12: £0.9m).

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### 29.5 Scheme History

	2008/09	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000	£000
<b>Present value of liabilities</b>					
Local government pension scheme	(55,171)	(79,797)	(70,511)	(76,660)	(87,723)
<b>Fair value of assets in the local government pension scheme</b>	35,668	50,845	51,612	51,541	58,750
<b>Surplus/(deficit) in the scheme:</b>					
• local government pension scheme	(19,503)	(28,952)	(18,899)	(25,119)	(28,973)
<b>Total</b>	<b>(19,503)</b>	<b>(28,952)</b>	<b>(18,899)</b>	<b>(25,119)</b>	<b>(28,973)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay post - employment (retirement) benefits. The total liability of £28.9m has a substantial impact on the net worth of the Council as recorded in the balance sheet, reducing its net assets to £42.2m. However, statutory arrangements for funding the deficit mean that the financial position of the council remains healthy because:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary, and
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31<sup>st</sup> March 2013 is £1.36m. Expected contributions for the discretionary benefits scheme in the year to 31<sup>st</sup> March 2013 are £0.2m.

### 29.6 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1<sup>st</sup> April 2010.

The principal assumptions used by the actuary have been:

	Local government pension scheme	
	2011/12	2012/13
Long-term expected rate of return on assets in the scheme:		
Equity investments	6.3%	4.5%
Bonds	3.9%	4.5%
Property	4.4%	4.5%
Other	3.5%	4.5%
Mortality assumptions:	<b>Years</b>	<b>Years</b>
Longevity at 65 for current pensioners:		
Men	21.9	21.9
Women	24.0	24.0
Longevity at 65 for future pensioners:		
Men	23.9	23.9
Women	25.9	25.9
Rate of inflation	3.1%	3.2%
Rate of increase in salaries	4.8%	5.1%
Rate of increase in pensions	2.5%	2.8%
Rate for discounting scheme liabilities	4.8%	4.5%

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

### 29.7 History of Experience Gains and losses

The actuarial gains identified as movements on the pensions reserve in 2012/13 can be analysed into the following categories measured as a percentage of assets or liabilities at 31<sup>st</sup> March 2013:

	2008/09	2009/10	2010/11	2011/12	2012/13
	%	%	%	%	%
Experience gains and (losses) on assets	(40.6%)	25.2%	(4.1%)	(5.0%)	8.7%
Experience gains and (losses) on liabilities	(0.0%)	0.0%	5.4%	1.7%	(0.1%)

### 30 Contingent liability

Surrey Heath Borough Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of £10k plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is £125k

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plus interest and costs. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

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 Council's potential liability from unpaid claims is £135,214 for which the Council has set up a reserve included in earmarked reserves in these accounts. However this figure is contingent on the potential level of claims and the implications of a decision by the Supreme Court as to when insurance liability crystallises. Due to the level of uncertainty it is not possible to quantify the maximum exposure.

### 31 Contingent assets

No contingent assets had been identified as at 31<sup>st</sup> March 2013.

### 32 Nature and extent of risks of financial instruments

#### 32.1 Introduction

The Council'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 Council
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council manages its treasury risk exposures in compliance with the CIPFA Code of Practice on Treasury Management in the Public Services and seeks to minimize the potentially adverse impacts on its resources that may arise from the holding of financial instruments. Treasury activities are conducted by the Executive Head of Finance and his staff in accordance with the Council's Financial Regulations and Treasury Management Policy and Practices. In addition, full Council approves a treasury management strategy each financial year which includes its strategy for managing financial risks.

#### 32.2 Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council manages its credit risk by restricting deposits to financial institutions according to the following criteria:

## Notes to the Core Financial Statements

	Rating <sup>1</sup>	Cash limit <sup>4</sup>	Time limit
<i>Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard &amp; Poor's is:</i>	AAA	£2 million each	5 years
	AA+		3 years
	AA		3 years
	AA-		3 years
	A+		2 years
	<b>A</b>		<b>1 year</b>
	<b>A-</b>		<b>1 year</b>
<i>UK Building Societies</i>	A+	£2 million each	2 years
	A-		1 year
	£1 billion assets		6 months
	£250 million assets	£1 million each	6 months
<i>Money market funds<sup>2</sup> and similar pooled vehicles whose lowest published credit rating is AAA</i>		£2 million each	Not Applicable
<i>UK Central Government (irrespective of credit rating)</i>		unlimited	5 years
<i>UK Local Authorities<sup>3</sup> without credit ratings</i>		£2 million each	5 years

For the purposes of these limits, banks within the same group ownership are treated as one organisation (other than UK Government). Currently investments are only made with UK based banks and building societies.

Customers are assessed for their ability to pay depending on the size of the debt, financial position, past experience and any other relevant factors.

The Council's maximum exposure to credit risk in relation to its short term investments (excluding impaired investments with Icelandic Banks) has been estimated at £0.010m. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence, with the exception of investments in Icelandic Banks, that at the 31<sup>st</sup> March 2013 this was likely to crystallise. However the level of uncertainty in the current financial markets means this is still a possibility.

In addition to the investments above, £1.08m is invested with Icelandic Banks and had been impaired in accordance with CIPFA guidance. Details are in note 13.

No credit limits were exceeded during the reporting period and with the exception of the Icelandic Banks, the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds. The historical experience of default for deposits is based on credit rating agencies records since 1981, with unrated building society deposits assumed to be equivalent to a BBB credit rating. The historical experience of default for customers is based on the Authority's own records.

### 32.3 Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to

## Notes to the Core Financial Statements

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borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All trade and other payables are due to be paid in less than one year.

As the Council has no borrowings at present there is no refinancing risk.

The maturity analysis of financial instruments is as follows:-

	31 March 2012	31 March 2013
<b>Loans and Receivables</b>	<b>£000</b>	<b>£000</b>
Less than one year	14,675	13,189
Between one and two years	4,656	148
Between two and five years	209	189
More than five years	228	92
	<b>19,768</b>	<b>13,618</b>

In addition to the investments above, £0.429m is invested with Icelandic Banks and had been impaired in accordance with CIPFA guidance. Details are in note 8.

### 32.4 Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates will have the following effects:

- borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the surplus or deficit on the provision of services will rise
- investments at fixed rates – the fair value of the assets will fall.

A fall in interest rates will have the opposite effect.

All financial assets and liabilities are carried on the balance sheet at amortised cost, so changes in their fair values do not impact on the Comprehensive Income and Expenditure Statement or Movement in Reserves Statement. Changes in interest payable and receivable on all instruments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund balance £ for £. This impact will be offset to the extent that interest rate changes are reflected in the government grants receivable towards financing costs.

A range of interest rate forecasts are used when setting and updating the interest budget so that adverse interest rate changes can be accommodated in the Council's plans with sufficient notice.

As at 31<sup>st</sup> March 2013, all the Council's investments were held at fixed rates of interest.

### 32.5 Price risk

The Council does not invest in equity instruments so it is not exposed to changes in share prices. Changes in the prices of fixed interest investments are managed as part of the Council's interest rate risk management strategy.

### 32.6 Foreign exchange risk

Due to currency controls in Iceland the Council holds ISK 122,289,032 in escrow in Iceland. This has been converted at the official interest rate as at the 31<sup>st</sup> March 2013 of ISK 188.97 to the £ with any exchange gains and losses being taken to the income and expenditure account. As the Icelandic Kronor is not convertible at this time the Council is exposed to exchange risks arising from movements in currency values.

### 32.7 Borrowing

The Council does not have any external borrowing.

## 33 Heritage Assets

### 33.1 Further Information on Surrey Heath's Museum Collections

Surrey Heath Museum is a small museum with displays of local history and the environment of Surrey Heath, including archaeology, natural history, local social history and the effect of the army. It also regularly holds temporary exhibitions and provides additional services for schools

### 33.2 Five Year Summary of Transactions

	2008/09	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000	£000
<b>Cost of Acquisitions of Heritage Assets</b>					
Museum Artwork	149	149	149	149	149
Civic Regalia	48	48	48	48	107
Other	48	48	48	48	48
<b>Total Cost of Purchases</b>	<b>245</b>	<b>245</b>	<b>245</b>	<b>245</b>	<b>304</b>
<b>Value of Heritage Assets Acquired by Donation</b>					
Museum Artwork	9	9	9	9	9
Civic Regalia					
Other					
<b>Total Donations</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>

## Collection Fund

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### 34 Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate collection fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and non-domestic rates.

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
<b>Income</b>		
Income from council tax	(53,832)	(55,639)
Transfer from General Fund - Council tax benefit	(3,574)	(3,681)
Income collectable from business ratepayers	(36,273)	(35,965)
<b>Total</b>	<b>(93,679)</b>	<b>(95,285)</b>
<b>Expenditure</b>		
Precepts and demands		
Surrey County Council	41,259	43,086
Surrey Police Authority	7,338	7,626
Surrey Heath Borough Council	7,508	7,604
Business rate:		
Payment to national pool	34,729	35,134
Cost of collection	120	123
Interest payable	194	8
Bad and doubtful debts		
Write offs	1,123	1,247
Increase/(reduction) in provision	217	(323)
Write off unclaimed credits	(32)	(40)
Contributions to surplus/recovery of deficit	0	1,500
<b>Total expenditure</b>	<b>92,456</b>	<b>95,965</b>
<b>(Surplus)/deficit for the year</b>	<b>(1,223)</b>	<b>680</b>
(Surplus)/deficit brought forward	(683)	(1,906)
<b>(Surplus)/deficit carried forward</b>	<b>(1,906)</b>	<b>(1,226)</b>

### 34.1 Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies the rate poundage, and subject to the effects of transitional arrangements, the rates payable are calculated by multiplying the rateable values by the rate poundage. As at 31<sup>st</sup> March 2013, the total non-domestic rateable value of properties owned by the Council was £1.311m. The 2012/13 national non-domestic rate multiplier was 45.0p for small business and 45.8p for other businesses.

### 34.2 Calculation of council tax base

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 tax base calculation is derived by first multiplying the estimated number of domestic properties in each tax band less exemptions by a weighting factor. This result is then reduced by a percentage to allow for losses on collection and reductions through appeals.

The calculation of the 2012/13 tax base is shown below.

		2012/13		
Band	Number of chargeable homes less exemptions and discounts	Factor	Band D equivalents	
A*	0	5/9	0	
A	415	6/9	276	
B	1,615	7/9	1,256	
C	4,711	8/9	4,188	
D	8,333	9/9	8,333	
E	5,928	11/9	7,245	
F	5,268	13/9	7,609	
G	4,541	15/9	7,568	
H	409	18/9	818	
<b>Total</b>	<b>31,220</b>		<b>37,293</b>	
New properties Band D equivalent			262	
MOD properties			484	
Less: allowance for non-collection			(563)	
<b>Council tax base</b>			<b>37,476</b>	

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### **General Glossary**

#### **Carrying amount**

The amount at which an asset is recognised in the balance sheet after deducting any accumulated depreciation and impairment losses.

#### **Cash**

Comprises cash in hand and demand deposits.

#### **Cash equivalents**

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **Class of property, plant and equipment**

Grouping of assets of a similar nature and used in the Council's operations.

#### **Cost**

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of acquisition or construction.

#### **Costs to sell**

The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs.

#### **Creditor**

The money that the council owes to third parties for goods and services it has received but not paid for at the end of the accounting period.

#### **Current asset**

An asset that is intended to be sold within the normal operating cycle. The asset is held primarily for the purpose of trading or the Council expects to realise the asset within 12 months after the reporting date.

#### **Debtors**

Financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

#### **Depreciable amount**

The cost of an asset, or other amount substituted for cost, less residual value.

## **Glossary of Terms**

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### **Depreciation**

The systematic allocation of the depreciable amount of an asset over its useful life.

### **Employee benefits**

All forms of consideration given by a Council in exchange for service rendered by employees.

### **Fair Value**

The amount for which an asset could be exchanged between knowledgeable willing parties in an arm's-length transaction.

For land and buildings: fair value is to be interpreted as the amount that would be paid for the asset in its existing use.

For investment property: fair value is to be interpreted as the amount that would be paid for an asset in its highest and best value – i.e. market value.

### **Fair value less costs to sell**

The amount obtainable from the sale of an asset, in an arm's-length transaction, between knowledgeable, willing parties, less costs of disposal.

### **Finance lease**

A lease that transfers substantially all risks and rewards that are incidental to ownership of an asset. Title may or may not eventually be transferred.

### **Financing activities**

Activities that result in changes in the size and composition of the principal received from or repaid to external providers of finance.

### **Heritage Assets**

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

### **Historical cost**

Deemed to be the carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

### **Impairment loss**

The amount by which the carrying amount of an asset exceeds its recoverable amount.

### **Investment property**

Property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations

### **Investing activities**

Acquisition and disposal of long-term assets and other investments not included in cash equivalents.

### **Lease**

An arrangement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period.

### **Non-current asset**

An asset that does not meet the definition of a current asset.

### **Operating activities**

Activities of the council that are not investing or financing activities.

### **Operating lease**

A lease other than a finance lease.

### **Other comprehensive income and expenditure**

Comprises items of income and expense, including reclassification adjustments that are not recognised in the surplus or deficit on the provision of services as required or permitted by the code. Examples include changes in revaluation surplus, actuarial gains and losses on defined benefit plans, and gains and losses on re-measuring available-for-sale financial assets.

### **Other long-term employee benefits**

Employee benefits, other than post-employment benefits and termination benefits, which do not fall due wholly within 12 months after the end of the period in which the employees render the related service.

### **Property, plant and equipment**

Tangible assets, i.e. assets with physical substance, that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

## **Glossary of Terms**

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### **Reclassification adjustments**

Amounts reclassified to surplus or deficit on the provision of services in the current period that were recognised in other comprehensive income and expenditure in the current or previous periods

### **Recoverable amount**

The higher of fair value less costs to sell (i.e. net selling price) and its value in use of an asset.

### **Residual value**

The estimated amount that the Council would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and condition expected at the end of its useful life.

### **Short term employee benefits**

Employee benefits (other than termination benefits) that fall due wholly within 12 months after the end of the period in which the employees render the related service.

### **Termination benefits**

Employee benefits payable as a result of either:

The Council's decision to terminate an employee's employment before the normal retirement date; or  
an employee's decision to accept voluntary redundancy in exchange for those benefits.

### **Useful life**

The period which an asset is expected to be available for use by the Council

### **Value in use**

Of a non-cash-generating asset it is the present value of the asset's remaining service potential. Of a cash-generating asset it is the present value of the future cash flows expected to be derived from an asset.

### **Pension Glossary**

#### **Actuarial gains and losses**

Comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has been actually incurred), and the effects of changes in actuarial assumptions.

#### **Assets held by a long-term employee benefit fund**

Assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the Council and exists solely to pay or fund employee benefits, and are available to be used only to pay or fund employee benefits, are not available to the council's own creditors (even in bankruptcy), and cannot be returned to the Council, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the council, or
- the assets are returned to the Council to reimburse it for employee benefits already paid.

#### **Current service cost**

The increase in the present value of the defined benefit obligation resulting from employee service in the current period.

#### **Defined benefit plan**

Post-employment benefit plans other than defined contribution plans.

#### **Defined contribution plans**

Post-employment benefit plans under which the Council pays fixed contributions into a separate entity (a fund) and which have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

#### **Interest cost**

The increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

#### **Past service cost**

The increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

## Glossary of Terms

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### Plan assets

Comprise:

- assets held by a long-term employee benefit fund, and
- qualifying insurance policies.

### Post employment benefits

Employee benefits (other than termination benefits) which are payable after completion of employment.

### Post employment benefit plans

Formal or informal arrangements under which the Council provides post employment benefits for one or more employees.

### Present value of a defined benefit obligation

The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

### Qualifying insurance policy

An insurance policy issued by an insurer that is not a related party (as defined in IAS 24 *related party disclosures*) of the Council, if the proceeds of the policy:

- can be used only to pay or fund employee benefits under a defined benefit plan, and
- are not available to the Council's own creditors (even in bankruptcy) and cannot be paid to the Council, unless either the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations, or the proceeds are returned to the council to reimburse it for employee benefits already paid.

### Return on plan assets

Interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains and losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

### Vested employee benefits

Employee benefits which are not conditional on future employment.

## **Annual Governance Statement 2012/13**

### **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 is on the Council's website at [www.surreyheath.gov.uk](http://www.surreyheath.gov.uk) or can be obtained from the Council Offices, Surrey Heath House, Knoll Road, Camberley, Surrey. This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3) which requires all relevant bodies to prepare an Annual Governance Statement.

### **The Purpose of the Governance Framework**

The Governance Framework comprises the systems and processes, cultures and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not 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 2013 and up to the date of approval of the Statement of Accounts.

### **The Governance Framework**

There are a number of key elements and processes that comprise the Council's governance arrangements, which are set out below:

## **Annual Governance Statement**

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### **Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**

- The Council's key priorities and objectives were reviewed and amended after a detailed consultation with members, staff, residents and interested groups. These resulted in the publication of the 2020 Strategy which sets out the key objectives and priorities for the Council over the next 10 years. This is the Corporate Plan.
- The Corporate Plan and Key Priorities feed into the Annual Plan which sets out the financial and performance objectives of each service. These are monitored on a six monthly basis and reviewed by the Performance and Audit Scrutiny Committee in a publically available document.
- The Council's Constitution, decision making structure and arrangements; schedule of meetings and associated agendas and minutes are publically available in accordance with regulations to encourage public attendance and involvement as appropriate.

### **Reviewing the authority's vision and its implications for the authority's governance arrangements**

- The Corporate Plan is reviewed every three years to take account of progress against the key priorities. This review takes account of any implications for the Council's governance arrangements with appropriate amendments being made as necessary.

### **Translating the vision in to objectives for the authority and its partnerships**

- The Corporate Plan sets out clear objectives to deliver the council's key priorities and vision. All decisions made by the Council demonstrate how they support the Council's key objectives and priorities.

### **Measuring the quality of services for users, for ensuring they are delivered in accordance with the authorities objectives and for ensuring they represent the best use of resources and value for money**

- Performance progress is tracked regularly through monitoring of key performance indicators, service tasks and projects. Progress against the Council's Annual Plan is reported on a six monthly basis to the Executive and the Performance and Audit Scrutiny Committee. The Corporate Management Team and Management Board review progress against projects on a monthly basis. The Council's Performance Management system (TEN) is maintained online and is available for review by members and officers.
- Regular financial reporting to Management Board and Members assists the monitoring of council expenditure against budgets which have been set to enable Corporate Plan objectives to be met.

### **Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions with clear delegation arrangements and protocols for effective communication**

- Roles and responsibilities of the Executive, the Council, Overview and Scrutiny and all the committees of the Council, along with officer functions are defined and documented, with clear delegation arrangements and protocols for effective communication within the Council's Constitution.

### **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

- Codes of Conduct defining the standards of behaviour for members, staff, our partners and the community have been developed and communicated and are available on the Council's website and intranet site. These include Members' Code of Conduct, Code of Conduct for Staff, Planning Code of Conduct, Anti-fraud and Corruption Policy, Member and Officer Protocols and regular performance appraisals.
- Changes to standards have been put in place in accordance with the requirements of the Localism Act 2011. The Standards Hearing and Determination Committee promotes standards within the Council and receives reports from the Monitoring Officer. It also hears and determines complaints against Members arising out of alleged breaches of the Members Code of Conduct. It also considers dispensations in certain circumstances.

### **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

- The Constitution is regularly reviewed and updated by the Governance working group. The Constitution is available on the Council's website.
- The Council has established policies and procedures to govern its operations. Key within these are the Financial Regulations, Procurement Strategy and Contract Standing Orders, Risk Management Strategy, Codes of Conduct for Members and Officers, Anti-Fraud and Corruption Policy, Anti-Bribery Policy, Whistleblowing Code and Human Resources policies. Ensuring compliance with these policies is the responsibility of everyone throughout the Council. These key controls are subject to periodic review, including that by Internal Audit, and are updated to ensure that they are relevant to the needs of the organisation.
- Contract Standing Orders set out the rules governing the procurement process to ensure that value for money is achieved whilst meeting all legal and statutory requirements and minimising the risk of fraud or corruption. The Council's Procurement Strategy is a high level view of how to promote effective procurement across the whole organisation.
- A risk management framework has been in place across the Council for some years with the objective of embedding effective risk management practices at both strategic and operational levels. The Corporate Risk Management Register is reviewed on an annual basis and approved by the Performance and Audit Committee. A risk paragraph is included in all Executive reports to ensure that it has been properly considered.

### **Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability**

- A number of risk workshops were held during the year with services and a professional risk advisor to enable services to put in place a system to identify risks within services. Major risks are included on the corporate risk register which clearly identifies the mitigation required and the officer responsible.

### **Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained**

- The Council has revised its Anti-fraud and Corruption Strategy and this is communicated to all staff. It also forms part of the induction process for new staff.

## Annual Governance Statement

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- 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 generally and through their involvement in the induction of staff. Members of the team are fully trained to Police and Criminal Evidence Act standard. A review of the Anti-Fraud Strategy has taken place, and includes reference to the requirements of the Bribery Act 2010.

### **Ensuring effective management of change and transformation**

- All change and transformation is approved and monitored by the Council's Transformation Board consisting of 3 Executive Members and the Council's Management Board. At the start of the process, managers are required to prepare a report setting out the reasons for the transformation, the benefits it will bring, resource implications and any risks for the board to consider. Once complete a final report has to be submitted to the board stating what the outcomes of the transformation were.

### **The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).**

- The Council's financial management arrangements conform to CIPFA standards. The Executive Head of Finance (Section 151 Officer) has statutory responsibility for the proper management of the Council's finances and is a member of the Council's Management Board. The management of the Council's finances within departments is devolved to Executive Heads of Service through the Scheme of Delegation. Service managers further devolve decision making to managers and business unit managers.
- The Finance Team provides detailed finance protocols, procedures, guidance and training for managers and staff. The structure of the Finance Team ensures segregation of duties and all committee reports are reviewed by the service.

### **Ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA statement on the Role of the Head of Internal Audit**

- The internal audit function is an independent appraisal process, the manager of which has direct access to the Chief Executive, members through the Performance and Audit Scrutiny Committee and External Audit. It undertakes reviews which provide management with a level of assurance on the adequacy of internal controls and of risks to the Council's functions / systems. Throughout the year, the internal auditors have performed a wide range of reviews covering both financial matters and other more service / output specific objectives. The conclusion is a report that is produced for management, which includes an assessment of the level of assurance that can be derived from the system of internal controls related to the service that is reviewed.

### **Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function**

- The Council has appointed its Head of Legal Services as Monitoring Officer. The Monitoring Officer is a member of the Council's Management Board and the Governance working group. The Monitoring Officer can also upon the resources of the Council's legal team, internal audit and Investigations teams as required.
- The Monitoring Officer is responsible for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer may report to the full Council if she 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. No reports have been necessary in recent years.

### **Ensure effective arrangements are in place for the discharge of the Head of Paid Service function**

- The Council has designated the Chief Executive as Head of Paid Service

### **Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities**

- The role of the Performance and Audit Committee is set out in the Constitution and one of its key roles is to provide independent assurance of the adequacy of the risk management framework and the associated control environment. It is a committee comprising 15 Members, independent of the Executive. It oversees the internal audit function and considers all relevant reports of the external auditor. It has the power to refer matters of concern to the Executive or other committees and to require a response
- The terms of reference for the Performance and Audit Committee are reviewed annually.

### **Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.**

- The Monitoring Officer has a duty to report on any actual or likely decision which would result in an unlawful act or maladministration. All decisions to be taken by Members are supported by a legal assessment provided by the appropriate officer.
- The Council has in place a Responsible Finance Officer under Section 151 of the Local Government Act 1972. This role ensures lawfulness and financial prudence of decision making, has responsibility for the administration of the financial affairs of the council and provides advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues.

### **Whistle-blowing and receiving and investigating complaints from the public**

- The Council has in place a Whistleblowing Code whereby staff and others can report concerns about various sorts of wrongdoing or alleged impropriety. The Code is available on the website and is also proactively communicated to those contracting with the council. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous.
- An Anti-Bribery and Whistleblowing Policy was approved in the year to reflect changes brought about by the Bribery Act 2010.
- Surrey Heath Borough Council wants to provide the best service it can to the community and has a Customer Feedback process in place, which includes complaints, compliments, service requests, member contact and comments. All complaints are thoroughly investigated in line with the Council's complaints procedure. A complaints report is provided regularly to the Community overview and scrutiny committee and includes lessons learnt.

### **Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

## **Annual Governance Statement**

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- 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 was awarded the Investors in People Silver standard for the year.
- Officers are covered by the appraisal development scheme which is the mechanism used to help ensure that performance and development needs are reviewed on an annual basis.
- There is a full induction process for Members and specific officers have been designated with training responsibilities for Members. Members have training provided to reflect their specific statutory responsibilities as appropriate.

### **Clear channels of communication with all sections of the community and other stakeholders are in place, ensuring accountability and encouraging open consultation**

- The Council ensures that there is community input in its decision making processes. This is done by focus groups, workshops, questionnaires, and business breakfasts and members interaction with the community. Recently greater use has been made of on line consultation and social media.
- The Council has a well-established and effective consultation function which includes a wide range of consultation methods to ensure that as many groups and individuals as possible are able to participate. Before undertaking any consultation or communication, action plans are completed by the Corporate Communications Officers to detail exactly how key groups will be targeted. The Council delivers an extensive programme of consultations throughout the year.
- The Council also regularly communicates and consults with residents online via the council website through social media such as Twitter and Facebook, through local press, through blogs, through local forums and organisations and also through the Council own magazine "Heathscene" which is published 3 times a year.

### **Incorporating good governance arrangements in respect of partnerships and other group working**

- Partnership working is governed by agreements, protocols or memoranda of understanding relevant to the type of work or relationship involved. The Council's Monitoring Officer ensures that all are fit for purpose and the Council's interests are protected.

## **Internal Audit Statement**

During 2012/13 Internal Audit completed 420 days of review, which were spent undertaking twenty-one audits. Of these, none were assessed as being able to offer full assurance; nineteen substantial assurance; two limited assurance and none having 'no' assurance. At the year end there were four audits at work in progress stage at year-end. Taken together 90% of the reviews accounted for full or substantial assurance, whilst 10% of reviews placed a limited or no assurance to management on the system of internal control in operation at the time of the review.

Where appropriate, the audit report provides the management with a set of recommendations that are designed to address weaknesses in the system of internal control. During the year 85 recommendations were made of which 86 % had been implemented by the due date. The outcomes of these internal audit reviews are reported to Management Board as completed and a small member working group of the Performance and Audit Scrutiny Committee reviewed all the

recommendations made and whether they had been implemented. Overdue recommendations are also reported twice yearly to management board and the Performance and Audit Scrutiny Committee.

The Council has very high levels of assurance in respect of all of its main financial systems and the majority of its governance arrangements. All of the main financial systems completed in 12/13 to date, which feed into the production of the council's Financial Statements, have achieved a substantial assurance level following audit reviews. The Council can therefore be very assured in these areas.

In contrast, the areas where improvement is required arising from 2012/13 audits are:

- Leisure Centre audit – Limited assurance
- Off Street car parking – Limited assurance

Each of these areas is due to be followed up in the 2013/14 Internal Audit work program. Consequently there is nothing of significant concern that needs to be escalated at this time.

### **Senior Information Risk Owner (Siro) Statement**

The Council has appointed the Executive Head of Finance as its SIRO. The SIRO is assisted in this process by a full time Information Governance Manager. During the year the Council updated and implemented the ICT Information Security Policy to reflect changes in legislation and practices to ensure that information held by the Council is adequately protected.

The Council is working towards certification for PSNA Compliance and in particular to implement the Public Services Network Assurance – Local Public Services Data Handling Guidelines Version 2 August 2012. Both the SIRO and the Information Governance Manager attended a training course for SIRO's.

Training was provided to staff on Information Governance including Data Protection and Payment Card Industry data security.

During the year new controls were introduced to protect data. These were as follows:

- Restrictions are in place to not allow staff to download data to memory sticks. This can only be done on special ICT encrypted sticks.
- Automatic email addresses no longer appear in Microsoft Outlook. Auto Complete was disabled. The address must be selected from the directory or typed in full.
- A large number of paper files, particularly in environmental health and licensing, were transferred to an electronic database and the files destroyed.

There were no reported incidents of data being lost or mishandled during the year.

Information management and data security is an entry in the Corporate Risk Register.

Based on the controls in place and the work undertaken during the year the SIRO is of the opinion that the Council's controls for the security and use of information assets was adequate for the year.

## **Annual Governance Statement**

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### **Review of Effectiveness**

The 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 the effectiveness is informed by the work of senior officers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies.

For 2012/13, this review has been undertaken by the Head of Legal Services, together with the Executive Head of Finance and Internal Audit. The group has reviewed how the Council has operated in accordance with the Governance Framework and considered its the effectiveness.

### **Improvements During The Year**

During the year a number of issues arose which relate to the operation of the Governance Framework. Thses issues have been reviewed as follows:

#### **Restructure**

Faced with dramatic reductions in available resources, all publicly funded organisations had to look at what they spend their money on and whether it represented good value for money. The Council undertook a comprehensive and thorough review of its management structure in the year with the objective of having a flatter structure with more strategic heads of service. This was implemented in the year reduced the management by one post.

#### **Risk Management Strategy and Process**

The Council, with the help of its insurers, conducted a review of its risk management process during the year. Workshops were held with services to give them a better understanding of the risks facing their services. These were then reflected in the corporate risk register if appropriate.

#### **Data Protection**

Surrey Heath Borough Council must ensure all personal information is processed in accordance with the Data Protection Act 1998. The policy explains how members and officers are expected to comply with the Act. The council must comply with this policy to ensure the Data Protection Act is not breached. Any breach of the Act has serious consequences for the organisation and its customers. Comprehensive training on data protection was provided for staff during the year.

#### **Emergency Planning**

Surrey Heath Borough Council worked with its neighbour Rushmoor to provide alternative an emergency control centre. An exercise was conducted during the year to test the operation of the centre and the working arrangements.

#### **Purchase Orders**

During the year the Council implemented a policy that no invoices would be paid without an order number. This ensured that all goods and services had to be ordered with an official purchase order raised on a database system.

### **HR Policies**

HR Policies relating to the Disciplinary procedure, Grievance procedure, Annual Pay settlement procedure, Dignity and respect at work policy, People Strategy, Relocation, Learning and Development were all reviewed and approved by Executive during the year.

### **Anti-Bribery and Whistleblowing**

A new policy was approved in November 2012 reflecting changes brought about by the Bribery Act. The accompanying leaflet was also reviewed and the new policy was incorporated in to staff's existing terms and conditions.

### **Performance Reporting**

A new bi annual report which included all of the Council performance data in one place was launched during the year.

### **Governance Issues Reported Last Year**

A number of issues were identified last year and the following action has been taken:

### **Risk Management**

A review of the Council's risk management processes was carried out in the year by an external consultant and found to be satisfactory. Workshops were held with each service to identify key risks and to ascertain what mitigation was required.

### **Service Resilience**

Services continue to be under pressure due to the current financial climate. A new people strategy stresses the importance of the Council developing and supporting staff. The Council has taken on a number of apprentices and staff on training programs so as to increase capacity but also to develop and retain skills within the authority. The Council has also entered in to a number of shared service schemes with other authorities, for example environmental health, to develop resilience. IIP accreditation also ensures that appropriate policies and procedures are in place to deal with staffing matters.

### **Parking Activities**

It was decided during the year to replace parking ticket machines with a new system. This will be installed in September 2013.

### **Procurement**

The Council shared a procurement officer with Runnymede Council who provided advice and guidance on major procurements. In addition a full spend analysis and review by external advisors during the year identified only limited savings indicating that the Council's procurement in terms of achieving value for money was good.

## Annual Governance Statement

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### Housing Benefit Assessments

Additional training to staff coupled with greater checking of applications was put in place to reduce the level of errors. A follow up audit conducted in 2013 indicating that this was indeed the case.

### Significant Governance Issues

The overall opinion of the Monitoring Officer and the Section 151 Officer is that the Council's governance arrangements are adequate and effective. There are no significant governance issues but a number of other issues have been identified and will be addressed through the planned work of the Council.

The areas below have arisen from various assessments into the Council's governance arrangements for 2012/13 and will be addressed in 2013/14.

### Corporate Processes

Arising out of internal audit reviews:

- Leisure Centres – Contract management, leasing and accounting for Lightwater Leisure Centre
- Off Street Car Parking – Reliability of pay on foot machines and cash controls. Contract management and matching of goods received notes.

The action to review corporate business continuity processes and plans needs to be completed in 2013, and individual service plans need to be reviewed and brought up to date as part of this.

The introduction of a new financial system will mean significant changes to the Council administrative processes. It is envisaged that more of the Council's control will be inbuilt in the system rather than relying on manual checks. This will mean close working with Internal audit to ensure that the internal control environment is strengthened.

The Council's Anti-fraud and Corruption Strategy will be reviewed during the year so that it reflects current legislation.

Council employees must give notice in writing of any financial or non-financial interests which are clear and substantial and which could bring about a conflict with the Authority's interests. The Council's corporate process will be reviewed in the year to ensure that all interests are captured.

### Major Projects

The Council is involved in a number of projects and initiatives that are complex in nature carry the risk of a great financial loss, of a high value or dependent upon working with partners to achieve. These will be monitored closely by the Management Board over the coming year.

### Assurance Summary

Good governance is about running things properly. It is the means by which the council shows it is taking decisions for the good of the people of the area, in a fair, equitable and open way. It also requires standards of behaviour that support good decision making – collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality

services that meet all local people's needs. It is fundamental to showing that public money is well spent. Without good governance, councils will struggle to improve services.

From the review, assessment and monitoring work undertaken and supported by the ongoing work undertaken by Internal Audit, we have reached the opinion that, overall, key systems are operating soundly and that there are no fundamental control weaknesses.

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.

Karen Whelan  
Chief Executive..... 

Councillor Moira Gibson  
Leader of Surrey Heath Borough Council..... 

## **Independent auditor's report to the members of Surrey Heath Borough Council**

We have audited the financial statements of Surrey Heath Borough Council for the year ended 31 March 2013 on pages 10 to 73. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of the Authority, 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 the members of the Authority, 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 the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Executive Head of Finance and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

## **Matters on which we are required to report by exception**

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 81 to 91 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

## **Conclusion on Surrey Heath Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **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 to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Surrey Heath Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

## **Certificate**

We certify that we have completed the audit of the financial statements of Surrey Heath borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

**Fleur Nieboer**

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

12<sup>th</sup> Floor

15 Canada Square

London

E14 5GL

19 September 2013