Surrey Heath Borough Council

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To: All Members of the **AUDIT AND STANDARDS COMMITTEE**

The following papers have been added to the agenda for the above meeting.

They were not available for publication with the rest of the agenda.

Yours sincerely

Karen Whelan

Chief Executive

SUPPLEMENTARY PAPERS

Public Document Pack

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Approval of the 2018/19 Financial Statements and to receive the External Auditor's Report (ISA260) for 2018/19

Portfolio	Finance
Ward(s) Affected:	All

Purpose

To approve the audited Financial Statements for 2018/19 and to receive the External Auditors Report (ISO260) and Letter of Representation for 2018/19.

Background

1. Statutory regulations require that the unaudited financial statements are published on the website by the 31st May each year and the audited financial statements approved by member by the 31st July each year.

2. The unaudited financial statements were published on the Council's website by the 31st May 2019 and it is the audited financial statements that are now being presented to this Committee for approval.

3. BDO were appointed as the Council's auditors in 2018 and have taken over from KPMG. The appointment was part of a national procurement done by the PSAA on behalf of all English Councils. This meeting is the first time BDO and in particular the audit partner Mr Leigh Lloyd-Thomas will have reported on the Council's annual financial statements to this committee.

Financial Statements

4. The Financial Statements set out the Council's financial performance for the year ended 31st March 2019 and are attached to this agenda as a separate document.

5. There have been no major changes to the layout of the financial statements this year or to accounting standards compared to last year.

6. Included within the financial statements is the Annual Governance Statement which sets out the Council's Governance framework and any issues. This has already been approved by the Council's Corporate Management Team, the Chief Executive and the Leader.

7. There have been a number of changes made to the draft financial statements as a result of the audit and events after the accounts were prepared there has only been a minor upward movement to the general fund balance. These adjustments have been set out in detail ion the auditor's report but for convenience have been summarised below:

    a. The sale proceeds and the net book value for Ashwood House were included as separate income and expenditure figures in the cost of services in the Comprehensive Income and Expenditure statement (CIES). Following a review by the auditors they have determined that these figures should in fact be netted off and shown as "other income" in the CIES;

    b. The accounting treatment of the Jersey Property Unit Trust (JPUT) has been subject to long discussions both with the previous auditors KPMG

and well as the new ones. Following a review by BDO conducted after the accounts were drafted the accounting treatment was finalised resulting in a number of adjustments.

c. The Government lost two cases (McCloud and GMP) relating to age discrimination in pensions however as there was a good chance that this judgement would be appealed no provision was deemed necessary by the actuaries and hence not included in the draft accounts. This month however the Government announced it would not appeal against the judgement and hence the auditors have determined that a provision is now required leading to an adjustment in the accounts.

d. In order to bring certainty as to future interest rates on borrowing the Council entered into a forward loan agreement whereby it is committed to borrow a fixed sum at a fixed rate at a date in the future. On the advice of our treasury advisors Arling Close this was treated as a hedging instrument in the accounts. Following a review by BDO the treatment has been changed and adjustments have been made to reflect this

ISA260 Audit Report

8. The Audit Commissions Code of Audit Practice requires the auditor to summarise the work they have carried out to discharge their statutory audit responsibilities together with any Governance issues identified. They are charged with reporting these to those charged with governance (The Audit and Standards Committee) at the time the final financial statements are considered. This report must also comply with the requirements of the International Auditing Standard 260 with regard to 'Communication of audit matters to those charged with governance'.

9. The auditors will be presenting their final ISA260 report at the meeting however a draft is attached so that members have a chance to view their findings beforehand. The format is very similar to that presented by the Council's previous auditors and essentially covers the following areas:

- Proposed opinion on the financial statements and value for money
- Scope of work undertaken together with any findings
- Adjusted and non-adjusted changes to the financial statements arising out of the audit
- Key issues and recommendations

10. Members will have an opportunity to question the auditors about their report at the meeting.

Key Issues

11. The statements below relate to the draft ISA260 report prepared by BDO as attached. If there are any changes the external auditors will update members directly at the meeting:

a. The Auditors propose to issue an "unqualified" opinion on both the financial statements and their value for money judgement.

b. The auditors have looked at specific risks around property, pensions and fraud and have found no significant issues in these areas.

c. All material changes have been reflected in the financial statements. Overall there is only a minor upward movement in the general fund for the year as reported in the audited accounts as compared with the draft accounts at the 31st May 2019.

12. The Auditors require the Section 151 officer and the Chair of this committee to sign a "Letter of Representation" prior to the completion of the audit which sets out in writing information given verbally to the auditor. This letter follows a standard for and content and is set out in annexe A. It will be tabled and signed at the meeting

13. The finance team would like to acknowledge the support and advice given by the external audit team during their visit this year.

Options

14. The Committee can accept or reject the auditor's report and/or accounts. However these actions may have implications in respect of the auditor signing off the Council's financial statements

Resources Implications

15. There only resource implication arises due to audit fees. These have been set by the Public Sector Audit Authority (PSAA) at £32,263. However due to the JPUT requirements etc. the actual fee for this year is likely to be higher – however this will be discussed when the audit is complete. For comparison KPMG charged a standard fee of £41,900 last year for the audit (the scale fee) with an additional £4,005 to take account of the JPUT requirements.

Recommendation

16. The Committee is advised to

i) RECEIVE the audited financial statements for 2018/19 including the Annual Governance Statement for 2018/19;
ii) RECEIVE and APPROVE the Letter of Representation;
iii) RECEIVE and COMMENT on the ISA260 auditors report and;
iv) RESOLVE that the Chairman of the Committee SIGNS the Financial Statements on behalf of the Council

Background Papers: Audited Financial Statements 2018/19
ISA 260 2018/19 Audit report

Contact: Kelvin Menon 01276 707257

e-mail: kelvin.menon@surreyheath.gov.uk

Short Commentary on the Financial Statements

The financial statements over the financial year from the 1st April 2018 to 31st March 2019. They have been prepared in accordance with accounting standards modified by the requirements of CIPFA and local government accounting rules.

Narrative Statement

The Narrative statement sets out a brief overview of the year and is intended to support the financial statements. Members may find particular interesting the diagram on page 9 which sets out where all our money actually comes from and goes.

Annual Governance Statement

This sets out the steps the Council has taken to ensure good Governance together with any areas for concern and actions taken. It has been approved by the Corporate Management Team as well as the Chief Executive and the Leader.

Independent Auditors Report

As is the case with a corporate audit the auditor is required to report as to whether the financial statements give a “true and fair” view. In addition for Local Government reporting they are also required to make a “value for money” judgement. This is reported in this section and is also covered in the auditors ISA260 report

Expenditure and Funding Analysis and Comprehensive Income and Expenditure Analysis

These statements show the income and expenditure of the Council. Expenditure is shown broken down by service to give a total net cost of services and then this is funded by taxes and investment income etc. There are also a number of adjustments due to local government accounting being different to normal corporate accounting – for example depreciation is charged to services but then reversed out before impacting the final outturn for the year.

Movement in Reserves Statement

Unlike Companies which will have a profit and loss account and some statutory reserves such as Share premium etc. Councils have a larger number of reserves which are earmarked for future expenditure or risks. This sheet shows the total “usable” reserves which car backed by cash and hence can be spent together with “unusable" reserves which are created for accounting purposes. The Councils reserves have risen during the year due mainly to interest savings and business rates gains being put aside to fund future pressures. It is worth noting that unlike many public bodies and companies Councils cannot borrow to fund revenue expenditure and so reserves are the only way available to fund budget shortfalls or cover unexpected cuts in funding.

Balance Sheet

This will be similar to those of you that work in the corporate world. The Council holds £141m of assets with a further £85m of investment property and longer term investments. In addition there are £44m of debtors and cash. These £268m of assets are supported by £175m of debt and £20m of creditors. The £46m pension liability is a calculated figure based on the requirements of IAS19. In reality the fund is 95% funded and so the Council's actual liability is substantially less.

The bottom of the balance sheet shows the total reserves of the Council as in a company set of accounts with the exception there is no share capital because there are no shareholders.

Notes to the Accounts

Accounting standards coupled with CIPFA and local government accounting rules means that there are a large number of notes included within these accounts. These are deigned to give more detail on the accounts and provide additional information for the reader. A summary of the main ones is as follows:

Note 15 – this sets out the adjustments made due to the requirements of local government accounting regulations particularly in respect of capital and pensions accounting

Note 17 – this sets out total member allowances

Note 18 – this sets out senior officer's remuneration

Note 19 – this sets out the changes to reserves as a result of adjustments for local government accounting regulations

Note 21 – this sets out taxes and grants received

Note 22 – this summarises al of the Council's fixed assets and how they have changed in value over the year

Note 25 – this sets out the Councils investment properties and how they have changed in the year. It should be noted that the SQ and its associated properties are not classed as Investment properties as they are held for regeneration and instead are shown as property in note 22

Note 26 - This sets out the Councils overall need to borrow. This currently stands at £190m. It is illegal to borrow above this figure. This also shows the amount of debt repaid in the year (£1.4m) as required by the Prudential regulations

Note 27 – this sets out all the earmarked and usable revenue reserves

Note 28 – this sets out the unusable reserves. i.e. those required for accounting purposes only

Note 40 – this relates to related parties. Members are required each year to declare any related parties they may have

Note 41 – this sets out details in respect of the Councils pension scheme which is managed by Surrey CC. Unlike most public sector schemes the Local Government Pension scheme is actually backed by investments rather than being a "pay as you go" scheme such as the one the NHS has.

Note 44 – this sets out the Councils investments and loan shown at fair value

Note 46 – This sets out the amount of Council tax and business rates collected from residents and businesses and how it has been shared out between all the different preceptors.

Annex A

DRAFT
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

SURREY HEATH BOROUGH COUNCIL

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INTRODUCTION

1. NARRATIVE STATEMENT

1.1 Surrey Heath as a place

Surrey Heath Borough Council is one of the eleven Local Authorities in the County of Surrey. It lies at the north western edge of Surrey and borders Hampshire to the west and Berkshire to the north. The Borough covers 36.5 square miles and is a mix of urban and rural environments. It combines a vibrant economy with an attractive environment and is one of the safest areas in the country.

The borough consists of a mix of both urban and rural areas. Much of the rural area is within the Green Belt and includes extensive areas of heath and woodland. There are five sites of Special Scientific Interest in the Borough four of which are part of the Thames Basin Heaths Special Protection Area of European importance as a habitat for certain endangered bird species. This issue significantly impacts upon development potential in the borough and has led to more intensive development in the urban areas.

The total population of Surrey Heath according to 2011 census is 86,144, which is a 7.3% increase since the last Census in 2001. Of these 16.72% are over 65 years of age, an increase of 31.8% since the last Census. Over 85 year olds have also increased significantly by 38.5% to 1,800 residents. This is going to be an increasingly important factor in the delivery of services.

With London and its international airports, Heathrow and Gatwick, only an hour away by car or train, and major towns and cities in the south within easy reach, Surrey Heath is an ideal location for business. Not surprisingly, Surrey Heath is a sought after area for residential and commercial development but development has been difficult due to issues arounds the supply of land. Surrey Heath is rated as one of the most prosperous areas in the country with one of the best qualities of life and amongst the highest per capital incomes. These statistics mask however that the borough does have some relatively deprived wards which are amongst the most deprived in Surrey.

- Surrey Heath:
    - Collects £37m in business rates but is only guaranteed to keep 3.94% to spend on services
    - Has borrowed £174m to invest in property to deliver regeneration as well as generate income to pay for services.
    - Generates over £36m in income from services it sells and from rents to support the Council's services
- Central Government revenue Support grant has fallen year on year. In the current financial year 2018/19 it was Zero, falling from £357,000 in 2016/17.
- Demographic growth and an increasingly ageing population will continue to put pressure on Council services and the budget
- Brexit and the impact on the wider economy could lead to an impact on the Council's finances through changes to interest rates, inflation, wages and rental income

1.2 Finance Service – Kelvin Menon

2018/19 has brought more changes to the finance service. The benefits from the Civica financial system are continuing to be realised with a significant number of staff now being comfortable in using the system to monitor their budgets and purchase goods and services, further enhancements are planned and procedures streamlined to generate efficiencies in the service

The Council's investment in property coupled with Surrey Heath becoming lead authority for joint waste has meant that the service has had to deal with accounting challenges in partnership with colleagues from both waste and property development departments. The finance service has worked closely with services to assist them with their budget monitoring.

2019/20 will see further improvements and challenges for the service. This will include:

- Enhancement of the Civica financial system including the introduction of new modules.
- Further property purchases will bring more accounting challenges;
- A further Finance for Non-Finance Managers course will be run for a number of the organisations managers following the success of the first one to enhance their budgeting ability and knowledge.

1.3 Surrey Heath – Great Place, Great Community, Great Future

Surrey Heath Borough Council is a small Council with big ambitions. We really want to make a difference to the residents and communities we serve however we recognise that this is difficult within the financial constraints imposed upon us by Government. For that reason we have set ourselves the task of increasing income, rather than making cuts, to deliver the resources we need to kick start regeneration and to fund services our residents value.

The Council has a 5 year strategy and it is based around 4 themes. These are Place, Prosperity, People and Performance. These themes recognise what is important to our communities and are explained in more detail below:

Place

We want to make Surrey Heath an even better place where people are happy to live.

Our priorities are:

- Deliver an improved Camberley Town Centre for the benefit of all residents of the Borough
- Protect, manage and maintain our parks and public open spaces including the provision of quality leisure facilities
- Encourage sustainable living and construction by promoting high quality building and design standards
- To reduce waste and increase the proportion of waste recycled and recovered
- Work with key partners to continue to keep the borough a very safe place to live

Prosperity

We will support and promote our local economy so that people can work and do business across Surrey Heath

Our Priorities are:

- Strengthen the Council's financial independence by increasing our own income
- Work with partners to support our urban and rural economy through strategic development planning and economic growth
- Support local businesses by encouraging economic development and improvements to local transport and other infrastructure
- Encourage inward investment by promoting Surrey Heath as a great place to live and work

- Deliver new development within the borough to strengthen the local economy

People

We will build and encourage communities where people can live happily and healthily

Our Priorities are:

- Work with partners to improve the health and wellbeing of our community
- Support older and more vulnerable people to live independently in their own homes and remain active in their local community
- Use our green space to deliver a programme of sport and leisure activities supporting community engagement with all people
- Address housing needs within the community

Performance

We will deliver effective and efficient services better and faster

Our Priorities are:

- Provide excellent customer service delivery
- Improve access to services through the use of technology
- Maximise every opportunity to improve the use of our land and buildings
- Regularly review our services and processes to ensure that they continue to offer value for money
- Maintain services by working collaboratively with partners in the public, private and voluntary sectors
- Demonstrate our performance through monitoring and reporting

1.4 Council Performance

Achievements 2018/19

Over the last year the Council has made substantial progress towards it key objectives. These are set out in detail in the Council's annual performance report which is presented to Executive in late June. Highlights are listed below:

- Residents of the borough continue to be amongst the best recyclers in the country and the Council is keen to encourage even more recycling
- Through sound management the Council has managed to deliver substantial saving's on interest payable on its external borrowing.
- The Council has increased the tax base by 513 during the year through new housing development
- The number of residents taking Meals at home continues to grow
- The Council has one of the highest collection rates for council tax and business rates in the country
- The Council continues to enable less able residents to remain in their own homes and works closely with hospitals and other partners
- 125 families were prevented from becoming homeless due to the interventions of the Council's housing team
- The number of people in temporary accommodation has reduced compared to the previous year

1.5 Financial Performance

Financial context of the Council

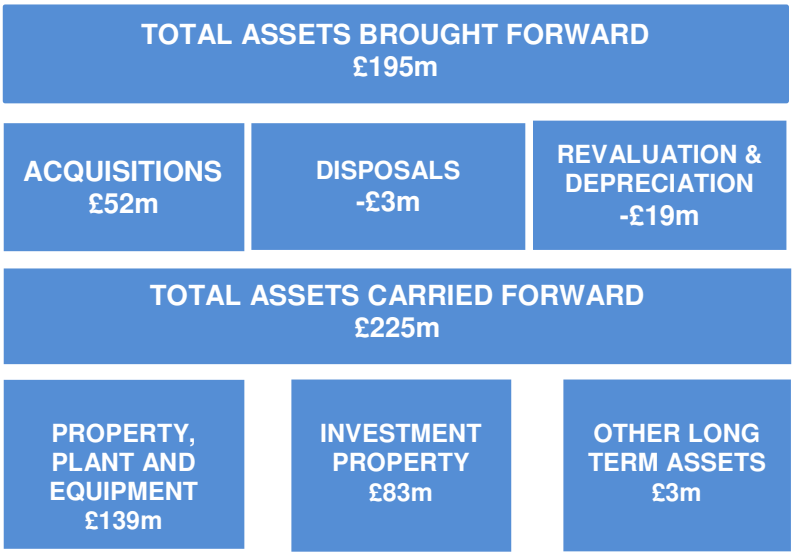
Surrey Heath Borough Council had gross expenditure of £44m, This is funded by income from investments, charges, grants, business rates and council tax as set out in the budget paper presented to members in February each year.

In addition we also collect Business Rates and Council Tax on behalf of all preceptors and have also managed a short term loan portfolio in order to reduce borrowing costs.

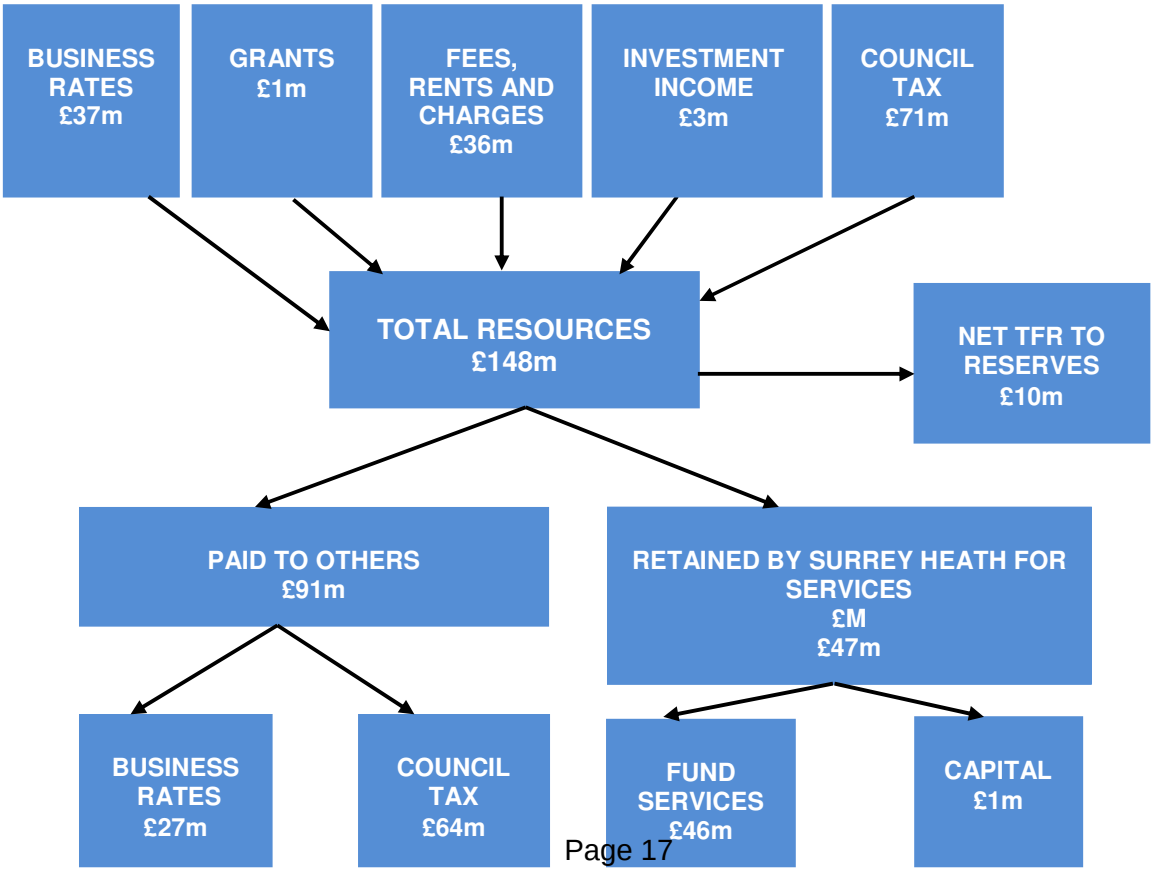
Government funding to the Council has fallen by £2.7m in cash terms since 2010/11 and the Council has made up the gap by increasing efficiency and generating income through investment. This has meant that despite this reduction in funding coupled with the impact of inflation the Council has been able to maintain its services to residents.

There is significant uncertainty in respect of funding going forward in that the Government has not announced the outcome of the Fair funding review or Business rates reforms. In addition the Spending Review, which is due later this year, and sets out all public expenditure, is also still awaited.

Capital Cash Flows chart

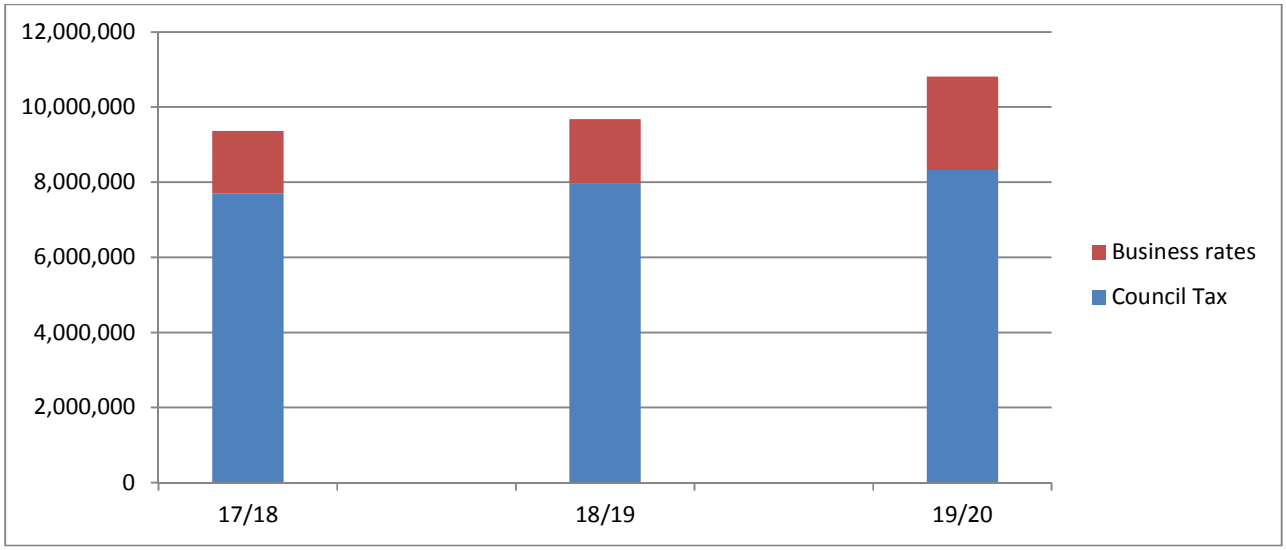


Revenue cash flows



SURREY CC £25m SURREY CC £46m
DCLG £2m SURREY POLICE £9M

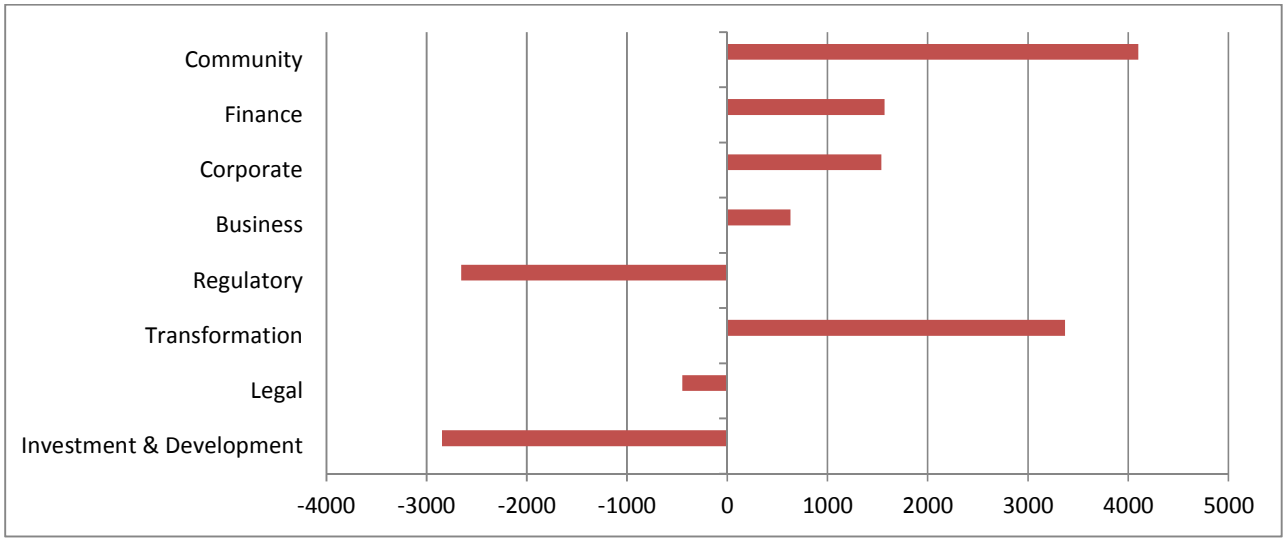
In common with the rest of Local Government Surrey Heath has seen a steady reduction in its core funding which has had to be replaced in part by Council Tax.



Against this background the Council has pursued a policy of increasing income both from services and investment and also increasing efficiency. This has enabled it to maintain services in this difficult financial environment.

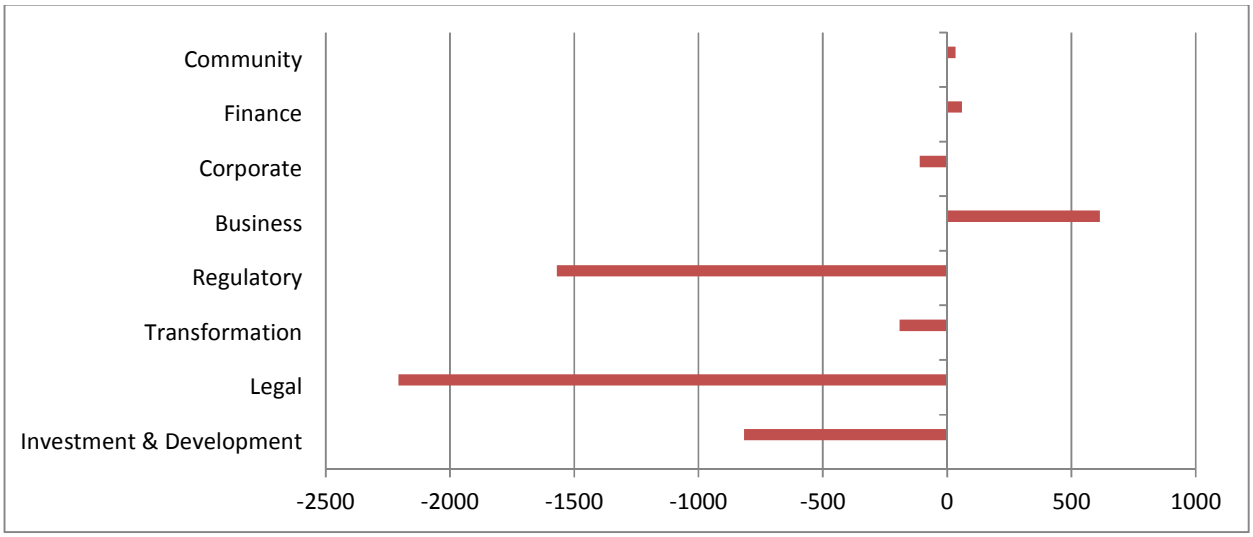
Council Spending 2018/19

Expenditure by services was as follows (in £'000):



INTRODUCTION

Controllable Variances to budget (which excludes asset charges, severance costs and pensions) were as follows (in £'000s):



Major variances were caused by:

Regulatory	Planning Applications £577k underspend Planning Appeals £44k underspend Local Plan £136k underspend but some of this will be carried forward Homelessness £201k underspend
Legal	Corporate Land Management £292k underspent Vulcan Way £187k underspend as acquired in year Trade City £284k underspend as acquired in year London Road £82k underspend Albany Park £321k underspend as acquired in year
Finance	Housing benefits £55k overspend due to additional software and system development costs and reduction in central government grant.
Community	SCC recycling grant £26k underspend due to increased grant Recycling and Waste £120k overspend re one off charges relating to vehicle rentals at the start of the contract. Air Quality Project £189k Underspend but this will be carried forward.
Investment and Development	Regeneration £53k underspend due to lower consultant costs. Strategic Property Development £74k underspend due to lower salary and supplies and service costs. London Road Block £313k Unspent project costs which will be carried forward. Town Centre Investment £861k Overspend due to a reduction in town centre income which is covered by reserves. Interest on Borrowing £1.3m Underspend on short term borrowing costs.
Transformation	Revenue grants £120k underspend re grants awarded ICT £122k overspend re increase in supplier costs particularly Software Licences.
Corporate	Electoral Registration £60k underspend re additional grants received

Business	Theatre £260k over budget Net revenue from shows fell short of budget and cumulative savings are in line with business plan. Parking £373k over budget due to lower income as a result of a reduction in town centre footfall and a reduced number of car parking spaces available. Parks and Open Spaces £63k overspend. Increased maintenance costs due to vandalism and landfill costs.

Council Tax and Business Rates

The Council achieved a deficit on Council Tax during the year. Of the £139k deficit on Council Tax approximately £16k is payable by the Council in future years, while there was a surplus on business rates of the £2.1m with £616k due to the Council in future years. The deficit was due to a previous over estimation of the predicted surplus, while the business rate surplus was as a result of improved collection rate and a decrease in the appeals provision.

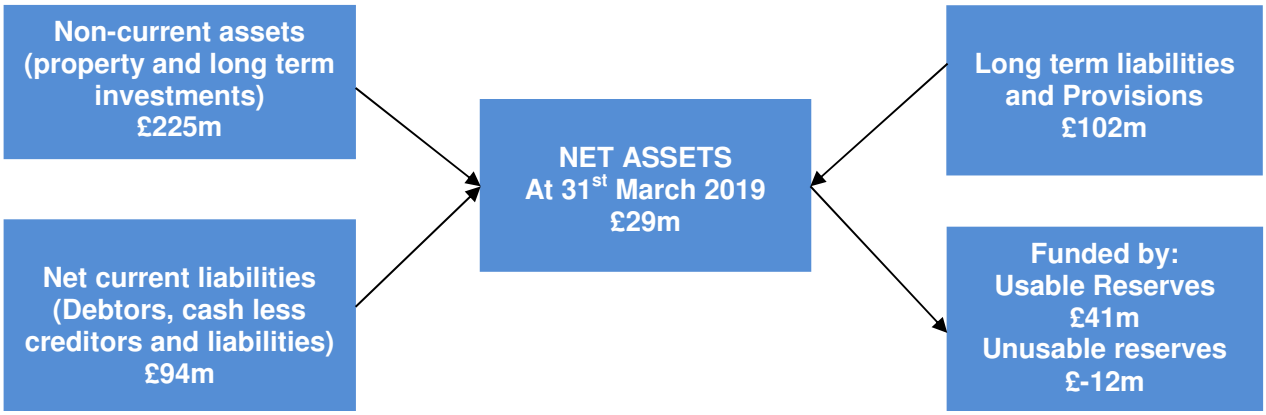
Pensions Liabilities

The Pension's liability, calculated on accordance with accounting standards, is currently £44m as at the 31st March 2019. This is due to the continuing low Gilt rates which increases the cost of future liabilities.

The Council's share of the deficit on the Surrey Pension Fund continues to reduce the Council's net asset position. The current actuarial valuation, based on forecast yields rather than corporate bond yields as required by accounting standards, shows that the fund is actually very close to being fully funded as at the 31st March 2019.

Financial Position

The Council maintains a strong balance sheet despite the financial challenges it faces



The Net assets of the Council have remained the same over the year however the level of cash back reserves has risen reflecting the Council making prudent provision for future financial obligations.

Changes to Accounting Policies

There were no significant changes to accounting policies over the year; however they have all been reviewed.

Current Borrowing Facilities and Capital Borrowing

The Council has external borrowings which total £174m. Of this £57m is long term and £117m short term. The Council entered into an arrangement to forward fix £50m of debt over the years 2020/21 &

2021/22 to minimise the risk of interest rate increases. Over the year £1.6m was charged in the accounts for interest and a further £1.4m for debt repayments all of which was covered by additional income generated from the assets acquired.

Internal and External sources of funds available for the capital program

The Council has £41m in reserves of which £11m could be used to support the capital program. The Council could also borrow up to its Capital Funding requirement of £189m if the need arose.

Details of material events since the balance sheet date

At the time of writing there are no events which would impact upon these financial statements.

Impact of the current economic climate on the authority

The Medium term financial forecast produced in February this year showed that there was likely to be a funding gap of £2m by the year 2023/24. This was based on a number of assumptions surrounding Government Funding and Business Rates since no actual figures have been provided by the Government beyond the current year. The Council has a good track record of meeting these financial challenges and indeed has a strategy of further efficiency coupled with income generation to meet this challenge. However if this was not to be successful it may be that cuts to services may be required. That said this is a challenge faced by most Councils and indeed Surrey Heath's position is in fact one of the better placed within Surrey. Ultimately the long term sustainability of a 2 tier system of Local Government in Surrey will need to be addressed if funding continues to be taken away by central government.

In 2018/19 Surrey Heath was a member of the Surrey wide Business rates pilot which meant that all of the Business Rates growth achieved within the county was retained within Surrey rather than being redistributed. This has achieved the extra £1m target put in place when the pilot was discussed and this is included within these accounts. In 2019/20 we have reverted back to the 50% scheme and it has been proposed that in 2020/21 a new 75% scheme will be introduced but this is still subject to confirmation by Government.

Looking forward the Council wishes to continue to deliver on its key priority to develop Camberley Town Centre. This project in particular will depend on the strength of the wider UK economy in particular the housing and retail markets. Although there has been a national fall in the value of the retail assets which has impacted the Council this is not necessarily an issue since there is no intention to sell these assets in the near future. What is more important is that the income is maintained in order to cover the loans taken out to fund the purchase of these assets. This goal has been met in 2018/19.

The Council is doing a good job on its own trying to address the financial challenges it faces and preserving services. It is continuing to pursue key priority 2 in delivering income and also to reduce costs. This is being achieved through more partnership working and new technology. That said the greatest level of efficiency savings would be achieved from some sort of local Government reorganisation across Surrey which may come about if the County Council does not meet its savings targets.

Group Accounts

The Council's number 1 priority is the redevelopment of the "London Road Block" (LRB) in Camberley and this was brought a step closer when the council acquired the landholdings of Capital and Regional PLC, which included "the Square" shopping centre, in November 2016. The property was held in a

Jersey Property Unit Trust (JPUT) and it was a condition of the sale that the council acquired the units rather than the assets. The trust is registered and regulated in Jersey; it prepares accounts under UKGAAP including FRS102 and is subject to audit. It is a closed trust i.e. the units cannot be traded and it is transparent for tax purposes i.e. the taxation of the trust is the same as the taxation status of the unit

Holders. 99.99% of the units are held directly by the Council and the remaining 0.01% of the units being held by SHBC Camberley Limited, a wholly owned subsidiary of the Council created for this purpose.

Although the management of the trust rests with Jersey based trustees, over which the unit holders have no direct control, the Council is the beneficial owner of the trust and hence the underlying property. For this reason the value of the shopping centre has been included within “Other Land and Buildings” to reflect the underlying substance over form.

1.7 Who Works for the Council

Surrey Heath employs approximately 262 Staff in full-time and part-time positions. Our workforce seeks to reflect the diversity of our community. The Council employs a number of apprentices in a wide variety of roles and has recently started an internship program.

This has enabled the Council to focus on areas of skill shortage and future skills growth areas, as well as mitigate risks in services where a number of specialists may soon be reaching retirement age. Despite economies in other areas Surrey Heath sees the development of its employees as integral to providing quality services and so funding has been maintained in the training budget. In support of this the Council has made significant investments towards the learning and development of its people across the Council who have obtained a whole range of professional qualifications thereby not only improving their skills but also the service they are able to offer to our residents.

1.8 Corporate Risks

The Council has a Corporate Risk Group which assesses corporate risks to the Council services and the achievement of its objectives. The Corporate Risk Register outlines these risks and is presented to Members on an annual basis.

Key corporate risks are considered in the Annual Governance Statement. They include:

- Information security and compliance with data protection legislation;
- Major Enforcement Actions
- Business Continuity Systems and processes;
- Failure of a major contractor or supplier;
- Major Incident
- Contaminated Land
- End of two tier arrangements
- Treasury & Property investment , and
- Loss of funding from Government and partners.

Summary Position

The Council’s financial and non-financial performance in 2018/19 has been good. The Council has taken the bold step of investing in property to further its priorities both in terms of regeneration and generating income. In addition a majority of services have come in under budget due to prudent management of the

funds given to them. Whilst there are still financial challenges ahead the Council is taking the right steps to deal with them.

Receipt of Further Information

If you would like to receive further information about these Accounts, please do not hesitate to contact me at the Finance Department, Surrey Heath Borough Council, Knoll Road, Camberley, Surrey GU15 3HD.

Acknowledgements

The production of the Statement of Accounts would not have been possible without the exceptionally hard work and dedication of staff across the Council. I would like to express my gratitude to all colleagues, particularly from the Finance team, who have worked hard on the preparation of these financial statements and to thank them for all their support and assistance during the year.

K.Menon

K S Menon
Executive Head of Finance BSc(Hons) ACA, CIPFA

Explanation of the Financial Statements

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2019. It comprises core, supplementary and group statements, together with disclosure notes. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which in turn is underpinned by International Financial Reporting Standards;

The **Core Statements** are:

- The **Expenditure and Funding Analysis** – this shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

- The **Comprehensive Income and Expenditure Statement** – this records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area. The bottom half of the statement deals with corporate transactions and funding. Expenditure represents a combination of:
  - services and activities that the Council is required to carry out by law (statutory duties) such as street cleaning, planning and licensing; and,
  - discretionary expenditure focussed on local priorities and needs.

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

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

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

The **Supplementary Financial Statements** are:

- The **Annual Governance Statement** which sets out the governance structures of the Council and its key internal controls.

- The **Collection Fund** summarises the collection of Council tax and business rates, and the redistribution of some of that money to the Greater London Authority (GLA) and central government.

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

The **Group financial statements** are in the same format as the Core Financial Statements but include the transaction of the Council and its controlled subsidiary entities.

Statements of Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those 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; and
- Approve the Statement of Accounts.

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 (the Code).

In preparing this Statement of Accounts, the Executive Head of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code.
- kept proper accounting records which are up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the authority and the group will continue in operational existence for the foreseeable future; and
- maintained such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Authority at 31st March 2019 and of its income and expenditure for the year then ended.

Kelvin Menon BSc ACA
Executive Head of Finance
22nd July 2019

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Committee on 22nd July 2019.

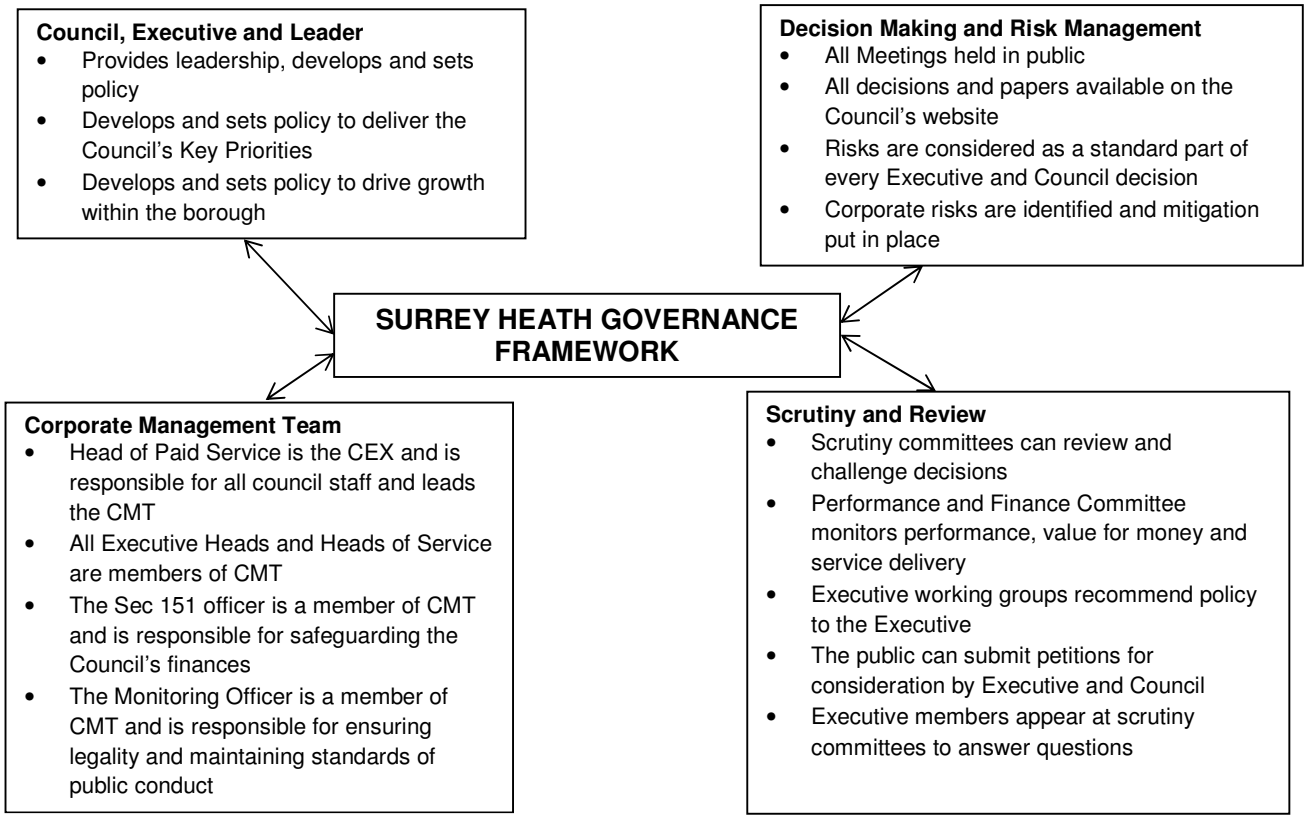
Cllr Alan McClafferty
Chairman of the Audit and Standards Committee
22nd July 2019

2. ANNUAL GOVERNANCE STATEMENT 2018/19

INTRODUCTION

Local authorities are statutorily required to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (the Framework) fulfils this requirement. The Framework requires local authorities to be responsible for ensuring that: their business is conducted in accordance with all relevant laws and regulations; public money is safeguarded and properly accounted for; and resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people. The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

KEY ELEMENTS OF THE COUNCIL'S GOVERNANCE FRAMEWORK



HOW WE COMPLY WITH THE CIPFA/SOLACE FRAMEWORK

The Council has approved and adopted a Code of Corporate Governance together with a number of other strategies and processes, such as financial regulations, codes of conduct etc. which strengthen corporate governance.

Set out below is how the Council has complied with the seven principles set out in the CIPFA/SoLACE Framework during 2018/19.

PRINCIPLE A

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The Council has a Code of Conduct for elected Members, and a Code of Corporate Governance which provides guidance for Officers and Members on expected standards of behaviours to ensure integrity. Members and officers receive training in Code of Conduct and behaviour issues. The Audit and Standards Committee and Monitoring Officer ensure that the Code of Conduct is up to date and investigate any suspected breaches.

All officers and Members must also sign up to the Council's Anti- Fraud and Corruption Policy and declare any interests they may have or gifts they have received which are then recorded in a Register. The Whistleblowing Policy provides protection for individuals to raise concerns in confidence about suspect behaviour and ensures that any concerns raised are properly investigated. The policy is available on the website and forms part of the Council's induction process. A Bribery Policy is also in place. The Council has an internal corporate enforcement team who will investigate any suspected fraud or corruption and report their findings directly to the Monitoring Officer for action to be taken if required.

All Council decisions have to consider legal implications which are included as a standard paragraph in the report being considered. Senior officers and other key post holders receive support from Legal Services in this regard and if specialist legal advice is required then the Council will engage external advisers. The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to members.

The Council has a strong internal audit function that audits all of the Council's functions on a cyclical basis. It reports its findings to the Corporate Management Team and also reports to the Audit and Standards Committee on a regular basis. It also has a direct reporting line to the Chief Executive on matters requiring immediate action.

The Council has an Equality Strategy as well as a staff Equality Action Group which champions equalities throughout the organisation. There is also a Member Equality Working Group looking at ways to engage the community.

PRINCIPLE B

Ensuring openness and comprehensive stakeholder engagement

All meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council's website together with details of forthcoming consultation exercises, surveys and, public meetings, except those determined as exempt from publication.

The Council's Constitution sets out how it engages with stakeholders and has representation on the governing bodies of external organisations including the local housing association, CCG, and other joint bodies.

The Council holds two business breakfasts during the year to present the work of the Council and to discuss matters of common interest to local businesses. The Council sends every household a copy of the quarterly magazine – Heathscene – which includes articles of interest affecting local residents. The Council also utilises various online communication channels including Twitter, Instagram, Facebook, LinkedIn and YouTube. More specific e-bulletins and publications are created for various communities of

interest, such as businesses, theatre users etc as well as for changes in services. It has also set up a website in respect of the Camberley regeneration.

PRINCIPLES C AND D

Defining, optimising and achieving outcomes

The Council has in place a five year strategy covering 2017 to 2022 based around 4 themes. These are People, Place, Prosperity and Performance. For each of these themes there are high level objectives and underneath are the priorities. A new Annual Plan is approved by Members each year which sets out the key targets which will be delivered for the year to further the priorities. These targets feed through in to project plans and individual staff and team objectives. This is to ensure that specific outcomes in relation to the five year strategy are defined for key service areas, can be delivered and monitored.

Each service also plans out how it will deliver the outcomes relevant to its area of work in the context of the agreed budget for the year ahead. Services challenge each other through the Corporate Management Team to ensure their budgets deliver value for money.

To ensure that the Council continues to deliver sustainable social and environmental benefits, there is an Economic Development Plan, as well as a series of more specific strategies. These include the Health and Well Being Strategy, Housing Strategy, Drainage Strategy and the Air Quality Strategy.

All decisions, unless delegated, are made by Executive which includes a review of options and risks by officers and Members. Key performance indicators are in place for all services and these are reported bi annually, together with performance against the Annual Plan, to members for discussion and potential intervention where expected performance is not being achieved.

The Council has been through a programme of significant transformation over the last few years and continues to review ways of working in order to increase efficiency, reduce costs and adapt to changing legislative requirements. The Council has invested in new technology to enable services to move to the "Cloud" to support agile working and efficiency. During the year a number of IT applications were upgraded which included "Uniform" for the planning, environmental health, licensing and building control, and the continued roll out of "Box" for the cloud storage of its documents.
The Council also works closely at all levels with other authorities to learn and understand how best practice has been delivered elsewhere.

PRINCIPLE E

Developing capacity and capability

A key element of the Council's service planning is to maximise the investment in staff through training to enhance the qualifications and skills to enable them to fulfil their roles and potentially progress within the organisation. Several staff have obtained qualifications through this route and have progressed as a result. The Council has maintained its training budget despite reductions in other areas to ensure that it can develop staff for the future and deal with shortages in key areas such as planning. Training Requirements are reviewed for all staff as part of their annual appraisal which highlights areas of development required to enable them to fulfil their objectives for that year. The Council provides mandatory training for all staff where appropriate. The Council is also a member of the Surrey Learn Partnership which offers cost effective personal skills training in areas such as management skills, communication skills and personal effectiveness on a Surrey wide basis. Members are also able to access a range of training opportunities, some of which are mandatory i.e. planning for members of those committees. The Council has a full induction programme for staff and members.

During the year a number of staff were supported through training and experience to gain professional qualifications. This is seen as a major incentive to attract staff to the Council and to enable it to address skill shortages in the future. The Council operates a flexible working policy for employees to enable them to achieve a positive work life balance. In addition the Council has continued to transfer IT applications to the cloud so as to enable agile working and also support Business Continuity.

The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to maximise capacity by delivering services in the most effective and efficient way. Surrey Heath is the lead authority in a collaborative partnership of four authorities which are delivering waste collection under a single contract. The Council has also extended its joint arrangements with other Councils in areas such as Environmental Health and Community Services.

PRINCIPLE F

Managing risks and performance

The Risk Management Strategy sets out the Council's approach to identifying and controlling risk. A Corporate Risk Register is maintained at a corporate level with significant risks reported to CMT and to the Performance and Finance Committee each year. Progress against the Annual Plan objectives and KPI's are reported bi-annually to members. The Council has in place Financial Regulations, which set out expected processes and internal controls, which are monitored on a regular basis.

The internal audit team provide regular reports on the effective operation of these controls together with an annual assessment of the overall control environment. The Council has a dedicated Information Governance Manager responsible for information governance, security and records management. The annually reviewed Information Security Policy governs how information should be securely handled, transmitted, stored and maintained. The General Data Protection Regulation and Data Protection Act 2018 came into force on the 25th May 2018. The corporate Privacy Notice was updated on the Council website and new ones for different departments are being added. All staff have completed mandatory training and a record has been kept of attendance. One of the main risks to information management comes from cyber-attack. To reduce risk under cybersecurity, all staff were invited to attend a session a session run by the police to explain staffs roles in reducing the risk. Work is continuing on ensuring compliance with the new Data Protection legislation. Work has begun to ensure there is no risk on Data Protection after Brexit.

The Council recognises that it does not have the expertise internally in all matters and engages external advisors as appropriate for example in relation to the Town Centre, Regeneration, Development and Planning Appeals.

The Council submits reports on its performance in complaints, planning, environmental protection and a number of other areas to Members each year for discussion and comment.

The Council the purchased the town centre in 2016 in order to regenerate the SQ and the London Road Development site. The Council recognises that this carries a significant level of commercial and financial risk and it has appointed professional agents and legal advisers to manage and advise on these areas so as to minimise these risks.

PRINCIPLE G

Implementing good practices in transparency, reporting, and accountability

All Council agendas and supporting information, unless exempt, set out the reasons for the decisions made. The Council works to provide clear and accurate information, and has developed both its website and the format of Council reports to improve transparency and accessibility. The Council reports performance against targets, its Annual Plan objectives and financial budgets on a regular basis. All overdue essential audit recommendations are reported to the CMT and the Audit and Standards Committee, to ensure that officers undertake any follow up actions as appropriate.

REVIEW OF EFFECTIVENESS

The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below:

Assurance from Internal and External Audit

One of the key assurance statements the Council receives each year is the annual report from Internal Audit and the opinion of the Section 151 Officer. In the financial year 2018/19 the internal audit team had completed or nearly completed 24 audit reviews. 19 of these reviews were scheduled and were from the Audit Plan. Internal Audit has undertaken 5 that were not scheduled and came about at the request of management. Audits that have been carried out in 18/19 include information management, safeguarding, the theatre, and democratic services.

All final audit reports for the financial year to date have been given a substantial level of assurance, there have been no limited assurance reports issued.

In the same time period, Audit have raised 93 audit recommendations, 3 essential ones, 81 desirable ones, and 9 best practice recommendations. Internal Audit regularly monitors outstanding recommendations to ensure they are being actioned by managers on time wherever possible.

Every 5 years the audit profession recommend that public sector internal audit functions have a peer review by an independent body. We have had a peer review carried out by Spelthorne Borough Council, and a draft has just been received recommending some areas for improvement. We also undertook a peer review of Elmbridge's audit activity and provided a peer review to their head of audit.

The internal auditors' opinion for 2018/19 is that the Council's internal control environment and systems of internal control in the areas audited were adequate and effective.

Essential Issues Reported in 2018/19	Agreed action
Arrangements be provided to invoice and request the outstanding payment to the service provider that was delivering the on line parking payment system, the fees checked to ensure they are correct and are correctly accounted for.	This has now been actioned. Parking has billed the company concerned in full and that the correct amount has been checked.
Camberley event income should be fully recorded, entered in the safe and recorded in the key logbook. A simple system should be introduced to record the actual cash counted for off-site events and evidenced that this has been double checked by a secondary officer, and all event income reconciled.	Discussed with theatre staff and arrangements to be put in place for 19/20.

The Council's External Auditor provides assurance on the accuracy of the year end statement of Accounts and the overall adequacy of securing and improving value for money. As a result of a national procurement the Council's external auditors have changed from KPMG to BDO LLP and it will BDO that will be reporting on the 2018/19 financial statements. The most recent Audit Letter, which related to the 2017/18 financial statements, issued by KPMG gave an unqualified opinion in respect of the financial statements and value for money.

Self-assessment and review of key outcome indicators

Internal Audit has undertaken a review to confirm that the arrangements described above have been in place throughout the year.

The key outcome indicators below have been used to assess the quality of governance arrangements in 2018/19:

Issues Identified	Performance for 2018/19
Formal reports by sec 151 or Monitoring Officer	None issued.
Outcomes from Standards Committee of Monitoring Officer investigations	2 breaches of the Member Code of Conduct have occurred and have are being formally investigated.
Proven frauds carried out by members or officers	None identified in 2018/19.
Objections received from local electors	None in 2018/19.
Local Government Ombudsman referrals upheld exceed national average	Data to be completed, however 2017/18 was below national average.
Unsatisfactory/limited internal audit report	None apart from those identified above.

Follow up of issues identified in 2018/19

Last year's Annual Governance Statement highlighted three key areas for improvement. The table below sets out the action has been taken to address these issues in the current year:

Issues identified in 2018/19	Action Taken
Implementation of the General Data Protection Regulation	Staff undertook Information Governance training and the General Data Protection Regulation embedded into the Council.
London Road Site Development	A team of professional advisers was appointed to manage the tender process. Members were consulted during the year and confirmed the outcome of the tender in February 2019.
Introduction of IAS 9	Training was undertaken with the Council's treasury advisors during the year. As a result of this it was determined that the impact on the Council is likely to be minimal at this time.
New contract Arena Leisure centre	A Professional adviser guided the Council through a successful OJEU process and a contractor was appointed by members in January 2019.
Change of Auditor	The Council worked closely with both KPMG and BDO to ensure that the transfer went as smoothly as possible.

Any issues identified for 2019/20

Apart from the audit issues above the Council has identified, the following issues are to be addressed during the coming year and any action planned accordingly.

Issues identified in 2019/20	Action Taken
BREXIT	The Council has contacted major contractors to ascertain the impact of Brexit. It has also ensure that its business continuity plans are up to date. Officers have also participated in the Surrey wide BREXIT update.
London Road Development	Following the appointment of a chosen developer, work will continue in the coming year to finalise the contractual arrangements. The Council will also be required to acquire any remaining properties on the site and this could be by CPO
IT and Business Continuity	The Council is transferring a number of its IT services to the Cloud to enable agile working and business continuity.
New contract Arena Leisure centre	During the year the contract will be finalised with the new contractor, and a planning application submitted. The leisure centre will also be closed and the exiting centre demolished prior to the construction of a new centre.
Joint Waste Service	JWS manages the joint waste contract on behalf of 4 Councils. There have been problems with the contractor which still need to be resolved and there are also risks around the contract and contractor which need to be resolved.

CONCLUSION

The Council is satisfied that appropriate governance arrangements are in place however it remains committed to maintaining and where possible improving these arrangements, in particular by addressing the issues identified in this report.

Karen Whelan
Chief Executive

Cllr Richard Brooks
Leader

3. INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY HEATH BOROUGH COUNCIL

4. ACCOUNTING POLICIES

4.1 General

The Statement of Accounts has been prepared in accordance with the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code is based on International Financial Accounting Standards (IFRS).

The financial information within the statements follows the accounting principles of accruals, going concern and primacy of legislative requirements. Information is included with the statements having regard to the concepts of relevance, reliability, comparability and understandability together with a consideration of materiality.

Where it has been necessary to use estimates in order to most closely reflect the economic transactions, a prudent basis has been adopted.

4.2 Property, Plant and Equipment

Expenditure on the acquisition, creation or enhancement of property, plant and equipment has been capitalised on an accruals basis in the financial statements.

Tangible Fixed Assets are valued, as far as practicable, on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by the Code. The following basis has been used:

- Land, operational properties and other operational assets are included in the balance sheet at existing use value (EUV) where there is an active market of the asset. Where there is no active market then Depreciated replacement cost is used

- Non-operational assets, including investment properties and assets that are surplus to requirements, are included in the balance sheet at fair value. Investment property is property held solely to earn rentals or for capital appreciation or both

- Infrastructure and community assets are included in the balance sheet at historical cost

- Surplus assets are included at fair value

- Non-current assets held for sale are included at the lower of the carrying value and the fair value less sale costs

- Heritage assets are assets with historical, artistic, scientific, technological or environmental qualities held and maintained for their contribution to knowledge or culture. From 2011/12 heritage assets have been separately disclosed in the financial statements using their insurance valuation where available. Where no such valuation is available then the historic cost is used in the first instance otherwise an estimate of the asset value is used

- Intangible assets are included in the financial statements at cost

Revaluations of fixed assets are carried out on a rolling programme (with the exception of assets held in the JPUT which are valued annually) although material changes in asset valuation will be adjusted when necessary. Valuations are carried out by external RICS qualified valuers in accordance with RICS guidelines. For valuations after 1st April 2010 components parts of assets over £1m have to be

depreciated separately to the rest of the asset. This will only be considered for assets valued over £1m with components greater than £200k.

As at the 31st March 2019 there have been no material components recognised that have a significantly different useful life from that of the asset.

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

Where valuations of fixed assets have fallen at the balance sheet date the value of the impairment is first taken from the Revaluation Reserve, if a balance for that individual asset exits, with any remaining impairment being charged to the Income and expenditure account.

4.3 Depreciation

Depreciation is provided for on all tangible fixed assets where a finite useful life has been determined.

Depreciation is charged on operation building. There is no requirement to depreciate the land element of operation property, community assets or investment property.

For newly acquired assets depreciation is not provided in the year of acquisition. In addition assets in the course of construction are not depreciated until they are brought into use. When identified separately in accordance with the fixed asset policy components are depreciated over the component's useful life.

Depreciation is calculated on the following basis:

- 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 over the useful life of the asset
- infrastructure – straight line method over useful life of the item
- intangibles – 100% in year of purchase

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.

No depreciation is provided on assets which are revalued on an annual basis

4.4 Charges to Revenue for the use of Fixed Assets

In addition to depreciation, amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or for transfers to earmarked reserves are disclosed separately in the Statement of movement in reserves.

4.5 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.

4.6 Debtors and Creditors

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Practice. This means that sums due to or from the Council during the year are included in the accounts where they are significant whether or not the cash has been actually received of paid in the year.

4.7 Employee Benefits

Where employees have holiday entitlement which has not been used at the balance sheet date the value of the outstanding days are accrued in the Comprehensive Income and Expenditure Statement. A provision is made for the value of the holiday due and is included within current liabilities on the Balance Sheet. The movement in the employee benefit accrual is transferred between the employee benefit reserves and the General Fund Balance.

4.8 Provisions and Reserves

Capital accounting provisions require the maintenance of two reserve accounts in the Consolidated Balance sheet as follows:

- The Revaluation Reserve, which represents the balance of the surpluses or deficits arising on the revaluation of fixed assets since 1st April 2007.
- The Capital Adjustment Account, which represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and other capital financing transactions.

The Council sets aside reserves to meet general, rather than specific future revenue or capital expenditure. Any use or contribution to these reserves is shown in the Statement of Movement in Reserves.

The Council also sets aside provisions for specific future expenses which are likely or certain to be incurred but by their inherent nature the amount or timing cannot be determined.

Details of the Council's reserves and provisions are provided in the notes to the balance sheet and Statement of Movements on reserves

4.9 Leases

Leases are classified as either finance or operating leases in accordance with IAS 17.

Finance leases are where substantially all the risks and rewards are transferred to the Council. Assets acquired under finance leases are capitalised and shown on the balance sheet at current value. The in year payments are apportioned between principle, which are charged against the asset value in the Balance Sheet, and interest which is charged to the Comprehensive Income and Expenditure Statement.

Operating leases are leases which are not finance leases. Payments due under these leases are charged directly to the service revenue expenditure within the Comprehensive Income and Expenditure Statement.

4.10 Pensions

The accounting policies of IAS19 can be summarised as follows:

- Schemes with net assets should be shown separately from those with net liabilities
- The attributable assets of each scheme should be measured at fair value
- The attributable liabilities of each scheme should be measured on an actuarial basis using the projected unit method
- Scheme liabilities should be discounted at a rate that reflects the time value of money and the characteristics of the liability
- The surplus/deficit in each scheme is the excess/shortfall of the value of assets on the scheme over/below the present value of the scheme liabilities
- The current service costs should be based on the most recent actuarial valuation at the beginning of the period, with the financial assumptions updated to reflect conditions at that date
- The interest cost should be based on the discount rate and the present value of the scheme liabilities at the beginning of the period
- The expected return on assets is based on long term expectations at the beginning of the period and is expected to be reasonably stable
- Actuarial gains and losses may arise from any new revaluation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date.
- IAS service costs should be disclosed on a straight line basis over the period in which the increases in benefits vests
- Losses arising on settlement or curtailment not allowed for in the actuarial assumptions should be measured on the date the employer becomes demonstrably committed to the transactions and disclosed in notes to the account covering that date. Gains arising from settlements/curtailments not allowed for in the actuarial assumptions should be measured at the date all parties whose consent is required are irrevocable committed to the transaction.

4.11 Grants

Grants for revenue expenditure are accounted for in the same period as the expenditure to which they relate.

Where a grant of contributions is received to purchase fixed assets and any conditions have not been met the grant is credited to capital grants received in advance or donated assets accounts.

When conditions have been met or if there are no conditions the grant is recognised in the Comprehensive Income and Expenditure Statement. The grant is held in the capital grants unapplied reserve until the expenditure is incurred when it is transferred to the capital adjustment account.

4.12 Financial Instruments

Amortised Cost

Most financial instruments (whether borrowing or investment) are valued on an amortised costs basis using the effective interest rate (EIR) method. Interest costs recognised in the comprehensive Income and Expenditure account are the effective interest rate and not the actual interest rate being applied in during the year. For most of the borrowings that the Authority has however this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Fair Value

In the notes to the accounts financial instruments are shown at fair value. Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming the transaction was negotiated between parties who are knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiation other than to secure a

fair price. The fair values are based on comparable new borrowing/deposit rate for the same financial instrument from a comparable lender. A consistent approach has been applied to both assets and liabilities.

4.13 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.

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.

4.14 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 business 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.

4.15 Community Infrastructure Levy

The Council has elected to charge Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement and then transferred to the Capital Grants Unapplied Account in accordance with the accounting policy for government grant and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

4.16 Contingent Assets and Liabilities

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 Liabilities

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

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

4.17 Impact of Accounting Standards Issued but not yet adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the code. There are a number of new standards that have been issued but not implemented as follows:

- IFRS19 – Leases. This comes into effect on the 1st April 2020 and eliminates the distinction between finance and operating leases. This will result in all leases being shown on the balance sheet for Lessees unless of low value or less than 12 months. This is unlikely to have material impact on the Council's financial statements.

5. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, Council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/2019				2017/2018		
Net Expenditure Chargeable to the General Fund £'000	**Adjustments between the Funding and Accounting Basis £'000**	**Net Expenditure in the comprehensive Income and Expenditure Statement £'000**		**Net Expenditure Chargeable to the General Fund £'000**	**Adjustments between the Funding and Accounting Basis £'000**	**Net Expenditure in the comprehensive Income and Expenditure Statement £'000**
632		632	Business	1,174		1,174
4,100		4,100	Community	4,747		4,747
1,536		1,536	Corporate	1,472		1,472
1,569		1,569	Finance	1,780		1,780
924		924	Legal	116		116
(3,119)		(3,119)	Investment & Development	(5,263)		(5,263)
(2,653)		(2,653)	Regulatory	(2,757)		(2,757)
3,369		3,369	Transformation	437		437
6,358	**0**	**6,358**	**Net Cost of Services**	**1,706**	**0**	**1,706**
(792)	0	(792)	Other Operating Expenditure	566	(3)	569
(2,077)	(1,659)	(418)	Financing & Investment Income	4,248	4,241	7
6,762	(13,509)	20,271	Adjustments between Funding & Accounting	(537)	(12,012)	11,475
(14,812)	380	(15,192)	Taxation and non-specific grant income	(13,718)	(1,501)	(12,217)
(4,561)	**(14,788)**	**10,227**	**Surplus or Deficit**	**(7,735)**	**(9,275)**	**1,540**
(29,033)			Opening General Fund	(21,298)		
(40)			Prior Movement in reserves			
(4,561)			**Less/Plus Surplus or (Deficit) on General Fund in Year**	**(7,735)**		
(33,634)			**Closing General Fund at 31 March**	**(29,033)**		

6. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The Comprehensive Income and Expenditure 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 (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2018/2019				2017/2018		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
4,985	(4,353)	632	Business	5,670	(4,496)	1,174
6,723	(2,623)	4,100	Community	7,126	(2,379)	4,747
1,603	(67)	1,536	Corporate	1,740	(268)	1,472
18,268	(16,699)	1,569	Finance	18,197	(16,417)	1,780
1,886	(962)	924	Legal	825	(518)	307
4,177	(7,296)	(3,119)	Investment & Development	494	(5,945)	(5,451)
2,663	(5,316)	(2,653)	Regulatory	3,824	(6,581)	(2,757)
3,451	(82)	3,369	Transformation	450	(13)	437
43,756	**(37,398)**	**6,358**	**Cost of Services**	**38,326**	**(36,617)**	**1,709**
		(792)	Other Operating expenditure			569
		(418)	Financing and investment income and expenditure (note 20)			4
		20,271	Other items not included in cost of services for reporting purposes			11,627
		(15,192)	Taxation and Non-specific Grant Income & Expenditure (note 21)			(12,217)
		10,227	**(Surplus) or Deficit on Provision of Services**			**1,692**
		758	Surplus or deficit on revaluation of property, plant and equipment assets			(2,377)
		(1,980)	Change in hedging instruments fair value			1,980
		(34)	Surplus or deficit on revaluation of available for sale financial assets			(97)
		3,974	Remeasurement of the net defined benefit liability/(asset)			(1,391)
		2,718	**Other Comprehensive Income and Expenditure**			**(1,885)**
		12,945	**Total Comprehensive Income and Expenditure**			**(193)**

7. MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation and other 'unusable reserves'). The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

	General fund balance £'000	Capital receipts reserves £'000	Capital grants unapplied £'000	JPUT reserve £'000	Total Usable reserves £'000	Unusable reserves £'000	Total Authority reserves £'000
Current Year							
Balance at 31st March 2019	**(29,033)**	**0**	**(2,221)**	**0**	**(31,254)**	**(9,135)**	**(40,389)**
Movement in Reserves during 2018/2019							
Total Comprehensive Income and Expenditure	10,227				10,227		10,227
Other Comprehensive income & expenditure	(40)		(1,059)		(1,099)	2,718	1,779
Adjustments between accounting basis & funding basis under regulations (note 19)	(14,788)	(3,930)	(466)		(19,184)	19,184	0
Increase or Decrease in 2018/2019	**(4,601)**	**(3,930)**	**(1,525)**	**0**	**(10,056)**	**21,902**	**12,006**
Balance at 31 March 2019 carried forward	**(33,634)**	**(3,930)**	**(3,746)**	**0**	**(41,310)**	**12,767**	**(28,543)**

Comparative Year							
Balance at 31st March 2018	**(21,146)**	**(151)**	**(14)**	**(815)**	**(21,463)**	**(18,112)**	**(39,575)**
Movement in Reserves during 2017/2018							
Total Comprehensive Income and Expenditure	1,540			815	1,540		1,540
Other Comprehensive income & expenditure			(469)		(469)	(1,885)	(2,354)
Adjustments between accounting basis & funding basis under regulations (note 19)	(9,275)	151	(1,738)		(10,862)	10,862	0
Increase or Decrease in 2017/2018	**(7,735)**	**151**	**(2,207)**	**815**	**(9,791)**	**8,977**	**(814)**
Balance at 31 March 2018 carried forward	**(29,033)**	**0**	**(2,221)**	**0**	**(31,254)**	**(9,135)**	**(40,389)**

8. 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 is 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".

	Note	31st March 2019 £'000	31st March 2018 £'000
Property, plant & equipment			
Other land and buildings	22	132,495	139,581
Vehicles, plant and equipment	22	4,005	2,070
Infrastructure assets	22	24	34
Community assets	22	3,285	1,960
Surplus assets not held for sale	22	998	961
Assets under construction	22	1,148	1,034
Total property, plant & equipment		**141,956**	**145,640**
Intangible assets - Goodwill			**7,294**
Heritage Assets	23	334	334
Investment property	25	82,724	39,002
Long term investments	44	2,185	2,151
Long term debtors	30	1,312	420
Long term assets		**228,511**	**194,841**
Short term investments	44	0	2,018
Inventories		29	55
Short term debtors	31	16,699	13,874
Cash and cash equivalents	32	30,165	11,662
Current assets		**46,893**	**27,609**
Short-term borrowing	44	(119,512)	(103,215)
Short term creditors	33	(20,208)	(18,047)
Short term derivatives	33	0	(1,980)
Current liabilities		**(139,720)**	**(123,242)**
Long term creditors	45	(952)	(239)
NDR Provision for Appeals	33	(534)	(2,712)
Long-term borrowing	45	(59,586)	(16,493)
Other long term liabilities - Pensions	42	(46,069)	(39,527)
Long term liabilities		**(107,141)**	**(58,971)**
Net assets		**28,543**	**40,237**
Usable reserves		(41,310)	(31,102)
Unusable reserves	28	12,767	(9,135)
Total Reserves		**(28,543)**	**(40,237)**

Kelvin Menon BSc ACA
Executive Head of Finance
July 2019

9. 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.

	Note	2018/19 £'000	2017/18 £'000
Net (surplus) or deficit on the provision of services		(9,895)	(1,540)
Adjustments for Non-cash movements		28,323	8,219
Adjustments for items that are investing and financing activities		707	(3,551)
Net cash (inflows)/outflows from operating activities		**19,135**	**3,128**
Investing activities	34	(48,936)	1,068
Financing activities	35	47,170	160
Net (increase)/decrease in cash and cash equivalents		**17,369**	**4,356**
Cash and cash equivalents at the beginning of the reporting period		10,813	6,457
Cash and cash equivalents at the end of the reporting period		28,182	10,813
Movement in cash	**31**	**17,369**	**4,356**

10. BASIS OF PREPARATION

The Notes to the Core Financial statements are intended to aid the understanding of the key drivers of the financial position of the Council. Each year the Statement of Accounts document is reviewed to ensure that the notes are presented in an order most likely to be of importance to the reader.

11. ACCOUNTING POLICIES

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31st March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 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 2018/19 ("the Code") and the Service Reporting Code of Practice for Local Authorities 2018/19, 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.

Details of the significant Accounting Policies can be found on pages 26 to 31 of this document.

12. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 4, 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.

13. 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 31st March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
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 £12k 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 real discount rate assumption would result in an increase in the pension liability of £11.682m. However, the assumptions interact in complex ways. During 2018/19, the Council's actuaries advised that the net pension's liability has increased by £5m.
Debtors	At 31st March 2019, the Council had a balance of sundry debtors of £12.033m. A review of significant balances suggested that an allowance for doubtful debts of £2.078m was appropriate.	If collection rates were to deteriorate, a full review of the bad debt allowance would be undertaken to review the debts on a case by case basis.

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

14. EVENTS AFTER THE REPORTING PERIOD

15. EXPENDITURE AND FUNDING ANALYSIS

Adjustments between Funding and Accounting Basis - 2018/2019				
Adjustments from General Fund to arrive at the comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustment**	**Other Differences**	**Total Adjustments**
	£'000	**£'000**	**£'000**	**£'000**
Business	1,146	(232)		914
Community	(471)	(258)		(729)
Corporate	(10)	(205)		(215)
Finance	0	(827)		(827)
Investment & Civic Duties	(15,010)	(75)		(15,085)
Legal	(2,696)	(182)		(2,878)
Regulatory	(718)	(346)		(1,064)
Transformation	(76)	(311)		(387)
Net Cost of Services	**(17,835)**	**(2,436)**	**0**	**(20,271)**
Other Operating Expenditure				0
Financing & Investment Income	(1,659)			(1,659)
Adjustments Between Funding and Accounting	6,762			6,762
Taxation and non-specific grant income			380	380
Difference between General fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(12,732)	(2,436)	380	(14,788)

Adjustments between Funding and Accounting Basis - 2017/2018				
Adjustments from General Fund to arrive at the comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustment**	**Other Differences**	**Total Adjustments**
	£'000	**£'000**	**£'000**	**£'000**
Business	(1,731)	(283)		(2,014)
Community	(316)	(303)		(619)
Corporate	(21)	(128)		(149)
Finance	(22)	(223)		(245)
Investment & Civic Duties	(10,500)	(51)		(10,551)
Legal	3,084	(92)		2,992
Regulatory	(434)	(426)		(860)
Transformation	(2)	(27)		(29)
Net Cost of Services	**(9,942)**	**(1,533)**	**0**	**(11,475)**
Other Operating Expenditure			(3)	(3)
Financing & Investment Income	3,254		987	4,241
Adjustments Between Funding and Accounting	(537)			(537)
Taxation and nonspecific grant income			(1,501)	(1,501)
Difference between General fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(7,225)	(1,533)	(517)	(9,275)

Adjustments for Capital Purposes

1) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pension Adjustments

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

- **For services** - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

Other Differences

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

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

16. EXPENDITURE AND INCOME ANALYSIS BY NATURE

Expenditure/Income	2018/2019 £'000	2017/2018 £'000
Expenditure		
Employee benefits expenses	10,937	8,063
Other services expenses	34,118	24,554
Support service recharges	0	6,149
Depreciation, amortisation, impairment	17,835	9,942
Interest payments	1,619	902
Precept & Levies	582	569
Total Expenditure	**65,091**	**50,179**
Income		
Fees, charges and other service income	(36,470)	(34,034)
Interest and investment income	(3,203)	(2,388)
Income from Council tax, non-domestic rates, district rate income	(14,138)	(10,305)
Government grants and contributions	(1,053)	(1,912)
Total Income	**(54,864)**	**(48,639)**
(Surplus) or Deficit on the Provision of Services	**10,227**	**1,540**

17. MEMBERS' ALLOWANCES

The Council paid the following amounts to members of the Council during the year:

	2018/19 £'000	2017/18 £'000
Allowances	291	288
Travel and other allowances	3	4
Mayor	5	5
Total allowances	**299**	**297**

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

18. OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is provided below:

Post Holder Information		Salary (including fees & allowances) £'000	Expenses £'000	Benefits in kind £'000	Employers Pension Contributions £'000	Sub Total £'000	Returning Officer Amount £'000	Total £'000	Note
Chief Executive	**2018/19**	**158**	**7**	**8**	**24**	**197**	**0**	**197**	
	2017/18	118	6	1	19	144	7	151	
Executive Head of Finance	**2018/19**	**89**	**2**	**6**	**14**	**111**	**0**	**111**	
	2017/18	87	0	6	13	106	0	106	
Executive Head of Corporate	**2018/19**	**86**	**1**	**6**	**13**	**106**	**0**	**106**	
	2017/18	84	0	6	13	103	0	103	
Executive Head of Transformation	**2018/19**	**86**	**2**	**0**	**13**	**101**	**0**	**101**	
	2017/18	84	2	0	13	99	0	99	
Executive Head of Community	**2018/19**	**91**	**2**	**6**	**14**	**113**	**0**	**113**	
	2017/18	84	0	6	13	103	0	103	
Executive Head of Business	**2018/19**	**80**	**2**	**0**	**12**	**94**	**0**	**94**	
	2017/18	78	2	0	12	92	0	92	
Executive Head of Regulatory	**2018/19**	**89**	**2**	**0**	**14**	**105**	**0**	**105**	
	2017/18	84	2	0	13	99	0	99	
Head of Legal	**2018/19**	**78**	**0**	**0**	**12**	**90**	**0**	**90**	
	2017/18	77	0	0	12	89	0	89	
Head of Investment & Development	**2018/19**	**24**	**1**	**0**	**4**	**29**	**0**	**29**	Mar/18 - Aug/18
	2017/18	63	2	0	10	75	0	75	

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:

Remuneration band	2018/19 Number of employees	2017/18 Number of employees
£50,000 - £54,999	11	10
£55,000 - £59,999	7	3
£60,000 - £64,999	3	2
£65,000 - £69,999	0	1
£70,000 - £74,999	0	1
£75,000 - £79,999	2	1
£80,000 - £84,999	1	2
£85,000 - £89,999	1	1
£90,000 - £94,999	2	3
£95,000 - £99,999	2	0
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000- £114,999	0	0
£115,000 - £119,999	0	0
£120,000 - £124,999	0	0
£125,000 - £129,999	0	0
£130,000 - £134,999	0	1
£135,000 - £139,999	0	0
£140,000 - £144,999	0	0
£145,000 - £149,999	0	0
£150,000 - £154,999	0	0
£155,000 - £159,999	0	0
£160,000 - £164,999	0	0
£165,000 - £169,999	0	0
£170,000 - £174,999	1	0
	30	**25**

Exit packages

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies for 2018/19 are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19 £	2017/18 £
£0 - £20,000	0	1	4	0	4	1	48,402	207
£20,001 - £40,000	0	0	1	1	1	1	30,755	24,478
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0

£100,001 - £150,000	0	0	0	0	0	0	0	0
Total	**0**	**1**	**5**	**1**	**5**	**2**	**79,157**	**24,685**

19. 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 to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards and the gains are lost, or the associated investments are disposed of and the gains are realised.

The 2018/19 Local Authority Accounting Code of Practise has adopted the IFRS9 Financial Instruments. The implementation of IFRS9 has resulted in the Available for Sale Reserve being discontinued and the balance held has been transferred to the Financial Instrument Revaluation Reserve.

2018/19	Usable reserves			
	General fund balances	Capital receipts reserve	Capital Grants Unapplied	Movement in unusable reserves
	£'000	£'000	£'000	£'000
Adjustments to the Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements	(15,478)	(4,955)		(20,433)
Pensions costs (transferred to (or from) the Pensions Reserve	(2,568)			(2,568)
Financial instruments (transferred to the Financial Instruments Adjustments Account)				0
Capital grants and contributions applied				0
Use of Capital Receipts reserve to finance new capital expenditure		827		827
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	380			380
Holiday pay (transferred to the Accumulated Absences Reserve)	0			0
Equal pay settlements (transferred to the Unequal Pay/Back Pay Account)				0
Total Adjustments to Revenue Resources	**(17,666)**	**(4,128)**	**0**	**(21,794)**
Adjustments between Revenue and Capital Resources				
Contribution from the capital receipts reserve towards the administration costs of non current asset disposals	-198	198		0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1400			1,400
Capital expenditure financed from revenue balances (transfers to the Capital Adjustment Account)	94			94
Total Adjustments between Revenue and Capital Resources	**1,296**	**198**	**0**	**1,494**
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure				0
Application of capital grants to finance capital expenditure	**0**	**0**		**0**
Application of capital grants to finance capital expenditure			1,116	1,116
Cash payments in relation to deferred capital receipts	1,582		(1,582)	0
Total Adjustments to Capital Resources	**1,582**	**0**	**(466)**	**1,116**
Total Adjustments	**(14,788)**	**(3,930)**	**(466)**	**(19,184)**

2017/18	Usable reserves			
	General fund balances	Capital receipts reserve	Capital Grants Unapplied	Movement in unusable reserves
	£'000	£'000	£'000	£'000
Adjustments to the Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements	(9,682)			(9,185)
Pensions costs (transferred to (or from) the Pensions Reserve	(1,844)			(1,844)
Financial instruments (transferred to the Financial Instruments Adjustments Account)				
Capital grants and contributions applied	587			90
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(1,501)			(1,501)
Holiday pay (transferred to the Accumulated Absences Reserve)	(3)			(3)
Equal pay settlements (transferred to the Unequal Pay/Back Pay Account)				
Total Adjustments to Revenue Resources	**(12,443)**	**0**	**0**	**(12,443)**
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve				
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,318			1,318
Capital expenditure financed from revenue balances (transfers to the Capital Adjustment Account)	112			112
Total Adjustments between Revenue and Capital Resources	**1,430**	**0**	**0**	**1,430**
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	0	151		151
Application of capital grants to finance capital expenditure	**0**	**151**	**0**	**151**
Application of capital grants to finance capital expenditure	1,738		(1,738)	
Cash payments in relation to deferred capital receipts				
Total Adjustments to Capital Resources	**1,738**	**0**	**(1,738)**	**0**
Total Adjustments	**(9,275)**	**151**	**(1,738)**	**(10,862)**

20. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

Financing and Investment Income and Expenditure	2018/19 £'000	2017/18 £'000
Interest payable and similar charges	1,739	1,008
Net interest on the defined benefit liability/(asset)	1,038	1,062

Interest receivable and similar	(212)	(165)
Income & Expenditure in relation to investment properties	(2,991)	(1,826)
Total	**(426)**	**79**

21. TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

Taxation and Non-specific Grant Income and Expenditure	2018/19 £'000	2017/18 £'000
Council tax income	(9,105)	(8,395)
Non-domestic rates income and expenditure	(5,033)	(1,910)
Non-ringfenced government grants:		
New Homes Bonus	(865)	(1,226)
New Burdens	(60)	0
Transition Grant	(129)	(85)
Capital Grants and expenditure	0	(601)
Total	**(15,192)**	**(12,217)**
Grant Income Credited to services		
Rent Allowance subsidy	(15,292)	(15,490)
Housing Benefit administration grant	(175)	(166)
Family Support	(222)	(209)
Other grants	(1,464)	(1,169)
Total	**(17,153)**	**(17,034)**

22. PROPERTY, PLANT AND EQUIPMENT

22.1 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 60 years
Plant and Equipment	2 to 10 years
Vehicles	20% Reducing Balance
Intangible	Written off in year of purchase
Infrastructure	10 to 60 years

22.2 Capital Commitments

At 31st March 2019 the authority has entered into a number of contracts for the construction or enhancement of property and plant in 2019/20 and future years budgeted to cost £28.4m.

The major commitments are:

- Replacement of the Arena Leisure Centre £24.4m
- London Road Block £4m

The spend will be supported by significant grant contributions and will provide additional income streams for both revenue and capital spend and service expenditure savings.

22.3 Revaluations

The Council carries out a rolling programme that ensures that all material property required to be measured at fair value is revalued at a minimum of every five years. All valuations for the current

financial year were carried out by Wilks Head and Eve LLP. Valuations of land and buildings are carried out in accordance with the methodologies and basis 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
Value at fair value as at:			
30-Mar-19	106,529	998	**107,527**
31-Mar-18	18,124		**18,124**
31-Mar-17	3,574		**3,574**
31-Mar-16	1,517		**1,517**
Total Cost or Valuation	**129,744**	**998**	**130,742**

2018/19	Other land & buildings £'000	Vehicles, plant & equipment £'000	Infrastructure £'000	Community Assets £'000	Surplus Assets £'000	Assets under construction £'000	Total PP&E £'000
Cost or Valuation At 1 April 2018	**159,267**	**4,475**	**129**	**1,960**	**961**	**1,034**	**167,826**
Additions /Transfers	4,820	2,732	0	1,130	0	957	**9,638**
Donations	0	0	0	0	0	0	**0**
Revaluation Increases/(decreases) recognised in the revaluation reserve	(990)	0	0	195	37	0	**(758)**
Revaluation Increases/(decreases) 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**
Assets reclassified (to) / from held for sale	0	0	0	0	0	(843)	**(843)**
At 31 March 2019	**163,097**	**7,207**	**129**	**3,285**	**998**	**1,148**	**175,863**
Accumulated depreciation and Impairment At 1 April 2018	**(19,687)**	**(2,405)**	**(95)**	**0**	**0**	**0**	**(22,187)**
Depreciation Charge	(559)	(796)	(10)	0	0	0	**(1,366)**
Depreciation written out to the revaluation reserve	1,919	0	0	0	0	0	**1,919**
Depreciation written out to the surplus/ deficit on the provision of services	0	0	0	0	0	0	**0**
Impairment losses/reversals recognised in the surplus / deficit on the provision of services	(15,025)	0	0	0	0	0	**(15,025)**
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 2019	**(33,352)**	**(3,201)**	**(105)**	**0**	**0**	**0**	**(36,659)**
Net Book Value At 31 March 2019	**129,744**	**4,005**	**24**	**3,285**	**998**	**1,148**	**139,205**
At 31 March 2018	**139,580**	**2,070**	**34**	**1,960**	**961**	**1,034**	**145,640**

2017/18	Other land & buildings £'000	Vehicles, plant & equipment £'000	Infrastructure £'000	Community Assets £'000	Surplus Assets £'000	Assets under construction £'000	Total PP&E £'000
Cost or Valuation At 1 April 2017	**48,040**	**4,381**	**129**	**1,908**	**969**	**610**	**56,037**
Additions /Transfers	108,846	431	0	52	0	424	**109,753**
Donations	0	0	0	0	0	0	**0**
Revaluation Increases/(decreases) recognised in the revaluation reserve	2,385	0	0	0	(8)	0	**2,377**
Revaluation Increases/(decreases) recognised in the surplus / deficit on the provision of services	0	0	0	0	0	0	**0**
Derecognition - disposals	0	(4)	0	0	0	0	**(4)**
Derecognition - other	0	(333)	0	0	0	0	**(333)**
Assets reclassified (to) / from held for sale	0	0	0	0	0	0	**0**
At 31 March 2018	**159,271**	**4,475**	**129**	**1,960**	**961**	**1,034**	**167,830**
Accumulated depreciation and Impairment At 1 April 2017	**(7,460)**	**(2,279)**	**(85)**	**0**	**0**	**0**	**(9,824)**
Depreciation Charge	(665)	(459)	(10)	0	0	0	**(1,134)**
Depreciation written out to the revaluation reserve	0	0	0	0	0	0	**0**
Depreciation written out to the surplus/ deficit on the provision of services	40	0	0	0	0	0	**40**
Impairment losses/reversals recognised in the surplus / deficit on the provision of services	(11,605)	0	0	0	0	0	**(11,605)**
Derecognition - disposals	0	0	0	0	0	0	**0**
Derecognition - other	0	333	0	0	0	0	**333**
Other movements in depreciation and impairment	0	0	0	0	0	0	**0**
At 31 March 2018	**(19,690)**	**(2,405)**	**(95)**	**0**	**0**	**0**	**(22,190)**
Net Book Value At 31 March 2018	**139,581**	**2,070**	**34**	**1,960**	**961**	**1,034**	**145,640**
At 31 March 2017	**40,580**	**2,102**	**43**	**1,908**	**969**	**610**	**46,212**

23. HERITAGE ASSETS

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

	Museum £'000	Civic Regalia £'000	Other £'000	Total £'000
Cost or Valuation 1st April 2017	175	111	48	334
Revaluations				
31st March 2018	**175**	**111**	**48**	**334**
Cost or Valuation 1st April 2018	175	111	48	334
Revaluations				

31st March 2019	**175**	**111**	**48**	**334**

23.1 Museum

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.

23.2 Other

A modern piece of artwork is displayed outside the Atrium. The value of this asset is separately identifiable at £48k.

23.3 Three Year Summary of Transactions

	2018/19 £'000	2017/18 £'000	2016/17 £'000
Cost of Acquisitions of Heritage Assets			
Museum Artwork	166	166	166
Civic Regalia	111	111	111
Other	48	48	48
Total Cost of Purchases	**325**	**325**	**325**
Value of Heritage Assets Acquired by Donation			
Museum Artwork	9	9	9
Total Donations	**9**	**9**	**9**

24. INTANGIBLE ASSETS

The Council 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 2018/19 no capital expenditure was incurred in relation to this category.

25. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Comprehensive Income and Expenditure Statement in the Income and Expenditure in relation to Investment Properties and changes in their fair value line.

	2018/19 £'000	2017/18 £'000
Rental income from investment property	(3,637)	(2,698)
Direct operating expenses arising from investment property	860	866
Profit on Sale of Assets	(1,157)	0
Revaluations (Gains)/Losses on Revaluations	2,646	(3,254)
Net (Income)/Expenditure on Investment Properties	**(1,288)**	**(5,086)**

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:

	2018/19 £'000	2017/18 £'000
Balance at start of the year	46,551	143,158
Purchases	41,780	576
Eliminated on consolidation	0	(3,431)
Disposals	(3,106)	0
Transfers	146	(97,006)
Net gains/(losses) from fair value adjustments	(2,647)	3,254
Balance at end of the year	**82,724**	**46,551**

26. 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.

	2018/19 £'000	2017/18 £'000
Opening capital financing requirement	**142,159**	**140,190**
Capital investment		
Property, plant and equipment	7,551	2,743
Community assets	1,126	52
Investment assets	41,780	520
Assets under construction	957	627
Revenue expenditure funded from capital under statute	718	459
Sources of finance		
Capital receipts	(827)	(151)
Government grants and other contributions	(2,317)	(851)
Sums set aside from revenue	(94)	(112)
Unfinanced Capital Expenditure in year	**48,894**	**3,287**
Less: Statutory provision for the financing of Capital Investment	(1,400)	(1,318)
Closing capital financing requirement	**189,653**	**142,159**

Explanation for Movement in year		
Increase/(decrease) in underlying need to borrow	**45,525**	**1,969**

27. TRANSFERS (TO) / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund Balance to specific Earmarked Reserves to provide financing for future expenditure plans and the amounts posted back from Earmarked Reserves to meet General Fund expenditure in 2018/19.

Reserve	Balance 31 March 2017	Transfers in 2017/18	Transfers out 2017/18	Balance 31 March 2018	Transfers in 2018/19	Transfers out 2018/19	Balance 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Fund	9,445	1,227	(250)	10,422	864	(278)	11,008
Earmarked Revenue purposes							
Affordable Housing	1,051	483	0	1,534	122	0	1,656
Atrium public art	13	0	0	13	0	(13)	0
Atrium S106 Agreement	326	1	(10)	317	1	0	318
Blackwater Valley developers contributions	95	0	(7)	88	0	(1)	87
Business Rate Equalisation Fund	0	0	0	0	4,700	0	4,700
Chobham and Town Team Partnership	5	0	0	5	0	0	5
Community fund 2002	253	0	(11)	242	0	(32)	210
C.I.L. Admin and Monitoring	44	60	0	104	209	0	313
Commuted sums	598	1	(106)	493	11	(32)	472
Crime and disorder partnership	102	0	(34)	68	0	(3)	65
Custom Build	15	27	0	42	30	0	72
Deepcut Village Centre: Alma Dettingen	358	1	(76)	283	1	0	284
Frimley Lodge Park 3G Pitch	46	21	0	67	21	0	88
Heatherside: multi-use games area	33	0	(4)	29	0	0	29
Insurance reserve fund	203	0	(8)	195	0	(2)	193
Interest Equalisation	675	1,816	0	2,491	1,526	0	4,017
Land drainage	384	0	0	384	0	0	384
LLC Personal Search Revocation	23	0	0	23	0	(23)	0
New Burdens Fund	103	5	(8)	100	45	(8)	137
Old Dean toddlers playground	18	2	(3)	17	0	0	17
One Public Estate	119	372	0	491	0	(145)	346
Personalisation and Prevention Partnership Fund	87	0	(62)	25	0	(4)	21
Planning S106 Agreements	216	9	0	225	1	(27)	199
Property Maintenance	1,904	128	(13)	2,019	0	(34)	1,985
Recycling/Refuse Equalisation	180	0	0	180	0	(180)	0
Remediation fund	45	0	0	45	0	0	45
Rental Equalisation	0	970	0	970	0	(863)	107
SAMM	0	39	0	39	17	0	56
SANGS	1,245	3,540	(655)	4,130	1,375	(1,427)	4,078
Surrey Family Support Programme	242	0	0	242	0	(163)	79
Total Revenue Purposes	**8,383**	**7,475**	**(997)**	**14,861**	**8,059**	**(2,957)**	**19,963**

TOTAL	**17,828**	**8,702**	**(1,247)**	**25,283**	**8,923**	**(3,235)**	**30,971**

28. UNUSABLE RESERVES

Unusable Reserves	2018/19 £'000	2017/18 £'000
Revaluation Reserve	(22,710)	(23,833)
Capital Adjustment Account	(9,901)	(26,532)
Deferred Capital Receipts Reserve	0	0
Pensions Reserve	46,069	39,527
Collection Fund Adjustment Account	(600)	(219)
Accumulated Absences Account	93	93
Hedging Reserve	0	1,980
Available for Sale Financial Instruments Reserve	0	(151)
Financial Instruments Revaluation Reserve	(184)	0
Total Unusable Reserves	**12,767**	**(9,135)**

28.1 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 1st 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.

Revaluation Reserve	2018/19 £'000	2017/18 £'000
Balance at 1 April	**(23,833)**	**(21,854)**
Upward revaluation of assets	(1,053)	(5,023)
Downward revaluation of assets and impairment losses not charged to the surplus / deficit on the provision of services	1,811	2,646
(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	**758**	**(2,377)**
Difference between fair value depreciation and historical cost depreciation	365	398
Amount written off to the Capital Adjustment Account	**365**	**398**
Balance at 31 March	**(22,710)**	**(23,833)**

28.2 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, 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 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Capital Adjustment Account	2018/19 £'000	2017/18 £'000
Balance at 1 April	**(26,532)**	**(33,648)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(554)	1,094
Revaluation losses/gains(-) on property, plant and equipment	15,025	11,605
Revenue expenditure funded from capital under statute	718	496
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	3,798	4
	18,987	**13,199**
Adjusting amounts written out of the Revaluation Reserve	(365)	(398)
Net written out amount of the non-current assets consumed in the year	**18,622**	**12,801**
Capital financing applied in the year:		
Use of the capital receipts reserve to finance new capital expenditure	(827)	(151)
Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,116)	(587)
Application of grants to capital financing from the capital grants unapplied account	0	0
Capital Expenditure funded from Reserves	(1,201)	(264)
Capital Expenditure funded from Revenue	(93)	(112)
Statutory provision for the financing of capital investment charged against the General Fund Balance	(1,400)	(1,317)
Capital expenditure charged against the General Fund Balance		
	(4,637)	**(2,431)**
Movements in the market value of investment properties debited or (credited) in the Comprehensive Income and Expenditure Statement	2,646	(3,254)
Balance at 31 March	**(9,901)**	**(26,532)**

28.3 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.

Pension Reserve	2018/19 £'000	2017/18 £'000
Balance 1st April	**39,527**	**39,074**
Actuarial (gains) and losses on pensions assets and liabilities	3,974	(1,391)
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	4,974	4,239
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,406)	(2,395)
Balance at 31 March	**46,069**	**39,527**

28.4 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Collection Fund Adjustment Account	2018/19 £'000	2017/18 £'000
Balance 1st April	**(219)**	**(1,720)**
Amount by which Council tax income and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from Council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(381)	1,501
Balance at 31 March	**(600)**	**(219)**

28.5 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 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

Accumulated Absences Account	2018/19 £'000	2017/18 £'000
Balance 1st April	**93**	**90**
Comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	3
Balance at 31 March	**93**	**93**

28.6 Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated

gains are revalued downwards and the gains are lost, or the associated investments are disposed of and the gains are realised.

Available for Sale Financial Instruments Reserve	2018/19 £'000	2017/18 £'000
Balance at 1 April	**(151)**	**(54)**
Upward revaluation of investments	0	(102)
Downward revaluation of investments not charged to the surplus / deficit on the provision of services	0	5
	(151)	**(151)**
Transfer of Available for Sale Reserve opening balance to Financial Instrument Revaluation Reserve	151	
Balance at 31 March	**0**	**(151)**

The 2018/19 Local Authority Accounting Code of Practise has adopted the IFRS9 Financial Instruments. The implementation of IFRS9 has resulted in the Available for Sale Reserve being discontinued and the balance held has been transferred to the Financial Instrument Revaluation Reserve. The transfer from the Available for Sale Reserve to the Financial Instrument Revaluation Reserve is in respect of the CCLA Property Fund investment**.**

28.7 Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards and the gains are lost, or the associated investments are disposed of and the gains are realised.

Financial Instruments Revaluation Reserve	2018/19 £'000	2017/18 £'000
Balance at 1 April	**0**	**0**
Transfer of Available for Sale Reserve opening balance to Financial Instrument Revaluation Reserve	(151)	0
Gain on revaluation of Longer Term Investments	(33)	0
Balance at 31 March	**(184)**	**0**

The implementation of IFRS9 has resulted in the creation of the Financial Instrument Revaluation Reserve which reflects the transfer of balances from the Available for Sale Financial Instrument Reserve. This transfer from the Available for Sale Reserve to the Financial Instrument Revaluation Reserve is in respect of the CCLA Property Fund investment.

28.8 Cash Flow Hedge Reserve

The cash flow hedge reserve manages the differences between the amounts required to be shown as financial instruments on the balance sheet and amounts taken to finance Income and expenditure (CEIS) to reflect the economies of the fixed rate loan agreement.

Cash Flow Hedge Reserve	2018/19 £'000	2017/18 £'000
Balance 1st April	**1,980**	**0**

Cash Flow Hedge Reserve movement in year	(1,980)	1,980
Hedge accounting entries for 2 x forward starting loans @ £25m each at average 2.88% starting 2021 and 2022		
Balance at 31 March	**0**	**1,980**

29. LEASES

29.1 Finance Leases

The Council has no finance leases.

29.2 Council as Lessee – Operating Leases

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

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

Council as Lessee - Operating Leases	2018/19 £'000	2017/18 £'000
Not later than one year	32	50
Later than one year and not later than five years	100	124
Later than five years	2	2
Total	**134**	**176**

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

Operating lease expenditure charged	2018/19 £'000	2017/18 £'000
Adult social care	22	25
Other Services	12	39
Total	**34**	**64**

29.3 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:

Council as Lessor - Operating Leases	2018/19 £'000	2017/2018 £'000
Not later than one year	4,831	2,365
Later than one year and not later than five years	15,658	6,646
Later than five years	38,053	28,661
Total	**58,542**	**37,672**

The Council is also Lessor of the Atrium shopping centre in Camberley for which it receives a fixed percentage of net rent collected. In 2018/19 the income was £200,000 and in 2017/18 £235,430. The

lease is expected to continue into the foreseeable future. However, on the grounds of materiality this has not been separated into the component parts within this note.

30. DEBTORS

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

Short Term Debtors	2018/19 £'000	2017/18 £'000
Trade receivables	12,033	5,533
Other receivables	6,210	9,359
	18,243	**14,892**
Allowance for bad debts	(1,544)	(1,018)
Total	**16,699**	**13,874**
Long Term Debtors	**2018/19 £'000**	**2017/18 £'000**
Charges on properties	161	162
Unamortised tenant and rent incentives	0	247
Other Debtors	1,151	11
Total	**1,312**	**420**

31. CASH AND CASH EQUIVALENTS

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

Cash and Cash Equivalents	2018/19 £'000	2017/18 £'000
Cash held by the Council	11	10
Bank current accounts	641	1,876
Short term deposits	29,513	9,776
Total cash and cash equivalents	**30,165**	**11,662**

32. CREDITORS & PROVISIONS

32.1 Creditors

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

Short Term Creditors	2018/19 £'000	2017/18 £'000
Trade Payables	(10,698)	(3,397)
Other Payables	(9,510)	(14,650)
Total	**(20,208)**	**(18,047)**
Long Term Creditors	**2018/19 £'000**	**2017/18 £'000**
Central government bodies	0	0
Other local authorities	0	0

Other entities and individuals	(952)	239
Total	**(952)**	**239**

32.2 Provisions

The NNDR provision relates to the estimated value of successful appeals that were probable at the Balance Sheet date but where the timing and amount were uncertain.

NDR Provision	**2018/19 £'000**	**2017/18 £'000**
Balance 1st April 2018	**2,712**	**1,563**
Additional provisions	0	1,149
Movement in year	(3,246)	0
Balance 31 March 2019	**(534)**	**2,712**

Derivatives	**2018/19 £'000**	**2017/18 £'000**
Balance 1st April 2018	**(1,980)**	**0**
Movement in year	1,980	(1,980)
Balance 31 March 2019	**0**	**(1,980)**

33. CASH FLOW STATEMENT – OPERATING ACTIVITIES

2018/2019 £'000		**2017/2018 £'000**
(130)	Interest received	59
(1,633)	Interest paid	(1,889)
(3,926)	Dividends received	(5,757)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements

2018/2019 £'000		**2017/2018 £'000**
1,365	Depreciation	1,134
17,671	Impairment and downward valuations	8,311
718	Amortisation	496
637	Increase/(decrease) in impairment for bad debts	13
9,471	Increase/decrease in creditors	257
(6,875)	Increase/decrease in debtors	(3,752)
26	Increase/decrease in inventories	37
(343)	Increase/decrease in borrowing interest	(104)
1,964	Movement in pension liability	1,844
3,689	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	4
0	Other non-cash items charged to the net surplus or deficit on the provision of services	(21)

28,323		**8,219**

34. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for investing activities include the following items:

Cash Flow Statement - investing activities	**2018/19 £'000**	**2017/18 £'000**
Purchase of property, plant and equipment, investment property and intangible assets	(4,892)	(3,345)
Purchase of short term and long term investments	2,000	(18)
Other payments for investing activities	4,431	4,431
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	0	0
Net cash flows from investing activities	**1,539**	**1,068**

35. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for financing activities include the following items:

Cash Flow Statement - financing activities	**2018/19 £'000**	**2017/18 £'000**
Cash receipts of short and long term borrowing	55,959	748
Other receipts from financing activities	(8,789)	(588)
Net cash flows from financing activities	**47,170**	**160**

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Reconciliation of Liabilities arising from Financing activities	**1st April 2018 £,000**	**Financing cash flows £,000**	**31st March 2019 £,000**
Long Term Borrowings	16,493	39,662	56,155
Short Term Borrowings	103,215	16,297	119,512
Total Liabilities from financing activities	**119,708**	**55,959**	**175,667**

Reconciliation of Liabilities arising from Financing activities	**1st April 2017 £,000**	**Financing cash flows £,000**	**31st March 2018 £,000**
Long Term Borrowings	16,860	(367)	16,493
Short Term Borrowings	102,100	1,115	103,215
Total Liabilities from financing activities	**118,960**	**748**	**119,708**

37. TRADING OPERATIONS

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.

	2018/19		2017/18	
	Turnover £'000	(Surplus) / deficit £'000	Turnover £'000	(Surplus) / deficit £'000
Camberley Theatre	(977)	224	(1,008)	346
Car parks	(1,916)	(721)	(2,070)	(696)
Building control - chargeable	(301)	(72)	(313)	(22)
Total	**(3,194)**	**(569)**	**(3,391)**	**(372)**

Camberley Theatre

The Council owns and manages a theatre that puts on a variety of productions.

Car Parks

The car parks are owned and managed by the Council.

Building Control

Under Regulations the Council is required to monitor the position on Building Control chargeable activities and demonstrate, taking one financial year with another, that the chargeable service as nearly as possible equates to the costs incurred.

38. AGENCY SERVICES

The Council provides the following services on behalf of Surrey County Council and Hampshire County Council through Agency Agreements:

- Suitable Alternative Natural Green Space (SANGS) agreements in relation to Swan Lakes, Hawley Meadows, Shepherds Meadows and Strategic Access Management & Monitoring (SAMM).
- Management of two gypsy sites at Swift Lane and Kalima.
- Civil parking enforcement and controlled parking zones (April 2018 – November 2018).

	2018/19 £'000	2017/18 £'000
Suitable Alternative Natural Green Space (SANGS)		
Income	(1,091)	(655)
Expenditure	494	456
(Surplus) / deficit on the agency arrangement	**(597)**	**(199)**
Gypsy sites **		
Income	0	0

Expenditure	0	15
(Surplus) / deficit on the agency arrangement	**0**	**15**
Parking Services *		
Income	(188)	(337)
Expenditure	219	395
(Surplus) / deficit on the agency arrangement	**31**	**58**

* Under the Agency Agreement for Civil Parking Enforcement the Council will receive a 20% share of any surpluses, and this is accrued to the Council's Income. Woking Borough Council has taken over the agreement and enforcement from November 2018.

** In September 2016, The Council passed the Gypsy Sites back to Surrey CC. The income collected represents rent paid by gypsies to The Council. The expenditure represents amounts owed for utilities on the sites when the site was still being managed by The Council.

39. 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:

	2018/19 £'000	2017/18 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	32	46
Fees payable for the certification of grant claims and returns for the year	10	11
	42	**57**

40. 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 allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council. In this context related parties include:

- Central Government;
- Elected Members of the Council;
- Officers of the Council; and
- Other Public Bodies.

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 receivable from government departments are set out in Note 21.

Members

Members of the Council have direct control over the Council's financial and operating policies. Five members are also members of Surrey County Council but have no personal interest in any transactions. Payments totalling £165,824 were paid to 3 organisations in which 3 members had an interest. The relevant members did not take part in any discussion or decision relating to the payments.

Payments totalling £100,434 were received from three organisations in which 3 members had an interest.

The total of Members' allowances paid in 2018/19 is shown in Note 17.

Officers

Chief Officers have the ability to influence the Council. For 2018/19, one outside interest was declared and payment of £415.80 was received from one organisation.

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 2018/19.

41. DEFINED BENEFIT PENSION SCHEMES

41.1 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 need 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 are made. However there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension's payments as they eventually fall due.
The Local Government Pension Scheme operates under the regulatory framework for this scheme, and the governance of the local scheme is the responsibility of the Pensions Committee of Surrey County Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the pensions committee, consisting of the Head of Finance for Surrey County Council, the Pension Fund Manager, four county Councillors, two district Council representatives, an employee representative and two professional investment advisors.
The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note (see Note 4).

41.2 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	
	2018/19 £'000	2017/18 £'000
Comprehensive Income and Expenditure Statement		
Service Costs included in Cost of Services - Current Service Cost	3,928	3,252
Included in Financing and Investment Income and Expenditure - Net Interest expense	1,046	987
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**4,974**	**4,239**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
- Return on plan assets (excluding the amount included in the net interest expense)	2,569	(592)
- Actuarial gains and losses arising on changes in financial assumptions	(6,454)	1,992
- Other experience	(89)	(9)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**(3,974)**	**1,391**

41.3 Assets and Liabilities in relation to Post-employment Benefits

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans are:

	Local Government Pension Scheme	
	2018/19 £'000	2017/18 £'000
Present value of the defined benefit obligation	(126,985)	(116,468)
Fair value of plan assets	80,916	76,941
Net liability arising from defined benefit obligation	**(46,069)**	**(39,527)**

41.4 Impact on Council's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. The latest triennial valuation as at the 31 March 2016 recommends no increase in contribution.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the act, the Local Government Pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England

and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits.

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The net liability of £44.5m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

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 Council anticipates paying £2.3m contributions to the scheme in 2019/20.

The weighted average duration of the defined benefit obligation for scheme members is 16.3 years.

42. CONTINGENT LIABILITIES

The Council has identified the following Contingent Liabilities:

- The Council was a member of the Municipal Mutual Insurance Limited. The Council is party to a reserve scheme of arrangement with the company which was entered into in October 1993 after the company ceased trading in September 1992. Following unfavourable litigation in the Supreme Court, the directors have triggered a contingent scheme of arrangement under section 425 of the Companies Act 1985 as a solvent run off could not be foreseen. The Council's total exposure under the scheme of arrangement is £172k, against which a total levy of 25% has been raised; £21k in 2014/15, £14k in 2015/16 and £9k in 2017/18. These amounts have been charged to the Comprehensive Income and Expenditure Account in the respective years. The Council's remaining potential liability from unpaid claims at 31 March 2019 was £81k which the Council holds as part of the earmarked Insurance Reserve Fund. Given the nature of the claims, projections remain uncertain and therefore no provision has been made and the Council is maintaining its earmarked reserve to fully cover its exposure.

43. CONTINGENT ASSETS

The Council has a number of charges on properties, in respect of expenditure incurred by the Council on those properties. These amounts are included within Long Term debtors and have no set date for repayment. The charge on the property is released when repayment is received and fees and interest then become due. It is estimated that the total of these future fees and interest is in the region of £161,000.

44. FINANCIAL INSTRUMENTS

Financial instruments are contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

Financial Assets	Long Term		Current	
	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
Investments				
At amortised cost:				
Principal	-	-	-	2,000
Accrued interest	-	-	-	18
At fair value through other comprehensive income:				
Equity investments elected FVOCI	2,185	2,151	-	-
Total Investments	**2,185**	**2,151**	**0**	**2,018**
At amortised cost:				
Principal	-	-	28,176	10,789
Accrued interest	-	-	6	24
Total Cash and Cash Equivalents	**0**	**0**	**28,182**	**10,813**
Debtors				
At amortised cost:				
Financial Assets carried at contract amount	297	173	16,078	10,680
Total Financial Assets	**2,482**	**2,324**	**44,260**	**23,511**

Financial Liabilities	Long Term		Current	
	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
Borrowing				
Loans at amortised cost:				
Principal sum borrowed	(57,500)	(16,493)	(117,500)	(102,877)
Accrued interest	-	-	(667)	(338)
Total Borrowing	**(57,500)**	**(16,493)**	**(118,167)**	**(103,215)**
Liabilities at amortised cost:				
Creditors	(952)	(85)	(17,540)	(14,013)
Total Financial Liabilities	**(58,452)**	**(16,578)**	**(135,707)**	**(117,228)**

44.2 Reclassifications

In 2018-19, the following financial instruments were reclassified due to the adoption of IFRS9.

		New Classification at 1 April 2018	
	Carrying amount brought forward at 1 April 2018 £000	Amortised Cost £000	Fair Value through Other Comprehensive Income £000
Previous classifications			
Loans and receivables	23,683	23,683	
Available for Sale	2,151		2,151

Reclassified amounts at 1 April 2018	25,834	23,683	2,151

Effect of Reclassification and remeasurement on the Balance Sheet

The new balances at 1 April 2018 for financial assets are incorporated into the Balance Sheet in the following note.

	Amortised Cost £000	Fair Value through Other Comprehensive Income £000	Total Balance Sheet carrying amount £000
Remeasured carrying amounts at 1 April 2018	-	-	**-**
Reclassified amounts:			
Long term investments		2,151	**2,151**
Long term debtors	173		**173**
Short term investments	2,018		**2,018**
Short term debtors	10,679		**10,679**
Cash and cash equivalents	10,813		**10,813**
Total	**23,683**	**2,151**	**25,834**

44.3 Income, expense, gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

2018/19						2017/18				
Financial liabilities measured at amortised cost £'000	Financial assets: at amortised cost £'000	Financial assets: Fair Value through OCI £'000	Assets and liabilities elected to Fair Value through OCI £'000	Total £'000		Financial liabilities measured at amortised cost £'000	Financial assets: at amortised cost £'000	Financial assets: Fair Value through OCI £'000	Assets and liabilities elected to Fair Value through OCI £'000	Total £'000
1,619				1,619	Interest expense	912	0	0	0	912
				0	Impairment Losses	0	0	0	0	0
89			31	120	Fee expenses	92	0	13	0	105
1,708	**0**	**0**	**31**	**1,739**	**Total expense in surplus or deficit on the provision of services**	**1,004**	**0**	**13**	**0**	**1,017**
	(101)			(101)	Interest income	0	(34)	0	0	(34)
				0	Increase in fair value	0	0	0	0	0
			(111)	(111)	Dividend income	0	0	(131)	0	(131)
				0	Gains on de-recognition	0	0	0	0	0
0	**(101)**	**0**	**(111)**	**(212)**	**Total income in surplus or deficit on the provision of services**	**0**	**(34)**	**(131)**	**0**	**(165)**
			(33)	(33)	(Gains) on revaluation	0	0	(98)	0	(98)
				0	Losses on revaluation	0	0	0	0	0

0	0	0	(33)	(33)	(Surplus) / deficit arising on revaluation of financial assets in other comprehensive income and expenditure	0	0	(98)	0	(98)
1,708	(101)	0	(113)	1,494	Net (gain) / loss for the year	1,004	(34)	(216)	0	754

The Council has no soft loans.

44.4 Fair values of assets and liabilities

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value.

For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Recurring Fair Value Measurements	Input level in Fair Value Hierarchy	Valuation technique used to measure Fair Value	31/03/2019 Fair Value £'000	31/03/2018 Fair Value £'000
Available for sale-long term investments	Level 1	Quoted prices in active markets for identical assets	2,185	2,151

As at 31/3/19 the Council held £2.2m (2018 - £2.2) in Long Term Investments which are Pooled Funds comprised of the CCLA Property Fund.

It is the Council's stated intention that these investments are being held for a longer term to generate higher returns.

There were no transfers between input levels during the financial year 2018/19.

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

	Fair Value Level	Balance sheet 31.03.19 £'000	Fair Value 31.03.19 £'000	Balance sheet 31.03.18 £'000	Fair Value 31.03.18 £'000
Financial assets held at fair value:					
Money market funds	1	0		9,753	
Bond, equity and property funds	1	2,185		2,174	
TOTAL		**2,185**		**11,927**	
Assets for which fair value is not disclosed *		44,022		13,907	
TOTAL FINANCIAL ASSETS		**46,207**		**25,834**	
Recorded on balance sheet as:					
Long term debtors		297		173	
Long term investments		2,185		2,151	
Short term investments		0		2,018	
Short term debtors		16,078		10,679	
Cash and cash equivalents		28,182		10,813	
TOTAL FINANCIAL ASSETS		**46,742**		**25,834**	

* The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

	Fair Value Level	2018/19		2017/18	
		Balance Sheet £'000	Fair Value £'000	Balance Sheet £'000	Fair Value £'000
Financial liabilities held at amortised cost:					
Loans from PWLB	2	57,297	61,561	16,277	18,772
Other Loans	2	118,371	118,371	103,431	103,444
Total		**175,668**	**179,932**	**119,708**	**122,216**
Liabilities for which fair value is not disclosed		62,994	63,024	53,625	53,625
Total Financial liabilities		**238,662**	**242,956**	**173,333**	**175,841**
Recorded on Balance Sheet as:					
Short Term Creditors		17,540		14,013	
Short Term Borrowing		119,512		103,215	
Long Term Creditors		952		85	
Long Term Borrowing		59,586		16,493	

Other long Term Liabilities		44,503		39,527	
Total Financial Liabilities		**242,093**		**173,333**	

*The fair value of short term financial liabilities including trade payables is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

45. NATURE AND EXTENT OF RISKS OF FINANCIAL INSTRUMENTS

45.1 Introduction

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2018.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.
The main risks covered are:

- Credit Risk: The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.
- Liquidity Risk: The possibility that the Council might not have the cash available to make contracted payments on time.
- Market Risk: The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

45.2 Credit risk

Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Approved Investment Counterparties and Limits:

Credit Rating	Banks Unsecured	Banks Secured	Building Societies	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£3m 10 years	£2m 3 years	n/a	£2m 20 years	£2m 20 years
AA+	£2m 5 years	£3m 10 years	£2m 3 years	n/a	£2m 10 years	£2m 10 years
AA	£3m 4 years	£3m 5 years	£2m 3 years	n/a	£2m 5 years	£2m 10 years
AA-	£2m 3 years	£3m 4 years	£2m 3 years	n/a	£2m 4 years	£2m 10 years
A+	£2m 2 years	£3m 3 years	£2m 2 years	n/a	£2m 3 years	£2m 5 years
A	£2m 13 months	£3m 2 years	£2m 12 months	n/a	£1m 2 years	£2m 5 years
A-	£2m 6 months	£3m 13 months	£1m 6 months	n/a	£1m 13 months	£2m 2 years
BBB+	£3m 100 days	£3m 6 months	£1m 100 days	n/a	n/a	£1m 2 years
None	£1m 6 months	n/a	£1m 6 months	n/a	n/a	n/a
Pooled funds	£2m per fund					
Supranational Banks	£3m for up to 5 years where rated A or above					
UK Local Councils	£2m per authority for up to 5 years					

Credit Risk Exposure

The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating and remaining time to maturity:

Credit Rating	Long Term		Short Term	
	31/03/2019 £000s	31/03/2018 £000s	31/03/2019 £000s	31/03/2018 £000s
AAA	-	-	25	9,753
AA+	-	-	27,506	-
AA	-	-	-	-
AA-	-	-	-	-
A+	-	-	-	-
A	-	-	-	-
A-	-	-	-	-
BBB+	-	-	652	1,037
Unrated local authorities	-		-	2,018
Unrated banks	-	-	-	-
Unrated building societies	-	-	-	-
Unrated pooled funds*	2,185	2,151	-	23

Impaired Investments	-	-	-	-
Total Investments	**2,185**	**2,151**	**28,183**	**12,831**

* Credit risk is not applicable to pooled funds where the Council has no contractual right to receive any sum of money.

Receivables

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 credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

The following analysis summarises the Council's trade receivables by due date. Only those receivables meeting the definition of a financial asset are included.

	31/03/2019		31/03/2018	
	Lease receivables £'000	Trade receivables £'000	Lease receivables £'000	Trade receivables £'000
Neither past due nor impaired	984	2,804	350	1,185
Past due <3 months	23	869	23	65
Past due 3 - 6 months	19	162	27	46
Past due 6 - 12 months	3	258	56	24
Past due 12+ months	0	229	23	79
Total	**1,029**	**4,323**	**479**	**1,399**

Receivables - Loss Allowance

Loss allowances on trade and lease receivables and contract assets have been calculated by reference to the Council's historic experience of default, multiplied by various percentages to adjust for current and forecast economic conditions.

Receivables are collectively assessed for credit risk in the following groupings:

	31/03/2019			31/03/2018		
	%	£000	£000	%	£000	£000
Debt at 2019	4%	4,948	210			
Debt at 2019	100%	527	527			
Debt at 2018	30%	199	60	7%	1,957	135
Debt at 2017		-	-	37%	134	50
Debt older than 2 years 2017	100%	462	462			
Debt older than 2 years 2016				100%	466	466
Gypsy Debts less than 2 years old	100%	58	58	50%	58	29
Gypsy Debts more than 2 years old	100%	30	30	100%	30	30
Total		**6,224**	**1,347**		**2,645**	**710**

45.3 Liquidity risk

On the advice of its treasury advisors the Council continues to borrow short term so as to take advantage of low interest rates. Any saving in interest as compared with the PWLB rates has been placed in an interest equalisation reserve to be realised should rates rise in the short term. In addition

the Council has access to loans at favourable rates from the PWLB and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments however in a last resort could sell assets to meet these liabilities. The Council

has worked with its advisors to fix £50m of fixed rate loans with forward starts in the 2020/21and 2021/22 financial years to reduce the interest rate risk in future years.

The maturity analysis of financial instruments is as follows:

Time to maturity (years)	31/03/2019			31/03/2018		
	Liabilities £'000	Assets £'000	Net £'000	Liabilities £'000	Assets £'000	Net £'000
Not over 1	119,512	(28,182)	91,330	103,215	(12,808)	90,407
Over 1 but not over 2	3,346	(2,185)	1,161	388	(2,174)	(1,786)
Over 2 but not over 5	3,283	0	3,283	2,680	0	2,680
Over 5 but not over 10	5,571	0	5,571	795	0	795
Over 10 but not over 20	13,103	0	13,103	2,035	0	2,035
Over 20 but not over 30	8,410	0	8,410	2,817	0	2,817
Over 30 but not over 40	11,027	0	11,027	3,899	0	3,899
Over 40	11,416	0	11,416	3,879	0	3,879
Total	**175,668**	**(30,367)**	**145,301**	**119,708**	**(14,982)**	**104,726**

45.4 Market Risks: 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 authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall

Investments classed as amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income and Expenditure or the Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2019, £29m (2018: £13m) of net principal borrowed on long term loans (i.e. borrowing net of investments) was exposed to fixed rates and £116m (2018: £91m) in short term loans was exposed to variable rates.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	31/03/2019	31/03/2018
	£'000	£'000
Increase in interest payable on variable rate borrowings	1,178	1,025
Increase in interest receivable on variable rate investments	(22)	(119)
Impact on Surplus or Deficit on the Provision of Services	**1,156**	**906**

Increase in fair value of investments held at FVOCI	33	98
Impact on Comprehensive Income and Expenditure	**1,189**	**1,004**
Increase/(Decrease) in fair value of loans and receivables *	25,417	(4,002)
Increase/(Decrease) in fair value of fixed rate borrowings/liabilities *	41,994	(992)

* No impact on Comprehensive Income and Expenditure.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

45.5 Market Risks: Price risk

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices.

This risk is limited by the Council's maximum exposure to property investments of £2.2m (2018 - £2.1m). A 5% fall in commercial property prices would result in a £0.1m (2018 - £0.1m) charge to Other Comprehensive Income & Expenditure.

Equity instruments elected to fair value through other comprehensive income

The Council has elected to account for the following investments in equity instruments at fair value through other comprehensive income because they are long-term strategic holdings and changes in their fair value are not considered to be part of the Council's annual financial performance.

	Fair Value		Dividends	
	31.03.19 £000s	**31.03.18 £000s**	**2018/19 £000s**	**2017/18 £000s**
CCLA Property Fund	2,185	2,151	111	112

45.6 Hedge Accounting

The Council hedged its exposure to interest rate risk on borrowing during the 2017/18 financial year by arranging £50m of fixed rate loans with forward starts in the 2020/21 and 2021/22 financial years. It has designated "all-in-one" cash flow hedges of the variability of the consideration to be received upon recognising the loans by designating the embedded forward contracts as the hedging instruments.

Due to the decrease in interest rates since the loans were arranged, the hedging instruments are accounted for as liabilities with a fair value of £1.122m (2018: £1.980). A gain of £0.858m (2018: £1.980m loss) was recognised in other comprehensive income during the year, £nil (2018: £nil) was recycled from reserves to the surplus/deficit on the provision of services, and £nil (2018: £nil) was recognised in the surplus/deficit on the provision of services due to hedge ineffectiveness.

45.7 Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The table below shows those instruments that have been offset on the balance sheet. The Council had no other financial assets or liabilities subject to an enforceable master netting arrangement or similar agreement.

	31.03.2019			31.03.2018		
	Gross assets (liabilities)	**(Liabilities) assets set off**	**Net position on balance sheet**	**Gross assets (liabilities)**	**(Liabilities) assets set off**	**Net position on balance sheet**

	£000s	£000s	£000s	£000s	£000s	£000s
Trade receivables	1,921		1,921	1,489	0	1,489
Total financial assets	1,921		1,921	1,489	0	1,489
Trade payables	(226)		(226)	(306)	0	(306)
Total financial liabilities	(226)		(226)	(306)	0	(306)

46. 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.

	2018/19			2017/18		
	Business Rates £'000	Council Tax £'000	Total £'000	Business Rates £'000	Council Tax £'000	Total £'000
INCOME						
Council Tax Receivable		71,371	71,371		67,765	67,765
Business Rates Receivable	37,182		37,182	37,609		37,609
	37,182	**71,371**	**108,553**	**37,609**	**67,765**	**105,374**
EXPENDITURE						
Apportionment of Previous Year Surplus/(Deficit)						
Central Government	1,817		1,817	1,028		1,028
Surrey Heath Borough Council	1,454	380	1,834	822	239	1,061
Surrey County Council	363	2,242	2,605	205	1,500	1,705
Surrey Police Commissioner		378	378		261	261
	3,634	**3,000**	**6,634**	**2,055**	**2,000**	**4,055**
Precepts, Demands and Shares						
Central Government	0		0	17,251		17,251
Surrey Heath Borough Council	10,846	8,724	19,570	13,801	8,154	21,955
Surrey County Council	25,307	52,981	78,288	3,451	49,691	53,142
Surrey Police Commissioner		8,881	8,881		8,381	8,381
	36,153	**70,586**	**106,739**	**34,503**	**66,226**	**100,729**
Charges to the Collection Fund						
Transitional Protection Payments due to Central Government	240		240	1,076		1,076
Less: Write off for uncollectible amounts		87	87		61	61
Less: Increase/Decrease in Bad Debt Provision	(210)	242	32	733	(541)	192
Lees: Increase/Decrease in Provision for Appeals	(5,000)		(5,000)	2,874		2,874
Lees: Cost of Collection	125		125	123		123
Interest Payable			0			0
	(4,845)	**329**	**(4,516)**	**4,806**	**(480)**	**4,326**
Total Expenditure	**34,942**	**73,915**	**108,857**	**41,364**	**67,746**	**109,110**
Surplus/(Deficit) arising during the year	**2,240**	**(2,544)**	**(304)**	**(3,755)**	**19**	**(3,736)**
Surplus/(Deficit) b/fwd 1st April	**(188)**	**2,405**	**2,217**	**3,567**	**2,386**	**5,953**
Surplus/(Deficit) c/fwd 31st March	**2,052**	**(139)**	**1,913**	**(188)**	**2,405**	**2,217**

Non-Domestic Rates (NDR)

NDR 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 31st March 2019, the total non-domestic rateable value of properties owned by the Council was £2.148m. The 2018/19 national non-domestic rate multiplier was 48p for small businesses and 49.3p for other businesses.

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 nine 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 2018/19 tax base is shown below:

2018/19			
Band	**Number of chargeable homes less exemptions and discounts**	**Factor**	**Band D equivalents**
A*	0	5/9	0
A	336	6/9	224
B	1,354	7/9	1,053
C	4,550	8/9	4,045
D	8,285	9/9	8,285
E	5,932	11/9	7,251
F	5,359	13/9	7,740
G	4,787	15/9	7,979
H	470	18/9	939
Total	**31,073**		**37,516**
New properties Band D equivalent			114
MOD properties			475
Less: allowance for non-collection			(564)
Council tax base			**37,541**
Collection rate assumed			**98.50%**

ANNEX B

Report to the Audit and Standards Committee

SURREY HEATH BOROUGH COUNCIL

Audit Completion Report: Year ended 31 March 2019

IDEAS | PEOPLE | TRUST

BDO

CONTENTS

WELCOME

Introduction

We have pleasure in presenting our initial Audit Completion Report to the Surrey Heath Borough Council. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit and Standards Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We will issue a final Audit Completion Report once any outstanding work has been completed. We look forward to discussing these matters with you at the Audit and Standards Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Audit and Standards Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

Leigh Lloyd-Thomas
17 July 2019

Leigh Lloyd-Thomas

Engagement Partner

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit and Standards Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

Executive summary

This summary provides an overview of the audit matters that we believe are important to the Audit and Standards Committee in reviewing the results of the audit of the financial statements of the Council and use of resources of the Council for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements and use of resources for the year ended 31 March 2019 in line with the agreed timetable.

We are required to bring to your attention a significant change to the audit approach from that reported in the Audit Plan. At the meeting to discuss the Audit Plan on 25 March, we reported that overall financial statements materiality would be set by reference to gross expenditure levels.

We have since adopted an assets based overall financial statements materiality. This is due to the Council now directly accounting for the assets of the Jersey Property Unit Trust (JPUT) and the significant value of land, buildings and investment property held by the Council to generate income to support the activities of the Council. We continue to apply a lower specific materiality to the Comprehensive Income and Expenditure Statement where this impacts on the reported financial outturn from revenue resources and the impact on revenue reserves.

Details of the materiality levels adopted are shown on the next page.

There were no additional significant audit risks identified.

No restrictions were placed on our work.

Outstanding matters are listed in the appendices.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

We are proposing to issue an unqualified use of resources conclusion.

THE NUMBERS

Executive summary

Final materiality

The financial statements materiality of £4.5 million was determined based on a benchmark of 2% of long term assets (£225 million).

Specific materiality for the statement of comprehensive income and expenditure of £1.3 million was based on 2% of gross expenditure.

Material misstatements

We identified the following material misstatement that management has agreed to correct:

- The net gain from property disposals had been incorrectly recognised as gross income and expense.
- While JPUT assets and income transferred to the Council were included in the financial statements, other income / expenditure and assets / liabilities were omitted.
- Additional pension liabilities arising from the McCloud and GMP judgements were omitted from the initial actuaries valuation report.
- The actuary also updated the Council's share of the scheme assets as the initial valuation report was based on an estimate.
- A financial liability for a forward loan agreement that is not a financial derivative has been removed from the balance sheet.

It is unclear why the previous auditors did not challenge management on the treatment of the JPUT and forward loan.

As a result of some of these also being misstatements in the prior year, the 2017/18 financial statements have been restated.

The overall impact of these adjustments has been to **increase net assets at 31 March 2019 by 0.172 million and increase the deficit on the provision of services for the year by £0.332 million**.

As some of these misstatements relate to items that are subject to statutory adjustments, the General Fund balance **reduced by £0.272 million**.

Audit scope

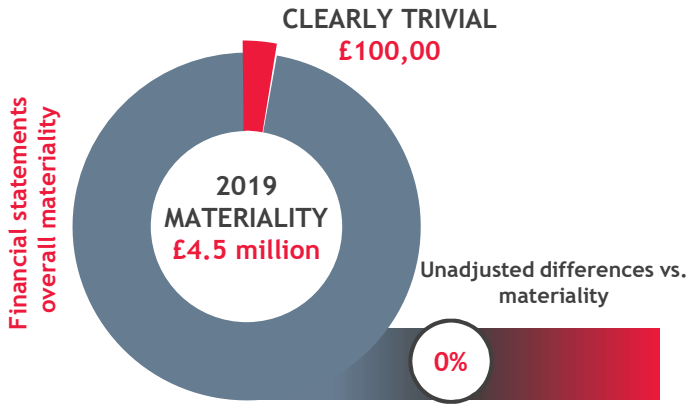
Our approach was designed to ensure we obtained the required level of assurance across the components of the Council in accordance with ISA (UK) 600 Audits of Group Financial Statements.

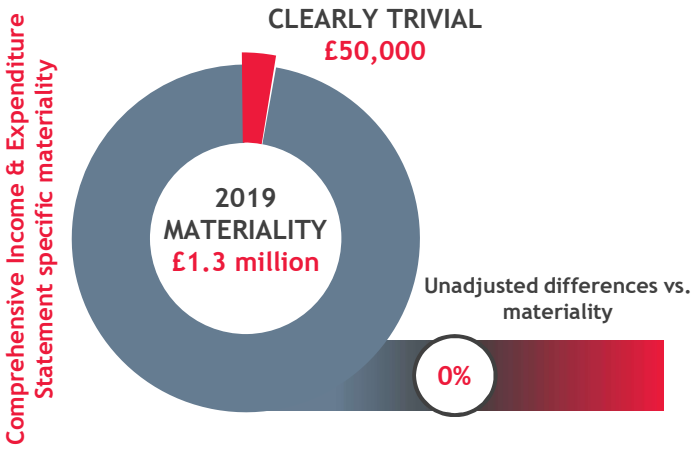
We have audited the Council's financial statements under the NAO Code of Audit Practice.

PwC has audited Jersey Property Unit Trust. We have not yet received the audit pack from PwC to support the transactions and balances included the Council's financial statements.

Unadjusted audit differences

We identified one audit difference above our trivial reporting threshold that relates to the grossing up debtors and creditors, but this has no impact on net assets or the CIES.





OTHER MATTERS

Executive summary

Financial reporting - Significant policy changes

The Council has implemented a significant accounting policy change in respect of the JPUT. In previous years, the Council included the property asset held in the JPUT in it's own financial statements (that perhaps should have been recorded as an investment in a subsidiary), and prepared Group financial statements to consolidate the remaining amounts from the JPUT.

It has since been determined that through the nature of the trust relationship, the Council has control over the underlying assets and liabilities of the JPUT and therefore should account for all transactions and balances directly into the Council's financial statements.

Financial reporting - Other matters

We have not identified any non-compliance with accounting policies or the CIPFA Code.

No other significant accounting policy changes have been identified impacting the current year. IFRS 9 financial instruments and IFRS 15 revenue from contracts with customers has not had a material impact.

Going concern disclosures are deemed sufficient.

The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.

The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.

We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's deadline of 13 September 2019.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Group and the Council in accordance with the Financial Reporting Council's Ethical Standard.

AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 4 March 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Revenue and expenditure recognition	Significant	No	No	Yes. Adjusted	No	No
Property, plant and equipment and investment property valuation	Significant	Yes	Yes	No	No	No
Pension liability valuation	Significant	Yes	Yes	Yes, adjusted	No	To consider the impact of McCloud and GMP on pension liabilities
Accounting for Joint Waste and Recycling contract	Normal	No	No	Yes. Adjusted	No	No
Classification and measurement of financial instruments (IFRS 9)	Normal	No	No	Yes. Adjusted	No	To note the adjustment in respect of hedge accounting
Revenue from contracts with customers (IFRS 15)	Normal	No	No	Yes Unadjusted disclosure	No	No
Accounting for investment in JPUT	Normal	Yes	No	No	No	To note the change in basis of accounting for the JPUT

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls that could conceal fraudulent transactions or result in material misstatement in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our detailed testing of a sample of journals is still in progress however our work to date has not identified any significant issues.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.

REVENUE AND EXPENDITURE RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	■
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Under auditing standards there is a presumption that there is a risk of fraud in revenue recognition. In particular, we consider there to be a significant risk in respect of the existence (recognition) of fees and charges in the comprehensive income and expenditure statement (CIES). In our Audit Plan we referred to the risk in relation to recognition for revenue and capital grants that are subject to performance conditions. This revenue was deemed not to present fraud risk as the revenue for grants with conditions was £1.05 million.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of fees and charges in income to documentation and checked whether income has occurred during the year and recognised appropriately; and
- Tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

Results

Our sample testing of fees and charges did not identify any errors in the recognition of income.

Our expenditure cut off testing did not identify any errors in the recognition of expenditure in the correct period.

However, we noted that invoices totalling £170,000 relating to 2019/20 were raised before year end and initially recorded as income and debtors. The correcting journal to remove this from income in 2018/19 was incorrectly processed by increasing creditors rather than reducing debtor, resulting in a grossing up error in debtors and creditors. This presentational misstatement has not been corrected.

PPE AND INVESTMENT PROPERTIES

There is a risk over the valuation of land, buildings and investment properties where valuations are based on significant assumptions.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Local authorities are required to ensure that the carrying value of land, buildings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

Revaluations are carried out on a rolling programme with the exception of investment property assets held in the JPUT which are valued annually. Assets which are expected to be subject to significant valuation movements are revalued on an annual basis. Valuations are carried out by external RICS qualified valuers.

Due to the significant value of the Council's land, buildings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes; and
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual.

Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues. We also confirmed the basis of valuation for assets valued in year is appropriate and in line with Code.

We have confirmed the accuracy and completeness of asset information provided to the valuer by agreeing information to source data such as lease agreements and floor plans.

The results of out review of the assumptions and estimates used by the valuer for classes of assets is reported on the following pages.

PPE AND INVESTMENT PROPERTIES 2

Significant estimate

Other land and buildings at Existing use value (£83 million)

< lower valuation | > Higher valuation

Other land and buildings valued at existing use current value has been revalued upwards by £0.45 million (0.3%). MCSI regional capital growth indices show regional price movements of -4.1% for retail, +1.7% for office, +4.30% for industrial, and -0.40% for houses for the period Q1 2018 to Q1 2019 (as the effective date of the Council's valuations is 1 December 2018 with further review on 31 March 2019). The Council's other land and building comprise a mix of asset types.

The variances observed is largely as a result of upward movements on London road recreational grounds of £0.23 million. We noted that the valuation for recreational grounds applies a cost price that reflects commercial or residential land. This more appropriately reflects the price of acquiring replacement land in the borough since it is likely that such land would obtain mixed use planning consents.

We have obtained specific explanations for individual movements outside of our expectation.

Overall we are satisfied that the valuations for other land and buildings held at existing use value is reasonable.

Other land and buildings include The Main Square Camberley Shopping Centre with a valuation of £81 million. The Council considers these properties as supporting its long term regeneration strategy. We are waiting for the auditors of the JPUT to confirm the reasonableness of the valuation of the shopping centre.

Buildings at Depreciation Replacement Costs including theatre and leisure centres (£17 million)

< lower valuation | > Higher valuation

Specialised assets such as theatres and cinemas are valued on Depreciated Replacement Cost basis and it involves estimating the build cost of a modern equivalent asset to which adjustments are made for physical, economic and functional obsolescence and external environmental factors. The Council valued its two specialised assets, the Camberley Theatre and the Arena Leisure Centre.

The theatre valuation decreased by 16% from £5.6 million to £4.8 million and the leisure centre valuation decreased by 13% from £12.9 million to £11.6 million.

BCIS Public Sector TPI index suggests that the rebuild costs would increase by 2.4% based on national indices.

We have arranged to discuss these valuations with the valuer and we will update the committee with our results on in the final report.

PPE AND INVESTMENT PROPERTIES 3

Significant estimate

Surplus assets at fair value (£1 million)

< lower valuation | > Higher valuation

Surplus assets are valued at fair value (highest and best use) by reference to similar sales and potentially including an increase where the purchaser may be able to amend the consents for use and increase the value of the asset.

Surplus assets have seen an overall revaluation increase of £36,700 (3.8%) from £961,200 to £997,000. Overall surplus allowance valuation is reasonable

Investment properties at fair value (£71 million including £23 million acquired in-year)

< lower valuation | > Higher valuation

Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields. This could potentially include an increase where the purchaser may be able to amend the consents for use or develop the property and increase the value of the asset.

Investment property valued in year was £71 million. This included £23 million in year acquisition. Investment property has seen an increase in valuation of £1.2 million (3%) when the revalued additions are excluded. MCSI regional capital growth indices show regional price movements of -4.1% for retail, +1.7% for office and +4.30% for industrial for the period Q1 2018 to Q1 2019 (as the effective date of the Council's valuations is 1 December 2018 and 31 March 2019). The valuation increase is above our overall expected change in valuation.

We noted that upward increase was mainly due to an increased valuation on THE Albany warehouse by £0.58 million. The site was acquired in December 2016 with multiple lettings with both fixed and open market rent reviews. There is only one year left on the existing lease and valuer applied a higher rent reversion amount to support this increased valuation.

The Council also acquired two properties during the year and valued these properties. The purchase price for these properties was £27 million and was subsequently valued down to £23 million. The valuer has based valuation on rent reversion based on recent lettings within the estate. The property consists of 9 industrial units with various existing lease terms on acquisition and all expiring within the next 2 years.

Overall we are satisfied the valuation of investment properties is within a reasonable range.

PENSION LIABILITY VALUATION

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions. An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary; and
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.

Results

We have agreed the disclosures to the information provided by the actuary and identified no issues. We noted that the Council did not disclose the basis for estimating the scheme's assets and liabilities. The composition of the scheme's assets was not disclosed in the accounts. We have reported these as disclosure errors.

We have not yet received a response from the pension fund auditor in response to our request for assurances over the controls operated by the administering authority over the accuracy of the membership data and the information communicated to the actuary to support the liability valuation at 31 March 2019.

Management confirmed that there are no significant changes in membership and this is consistent with our knowledge of the Council.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

PENSION LIABILITY VALUATION 2

Significant estimate

Pension liabilities (£126 million)

< lower valuation > Higher valuation

The Council's pension liability has increased from £116 million to £126 million and it's share of the scheme assets increased from £77 million to £82 million. The net deficit increased by £5 million to £44.5 million mostly due to changes in financial assumptions including annual salaries increases above CPI at 2.8% (previously 2.7%), annual pension increases of 2.5% (previously 2.4%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.6%).

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.5%	3.4 - 3.50%	Reasonable
- CPI increase	2.5%	2.4 - 2.50%	Reasonable
- Salary increase	2.8%	1.0 - 3.50%	Reasonable - short term assumption of +1% and post 2020 set in line with RPI
- Pension increase	2.5%	2.4 - 2.50%	Reasonable
- Discount rate	2.4%	2.4 - 2.50%	Reasonable
Commutation:	25% / 63%	25 – 75%	Reasonable – pre 2008 scheme 25% and post 2008 63%
Mortality:			
- Male current	24.1 years	23.7 - 24.4	Reasonable
- Female current	26.4 years	26.2 - 26.6	Reasonable
- Male retired	22.5 years	21.5 - 22.8	Reasonable
- Female retired	24.6 years	24.1 - 25.1	Reasonable
Mortality gains	CMI 2013 (+1.25% improvement rate) with Club Vita local adjustments		Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Hymans Robertson do tend to produce slightly higher liabilities calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being at 103.1% using an average of all the actuaries.

PENSION LIABILITY VALUATION 3

Significant estimate

McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not received this underpin of benefits, Government will have to remedy the discrimination in the LGPS.

The Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

The Council has obtained an updated valuation of the liability to take account of the impact of this ruling. This suggests that the Council's liability could increase by £183,000 (0.15%). This is lower than forecast by GAD using a worse case scenario and we will review the assumptions used by the actuary.

Management has agreed to correct this error.

GMP equalisation

Following a ruling on gender discrimination in the Lloyds Banking Group case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). The Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 and it is not yet clear whether the LGPS (through employers) or Government will fund these additional costs after 2021.

An LGPS wide assessment of additional liabilities arising from GMP equalisation for the interim solution between 2016 to 2018, the extension from 2018 to 2021, and potential post 2021 costs falling on the LGPS could increase liabilities by +0.3%.

The Council has obtained an updated valuation of the liability to take account of the impact of this ruling. This suggests that the Council's liability could increase by £413,000 (0.34%) and within our expectations.

Management has agreed to correct this error.

ACCOUNTING FOR JOINT WASTE AND RECYCLING CONTRACT

There is a risk the Council's application of gross accounting to this arrangement may not be appropriate.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Waste and recycling services across the Borough are provided by Amey on behalf of Joint Waste Solutions (JWS). JWS manages waste and recycling services for Surrey Heath and three other local authorities in Surrey, with Surrey Heath Borough Council as the contract lead. The Council applies gross accounting to the Joint Waste and Recycling contract with three other local authorities. The arrangements suggest that Council may be acting as an agent in recharging costs to the local authorities rather than acting as principal in providing a service.

There is a risk the Council's application of gross accounting to this arrangement may not be appropriate.

Work performed

We carried out the following planned audit procedures:

- We have reviewed management's judgement in applying gross accounting to waste and recycling transactions having regard to the underlying arrangement between the Council and the other local authorities.

Results

Our review of these arrangements suggests that the Council is acting as a host agent for each of the participating councils and should not be accounting for this as a principal (gross accounting), only accounting for its share of the costs of the services. Transactions on behalf of the other councils should simply be recorded as balance sheet personal account balances to recognise the difference between amounts paid on behalf the other councils and the amounts collected.

The Council accounted for this contract on a gross basis in the prior year and part of this year. The transactions in 2018/19 relating to the other councils have been removed from income and expenditure and are correctly held as personal account balances in the balance sheet. The financial statements for this year were then prepared on the correct basis.

FINANCIAL INSTRUMENTS (IFRS 9)

There is a risk that related party disclosures are not complete and accurate.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation. CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended.

There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the new classification of financial instruments in accordance with the guidance; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

The Council has applied the historical default rates (incurred losses) using system data to determine the credit losses on trade receivables within the scope of IFRS 9, but has not updated this to reflect expected (future) credit losses. However, this is unlikely to result in a material difference in the amount of credit losses recognised. The disclosures around forward looking information used, the use of the simplified approach and the type of debtors this has been applied to should also be improved

The Council reclassified the CCLA property Fund from available-for-sale financial instruments to fair value through profit and loss as required. All other financial instruments have been appropriately reclassified.

We noted that the Council has applied hedge accounting to its loan commitment of £50 million with Phoenix Life. Our review would suggest that a loan commitment does not meet the requirements to be included as a financial liability under IFRS 9 requirements and once drawn the loan is likely to be measured at amortised cost with no fair value adjustment through the financial statements. The Council recognised fair value movements as a hedge liability of £0.86 million in the current year and £1.98 million in the prior year in other comprehensive income due to a change in fair value of the loan commitment, and a total derivative liability of £1.12 million in the balance sheet.

Management has agreed to correct these errors.

REVENUE FROM CONTRACTS (IFRS 15)

There is a risk that revenue from contracts with customers is not measured in accordance with IFRS 15.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Risk description

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised. CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements.

There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new '5-step model' on revenue streams on both the Council and JPUT; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

Our review of the revenue streams suggests that the recognition of revenue in terms of IFRS 15 is not different to how revenue was not recognised previously and no restatement in opening reserve would be required for the Council.

Whilst we have concluded that IFRS 15 does not change how revenue was previously recognised, the Council did not make any disclosures in its accounting policy to reflect this new standard. We have reported this as a disclosure omission.

ACCOUNTING FOR INVESTMENT IN JPUT

There is a risk that revenue from contracts with customers is not measured in accordance with IFRS 15.

Significant risk	
Normal risk	■
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

In 2016/17, the Council acquired an investment property portfolio in the town through the purchase of a Jersey Property Unit Trust (JPUT). The JPUT is a non-corporate trustee arrangement common in Jersey for holding properties where the Council is the beneficiary but the JPUT is administered by trustees. These were shown in the Council's single entity financial statements as an investment in a subsidiary in 2016/17. In 2017/18, the Council reclassified the investment in its single entity financial statements as directly held investment properties and also produced group accounts to report sundry other amounts in the JPUT.

There is a risk that the financial statements may not be reporting the JPUT appropriately in the Council's accounts and the JPUT may be a 'bare trust' arrangement where the transactions and balances should be recorded directly into the Council's financial statements.

Work performed

We carried out the following planned audit procedures:

- Reviewed the arrangements for the administration of the trust and the Councils control over the Trust; and
- Reviewed the appropriateness of the basis of accounting for the income / expenditure and assets / liabilities of the JPUT through the Council's single entity financial statements.

Results

It is necessary to consider whether the legal form of JPUT vehicle confers separation from the Council and, if there is no separation, the Council will account for this as a joint operation. In this case, following detailed review, we agreed with management that the JPUT is a 'bare trust' and it would be appropriate for the Council to directly account for the income / expenditure and assets / liabilities directly into the Council's accounts. No separate Group consolidated financial statements would be required.

However, the financial statements included only the investment property and the dividends received from the JPUT in its financial statements but failed to include the JPUT's expenditure of £3.293 million, income £7.291 million, creditors £6.998 million, cash and bank £1.982 million and debtors £2.537 million.

Management has agreed to correct these errors in the current year and restate the prior year financial statements to include all the transactions and balances of the JPUT within the Council's single entity financial statements.

OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
We identified that £4.9 million proceed from disposal and £3.2 million carrying value of the property disposed was included on a gross basis in the net cost of service line in the Comprehensive Income and Expenditure Statement instead of a net basis in the other operating and expenditure line in the Comprehensive income and Expenditure line as part of the gain and loss on disposal. This has no impact on the bottom line. Reported as presentational error.	Management has agreed to correct this error.
We identified that a property with a carrying value of £843,000 disposed off during the year was incorrectly shown in the property plant and equipment note as held for sale instead of disposal. This is a presentational error.	Management has agreed to correct this error.
We noted that NDR safety net payment due to Surrey County Council was incorrectly classified as transition grant.	We have reported this a presentation error.
We identified that the Council netted its share of the NDR appeals provision of £534,000 from its debtors balance at year end. This resulted in understatement of debtors and provisions.	Management has agreed to correct this error.

OTHER MATTERS 2

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
As part of the revised pension liability report from the actuary, we note that the actuary has decreased the Council's share of the pension fund assets from £81.878 million to £80.916 million, a decrease of £962,000. We have not yet received a response to certain assurances sought from the pension fund auditor, that include confirmation that the actuary has used the final asset valuation for the pension fund at 31 March 2019, but we assume that the actuary had used an estimated fund valuation in the initial valuation report and has now updated this for the final fund valuation. We will confirm that the adjustment relates to the actuary using the final pension scheme assets valuation.	Management has agreed to correct this error.
We identified a few presentational and disclosures issues in the financial statements including the below; The Code and IAS 7 has introduced an additional cash flow disclosure this year to reconcile the movement in financial liabilities in the balance sheet with the cash flow statement for cash movements and other non-cash movements.	We have reported this a presentation error.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the members and Director of Finance have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud.

Our audit procedures did not identify any fraud.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan to the Audit and Standards Committee.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

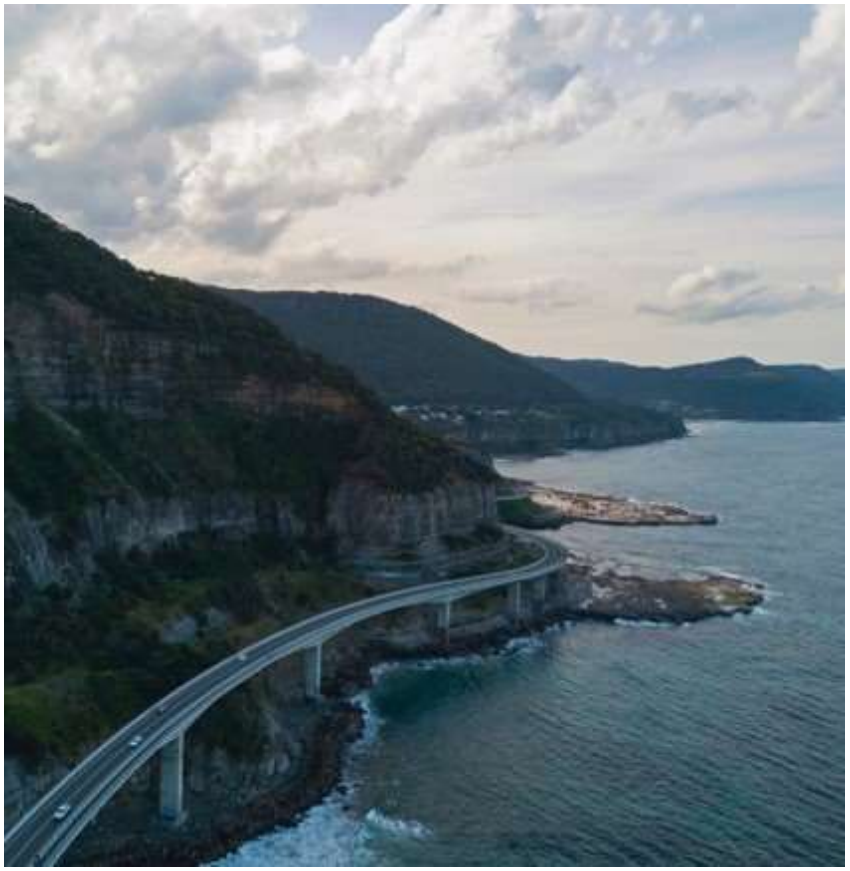
Component audit matters

The JPUT produces its own financial statements that are then consolidated into the financial statements of the Council as a joint operation. While this removes the requirement to produce separate Group and Council single entity financial statements, we rely on the work of the auditors of the JPUT (as a component entity) to support transactions and balances included in the Council's financial statements.

We have not yet received the audit pack from the JPUT auditors (PwC) to support the transactions and balances included the Council's financial statements.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



We are required to bring to your attention unadjusted differences and we request that you correct them.

There is one unadjusted audit difference identified by our audit work which would decrease debtors and creditors in the balance sheet. It has no impact on net assets or the CIES.

You consider this difference to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Council				
	Income and expenditure			Balance sheet	
Unadjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on provision of service	9,895				
Incorrect reversal of a debtor raised in advance by including the same balance as a creditor				170	
DR Creditor					170
CR Debtor					
Total unadjusted audit differences	---				
Surplus on the provision of services after differences	9,895				

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Standards Committee is required to consider.

The following unadjusted disclosure matters were noted:

- Non disclosure of the basis for estimating the scheme's assets and liabilities.
- The composition of the scheme's assets was not disclosed in the accounts.

REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	Our review of the Narrative Report is still in progress and we will update the Committee in our final completion report.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements. We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's 13 September 2019 deadline.

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AUDIT RISKS OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	None

SUSTAINABLE FINANCES

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.

Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings	

Risk description

The Council's Medium Term Financial Strategy (MTFS) covering the period 2020 to 2023 that identified a budget gap of £1.5 million. The Council has identified savings and the delivery of additional income through investments as means to address the budget gap. The achievement of these efficiency and savings targets are inherently challenging.

Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied;
- Monitored the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2019/20; and
- Review the strategies to close the budget gap after 2019/20.

Results

The Council's refreshed MTFS indicates a funding gap of £2 million by 2023-24. The Council intends to fund this gap through additional income generated from its investments in properties. The Council delivered savings of £3.5 million in 2018/19 compared to overspend of £2.5 million in 2017/18. At 31 March 2019 the Council's General Fund reserve increased from £29 million to £33.3 million.

The Council has strategically invested in investment properties to deliver additional income to support it's key objectives. These are funded through borrowing and management anticipates adequate returns from these investments to service the cost of funding over the term of these loan facilities.

We are satisfied that the Council has a good understanding of the budget requirement in the coming years, has arrangements in place to identify and manage the delivery of required savings.

Conclusion

The Council has adequate arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Debtors analysis	We identified that analysis produced to support the debtors balance at year end did not agree to debtors balance by £250,000. This was due to finance staff producing the report two weeks after year end and it could not reproduced the report at the balance sheet date. The difference is due to cash receipts for the two weeks post year end. It is important that working papers with supporting evidence are maintained to ensure accuracy and completeness of debtors balance in the accounts.	Management should ensure that adequate evidence supporting debtors balance at year end is maintained at all times and made readily available for audit.	[xx]

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OVERVIEW

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of 'emphasis of matter'.

Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council's or Group's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

INDEPENDENCE

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Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Standards Committee in advance in accordance with the Group's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

Details of other threats and safeguards applied are given on page xx in the appendices.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

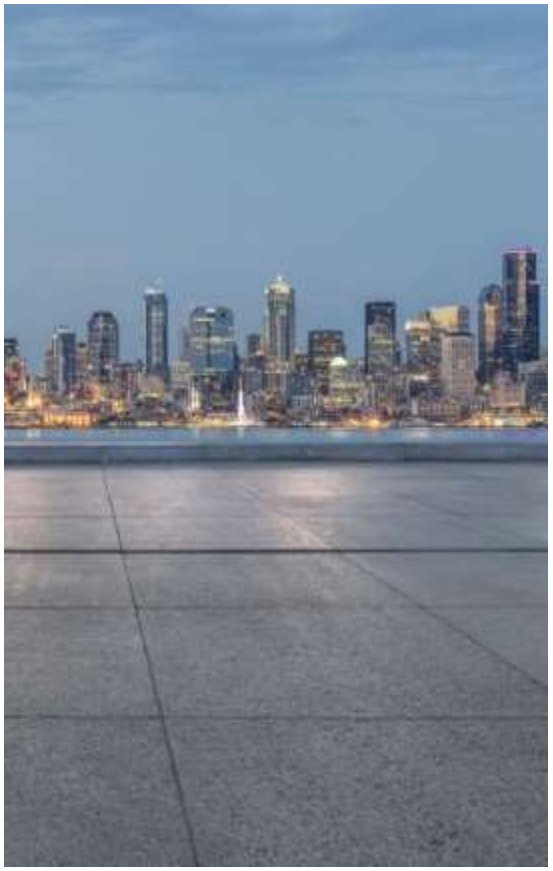
Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fee Summary	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee			
• Code audit fee	TBC	(1) 32,263	(2) 45,905
Non-audit assurance services	TBC	32,263	45,905
Fees for reporting on government grants:			
Housing benefits subsidy claim	Work started	10,000	(2) 11,141
Total fees	**TBC**	**42,263**	**57,046**

(1) PSAA has set the 2018/19 fee scale on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the fees applicable scale fee for 2017/18. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.

(2) KPMG were appointed as auditor for these audits in 2017/18 and we have reported their fees above. The planned Code audit fee for 2017/18 was £41,900. Additional fee of £4,005 was charged for the audit of the group accounts.



APPENDICES CONTENTS

RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION AND REPORTS ISSUED

Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Standards Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	4 March 2019	Audit and Standards Committee
Initial Audit Completion Report	17 July 2019	Audit and Standards Committee
Final Audit Completion Report	(31 July 2019)	Audit and Standards Committee
Annual Audit Letter	(31 August)	Audit and Standards Committee

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit and Standards Committee meeting at which this report is considered:

1. Clearance of outstanding issues on the audit queries tracker currently with management. The key items on the tracker are:
   - Completion of journal testing
   - Resolving queries with the valuer on land, building and investment property valuations that are outside of our benchmark expectations.
2. Final review and approval by you of the Statement of Accounts
3. Technical clearance
4. Subsequent events review
5. Management letter of representation, as attached in Appendix VI to be approved and signed.

The audit file and financial statements are still subject to review by the Engagement Lead.

AUDIT REPORT

To follow

AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

Letter of representation

Contents

[Client name and Letter headed paper]

BDO LLP
55 Baker Street
London
WIU 7EU

Dear Sirs

Financial statements of Surrey Heath Borough Council for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Council' financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Finance has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note xx to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have made the results available to you.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note xx to the financial statements, there were no loans, transactions or arrangements between any members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

Rate of inflation (CPI): 2.5%

Rate of increase in salaries: 2.8%

Rate of increase in pensions: 2.5%

Rate of discounting scheme liabilities: 2.4%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities

b) Valuation of land, buildings and investment properties

We confirm that the valuations applied to land, buildings and investment properties revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business. These include current market prices in existing use for operational properties, relevant rebuild cost indices for assets value at depreciation replacement cost, and fair values investment properties and surplus assets.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

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Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each member has taken all the steps that they ought to have taken as a member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Kelvin Menon	Cllr Alan McClafferty
Director of Finance	Chair of the Audit and Standards Committee
[date]	[date]

FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7983 2616
e: leigh.lloyd-thomas@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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