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

		Pages
4	**External Audit**	**3 - 130**
	To receive an update from the Council's External Auditors.	

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Approval of the 2017/18 Financial Statements and to receive the External Auditor's Report (ISA260) for 2016/17

Portfolio	Finance
Ward(s) Affected:	All

Purpose

To approve the audited Financial Statements for 2017/18 and to receive the External Auditors Report (ISO260) and Letter of Representation for 2017/18.

1 Background

1.1 New 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. This is a reduction on the 30th June and 30th September deadlines which were in place up to this year.

1.2 The unaudited financial statements were published on the Council's website by the 31st May 2018 and it is the audited financial statements that are now being presented to this Committee for approval.

2 Financial Statements

2.1 The Financial Statements set out the Council's financial performance for the year ended 31st March 2018 and are attached to this agenda as a separate document.

2.2 There have been no major changes to the layout of the financial statements this year nor to accounting standards compared to last year.

2.3 There have only been a couple of minor changes to the audited financial statements compared with unaudited statements published on 31st May and these are set out in the ISA 260 audit report

3 ISA260 Audit Report

3.1 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'.

3.2 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. It covers the following areas:

- Proposed opinion on the financial statements, annual governance statement and audit differences
- Critical accounting matters
- Value for Money approach
- Key issues and recommendations arising from the audit

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

4 Key Issues

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

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

4.3 The Auditors have followed up on their recommendation made last year in respect of the faster close of accounts and are satisfied with the progress made. There are no recommendations being made for this year.

4.4 As reported in their audit plan the auditors have looked at specific risks around property, pensions and fraud and have found no significant issues in these areas.

4.5 There are only 2 amendments to the accounts arising from the audit. One is presentational and the other to do with the classification of income. Neither adjustment has any impact on the overall outturn and general fund for the year.

4.6 The auditors require the Section 151 officer 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

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

5 Change of Auditor

5.1 KPMG have been the Council’s auditor for a number of years however their current contract comes to an end with the completion of these accounts and certification of returns, which is still to be done.

5.2 A national tender was undertaken last year for all local authorities collectively through the PSAA (Public Sector Audit Appointments) and this awarded all audits on a regional basis at a fixed cost. As a result of this process the Council’s auditors for the current financial year will be BDO and members will be meeting the new partner Mr Leigh Lloyd-Thomas in due course.

5.3 I would like to put on records my appreciation of the work and guidance KPMG have given the Council over the last 8 years and wish them well in the future.

6 Options

6.1 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

7 Resources Implications

7.1 There only resource implication arises due to audit fees. These are £41,900 which is the scale fee approved by the PSAA (Public Sector Audit Authority).

8 Recommendations

8.1 The Committee is advised to

i) RECEIVE the audited financial statements for 2017/18;
ii) RECEIVE the Letter of Representation;
iii) RECEIVE and COMMENT on the ISA260 auditors report and;
iv) RESOLVE that the Chairman of the Committee APPROVES the Financial Statements on behalf of the Council

Background Papers: None

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ANNEX 1

KPMG

External Audit Report 2017/18

DRAFT

Surrey Heath Borough Council

—

23 July 2018

Content

Contacts in connection with this report are:

Neil Hewitson

Director

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Manager

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This report is addressed to Surrey Heath Borough Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Hewitson, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to Surrey Heath Borough Council (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit and Standards Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit and Standards Committee meeting. The following work is ongoing:

- PPE (review of classification of movement between investment properties to OLAB)
- Journals
- I&E testing
- Debtors
- AGS review
- Collection fund
- Financial instruments

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 31 July 2018, following the Council adopting them and receipt of the management representations letter.

We have completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There were no unadjusted audit differences.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- In additional to our routine requests we are asking for management representations over the following, which are explained in section 2:
  - Valuation of land and buildings
- We reviewed the narrative report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.

We are now in the completion stage of the audit and anticipate issuing our completion certificate by 31 July 2018. We intend to issue our 2017/18 Annual Audit Letter shortly after.

Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 31 July 2018.

Summary

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2016/17. We have not made any new recommendations as a result of our 2017/18 work.

We undertake the audit of your Housing Benefit grant claim (HBEN01), which has a certification deadline of November 2018. We have not yet commenced our fieldwork but plan to do so in August 2018.

The fees for this work is explained in section two.

Section Two

Financial statements audit

We audit your financial statements by undertaking the following:

	Accounts production stage		
Work Performed	**Before**	**During**	**After**
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with Director of Finance and this was issued as a final document to the finance team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes related to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis: No issues identified as a result of this change; • Amended guidance on the Annual Governance Statement: No issues identified as a result of this change; and • Changes in the format of the Pension Fund accounts: No issues identified as a result of this change;
5. Accounts Production	We received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to yearend to proactively address issues as they emerge. We consider that the overall process for the preparation of your financial statements is adequate. We consider the Authority's accounting practices to be appropriate. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We have identified presentational changes to the accounts along with audit adjustments to the investment income balance on the CIES which we have presented in appendix 2.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Director of Finance on 12 July 2017. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations on the valuation of land and buildings.

Financial statements audit

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with Management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over the valuation of land and buildings, the valuation of investment properties and pension liabilities which were identified as significant risks within our audit plan;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	£139,581k, PY £40,580k	The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 31 December 17, there is a risk that the fair value is different at the year end. For the Authority the total revaluation decrease recognised in the revaluation reserve was £1,561k during the financial year. There was a significant increase in land and buildings as the Authority reviewed its asset base and confirmed that there were four investment properties and a significant portion of their subsidiary PPE asset base which is to be used for regeneration in 2017/18 and therefore was moved from the investment property line. We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In addition, we considered movements in market indices between revaluation dates and the year end to determine whether these indicate that fair values had moved materially over that time. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We assessed your valuer's (Wilks Head & Eve) qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of this work we determined that the figures stated in relation to the valuation of land and buildings is not materially misstated.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of investment properties	£46,551k, PY £43,912k	The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. Investment properties are revalued every year in line with the CIPFA code. The Authority exercises judgement in ensuring the carrying values recorded each year reflect those fair values. Given the materiality in value, and the judgement involved in determining the fair value of the assets, we consider this to be an area of significant risk. For 2017/18 the Investment properties increased in valuation by £3,254k We reviewed the approach taken by the Authority for undertaking its valuation of investment properties which included reviewing the accounting entries made to record the results of the revaluation to ensure that they were appropriate. We assessed your valuer's (Wilks Head & Eve) qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of this work we determined that the Investment property revaluation amounts are free from material error.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension liabilities	£39,527K, PY £39,074K	The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Surrey Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements. As part of our work we reviewed the controls that the Authority has over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans Robertson. We reviewed the appropriateness of the key assumptions included within the valuation. We also reviewed the methodology applied in the valuation by Hymans Robertson. We reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. As a result of this work we determined that Pension liabilities are not materially misstated.

Financial statements audit

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Faster close	N/A	In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July. These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years. We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We advanced audit work into the interim visit in order to streamline the year end audit work. We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years and as a similar number of audit and presentational adjustments were identified. In a number of areas the Authority made increased use of estimates. In these areas we considered the assumptions used and challenged the robustness of those estimates. As a result of this work we determined that the Authority has not had any significant issues in completing its financial statements for the earlier deadline.
Consolidation of investments	£39m PY £143m	In 2016/17 The Authority has undertaken the purchase of the Jersey Unit Trust. This is the second year the Authority consolidated the subsidiary as part of group accounts in their financial statements, and the first year in which a full year's transactions of the Trust was reflected in the group accounts. We note the significant change is due to the Authority reclassifying the investment as PPE as it is now considered as a regeneration project and not an investment project only. We liaised with the Jersey Trust auditor (PWC) and confirm their professional qualification, experience and independence. We issued them with group audit instructions to ensure that their audit is conducted to an acceptable level of scope and precision. The subsidiary auditors confirmed there were no issues in relation to their audit. We compared the accounting transactions between the subsidiary and the Authority and confirmed that all inter-group transactions have been correctly adjusted for. We tested the classification and accuracy of the investments and the presentation of the consolidated group accounts in the accounts and did not identify any issues.

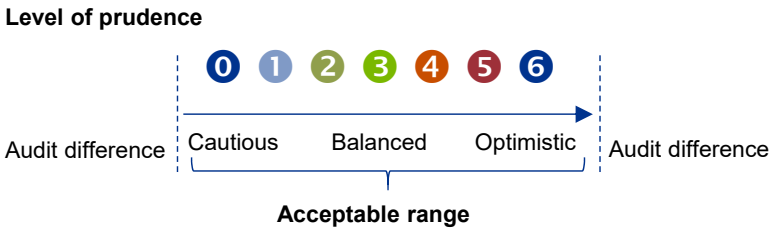
Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2017/18 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.	We have not conducted any specific procedures in relation to the risk of fraud in recognition, as we have rebutted this risk as part of our audit plan.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	There are no matters arising from this work that we need to bring to your attention. - TBC

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
NDR provisions	3	3	£2,712 (PY:£1,562)	The Authority is responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. We reviewed calculations the Authority performed, based on historic success rates for appeals. For 2017/18 the Authority reviewed their historic information and had additional provisions of £1m which led to an increase in the provision required. We tested this and found that the Authority have made appropriate judgements in deriving and assessing the appeals percentage. We conclude this is a balanced judgement.
Accruals de minimis level	3	3	£1 (PY:£1)	The Authority has increased its de minimis accruals level in response to the shorter closedown period from £1k to £3k. We have been actively engaging with Management to understand the impact of this. Our review has not identified any issues and therefore we have considered this approach balanced.
Accruals	3	3	£11,129 (PY:£13,940)	Accruals have remained largely static year on year apart from a drop in central government accruals by £1m. We have not identified any issues in relation our testing of your accruals. The Authority has recognised the earlier closedown period and made relevant plans to ensure information relating to expenditure is received in advance. We have therefore concluded this is a balanced assumption

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£'000's)**	**KPMG comment**
Debtors provisioning	3	4	£1,018 (PY:£974)	The provision for bad debts is consistent with prior year. We performed audit testing on the calculation of the bad debt provision, and found no issues. The provision is based on the analysis of aged debtors at year end; although debtors have increased, these are all short term debtors that are not past due. Therefore the provision has not increased. In the prior year there was an increase in Sundry debtors, which although was within the acceptable range, did not result in an increase in bad debts. There is no such issue this year and therefore we have therefore concluded this is a balanced assumption.
Pension liability	3	3	£39,527 (PY:£39,074)	In the previous year, the Local Government Pension Scheme for Surrey County Council (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The pension liability numbers to be included in the financial statements for 2017/18 are based on the output of the triennial valuation rolled forward to 31 March 2018. For 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. Our procedures here focussed on ensuring that the information provided to Surrey County Council Pension Fund were complete and accurate, and ensuring that the assumptions applied by the expert actuary Hymans Robertson were appropriate. From our work we have assessed the judgements made in the valuation of pensions to be balanced.

Financial statements audit

Group audit

To gain assurance over the Authority's group accounts, we placed reliance on the work completed by PWC on the financial statements of the Authority's subsidiary:

— Main square Camberley Unit Trust which had a turnover of £36.2m;

There are no specific matters to report pertaining to the group audit. There were no issues to note in relation to the consolidation process.

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Queries from local electors

We did not receive any questions or objections from members of the public this year.

Audit certificate

We have completed all our responsibilities in relation to the audit of the accounts for the year end 31 March 2018 and anticipate issuing our audit certificate with our audit opinion.

We have not received any objections to the accounts from local electors, therefore we expect to issue our audit certificate in July 2018 following completion of the above.

Whole of Government Accounts (WGA)

We reviewed your WGA consolidation pack and there are no issues to report. We anticipate issuing an unqualified consistency report. - TBC.

Other grants and claims work

We undertake other grants and claims work for the Authority which are under the PSAA arrangements. The status of our grants and claim work is presented below:

- Housing benefits grant claim: This audit is planned for August 2018. Our fee for this work is £11,411 (£8,430 in 2016/17).

Audit fees

Our fee for the audit was £45,905 excluding VAT (£47,926 excluding VAT in 2016/17**).** This is in line with the scale fees published by PSAA and includes an additional £4,005 which is pending approval from the PSAA for the audit of the group accounts.

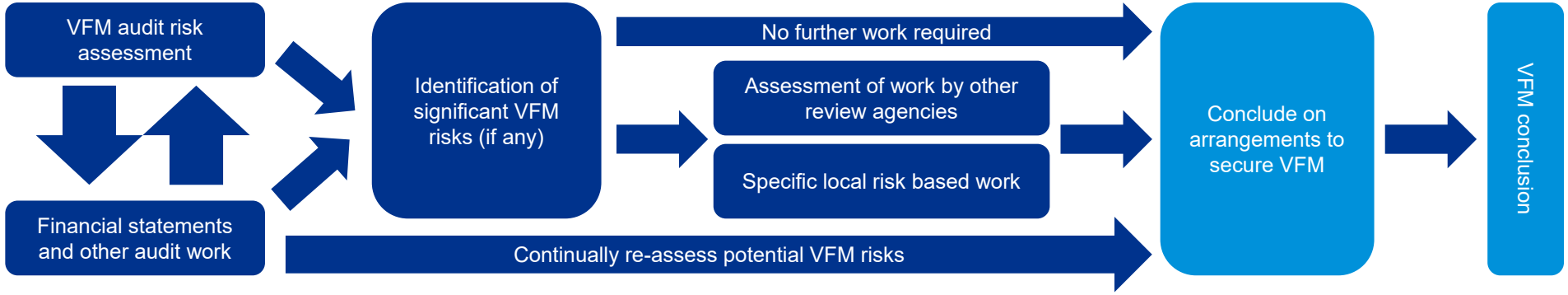
Section Three

Value for money

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:



We identified one significant VFM risks which are reported overleaf . We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

Value for money

Significant risk based VFM audit work

Below we set out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Significant VFM risk	Why this risk is significant	Our audit response and findings
Financial resilience	Local Authorities are subject to an increasingly challenged financial regime, with reduced funding from Central Government, whilst having to maintain a statutory and quality level of services to local residents therefore it is important the Authority is robust in setting its budgets and ensuring it can deliver the services it plans for.	As part of its 2017/18 budget setting process, the Authority identified the need to make savings of £1m in 2017/18. The budget for 2017/18 was £0.54m less than the budget for 2016/17. The gross budget for 2017/18 was £40m, and a net budget of £10.6m. The Authority achieved a underspend of £1m against its 2017/18 budget. The Authority's budget for 2018/19 was approved at the Council meeting on 21 February 2018 and showed an increase of £542k on prior year. The approved budget included individual proposals to support the delivery of the overall savings requirement. In addition, further savings of £3m will be required by the Authority over the period of 2018/19 to 2020/21. This will be to address the Authority's expected future reductions to local authority funding alongside service cost and ongoing demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience. Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Authority reported an overall underspend position on its net expenditure budget for 2017/18 after the net contribution enabled the General Fund balance to increase at £4 million as of 31 March 2018. The Authority's draft MTFP details a balanced budget for 2018/19 including savings of £1.5m in year over the next two years, some of which have been identified. In addition, the Medium Term Financial Plan details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings and increased income which the Authority will continue to plan for and discuss as part of their senior management meetings. We carried out testing a number of the Authority's saving and income schemes and have found that whilst overall there are good-quality schemes and robust reporting, the Authority should continue to focus on identifying savings and additional income and ensure it meets the ongoing demand for its services.

Appendix 1

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
1	1	0

Appendix 2

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in March 2018.

Materiality for the Authority's accounts was set at £900k which equates to around 1.9% of gross expenditure.

Materiality for the group accounts was set at £900k which equates to around 1.9% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Audit and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £45k for the Authority and less than £45k for the group accounts.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.

Appendix 3

Audit differences

Adjusted audit differences

To assist the Audit and Standards Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Dr Investment income £400k Cr Legal income £400k					The investment income was overstated by £400k

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit and Standards Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Standards Committee, we provide details of all adjustments greater than £45K.

We have not identified any unadjusted audit differences.

Presentational adjustments

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). Whilst the majority of these adjustments were not significant, we identified a limited number of adjustments of a more significant nature and details of these are provided in the following table. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments	
#	Basis of audit difference
1	Exit packages – The 2017/18 accounts included four people who related to 2016/17 and should not have been included in the exit packages note. This resulted in a change from £148k to £24k.

Appendix 4

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF SURREY HEATH BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate.

We are satisfied that our general procedures support our independence and objectivity

Appendix 4

Audit independence

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period on the next page, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	45,905	47,926
Total audit services	**45,905**	**47,926**
Mandatory assurance services	11,411	8,430
Total Non Audit Services	**11,411**	**8,430**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. We have only completed mandatory assurance services for 2017/18. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole. We confirm that all non-audit services were approved by the Audit and Standards Committee or equivalent.

Appendix 4

Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	0	11,411

Contingent fees

We have not agreed any contingent fees with the Authority.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Standards Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit and Standards Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

[add electronic signature to be added to finalised document]

KPMG LLP

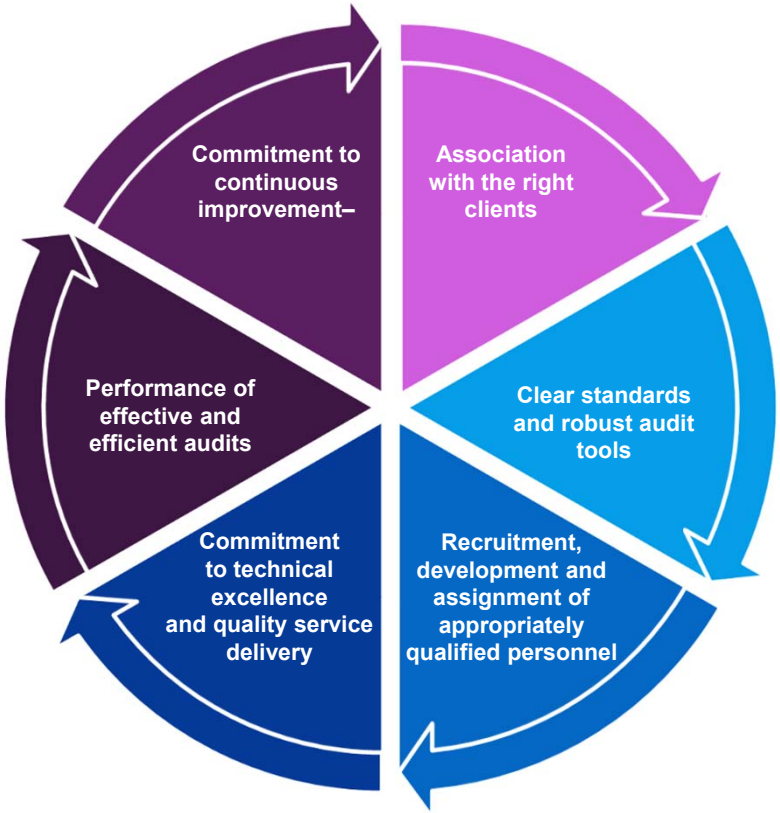
Appendix 5

Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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ANNEX 2

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2018

SURREY HEATH BOROUGH COUNCIL

CONTENTS

CONTENTS

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 £38m in business rates but only keeps 4.4% to spend on services
    - Has £155m invested in property to generate income to pay for services
    - Generates £19m 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 2017/18 it was Zero, falling from £357,000 in 2016/17. In 2019/20 the Council may have to pay £933,000 grant to the Government
- 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

2017/18 has brought more changes to the finance service. The benefits from the new 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 A number of new staff joined the service to give extra capacity towards the end of 2016/17 and early 20171/8 including a new

Chief Accountant. The new staff settled in well during the year and this extra capacity was particularly important in ensuring that the reporting deadline for the unaudited accounts to be published of the 31st May and the audit completion date of 31st July is met.

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 new 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 and the automation of salary postings and service recharges has given more real time information to service managers.

2018/19 will see further improvements from the service. This will include:

- Enhancement of the Civica financial system including the introduction of new modules.
- Further property purchases and additional partners joining the joint waste contract will bring more accounting challenges;
- Enhancing the budget monitoring process by way of new user friendly reporting and forecasting across the organisation.
- A Finance for Non-Finance Managers course will be run for a number of the organisations managers 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 reviewed its 5 year strategy and based it around 4 themes. These were 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 2017/18

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:

- The Council commenced and completed phase 1 of the refurbishment of the Square shopping centre.
- A lift in Knoll Road car park was refurbished to allow greater access to and from the car park.

- A successful £3.5m bid for funding from the Enterprise M3 partnership for public realm works in Camberley High Street.
- The new Joint waste contract was successfully implemented in three districts including Surrey Heath
- 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 223 during the year through new housing development
- The Council is working to deliver further housing in the borough through the "one public estate" program.
- The Council hosted the 4th Surrey Heath Business awards showcasing successful businesses within the borough
- The council continues to enable less able residents to remain in their own homes and works closely with hospitals and other partners
- Windle Day Centre was refurbished to provide a better environment for its users and to support residents with dementia
- 111 families were prevented from becoming homeless due to the interventions of the Council's housing team

1.5 Financial Performance

Financial context of the Council

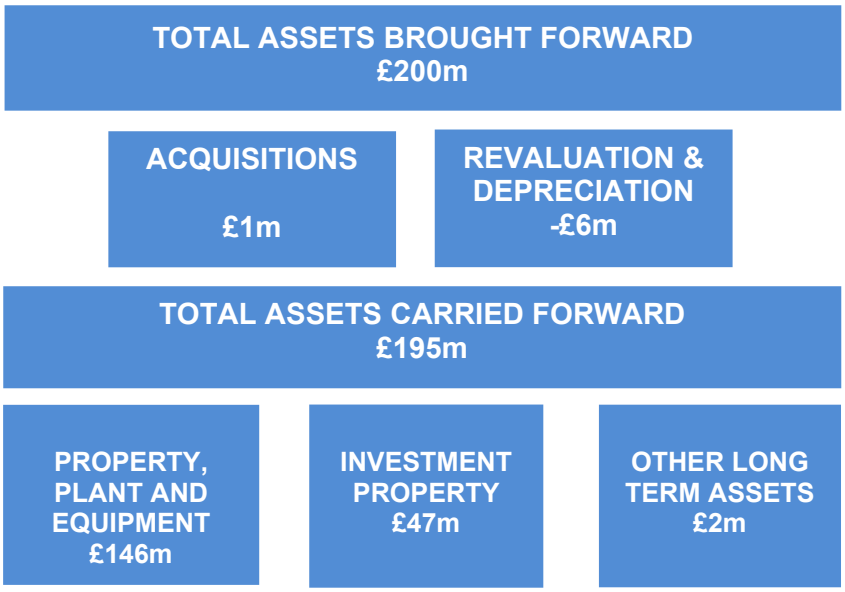
Surrey Heath Borough Council has a gross budget of £40m, which includes grants and income, and a net budget of £10.6m.

The Council:

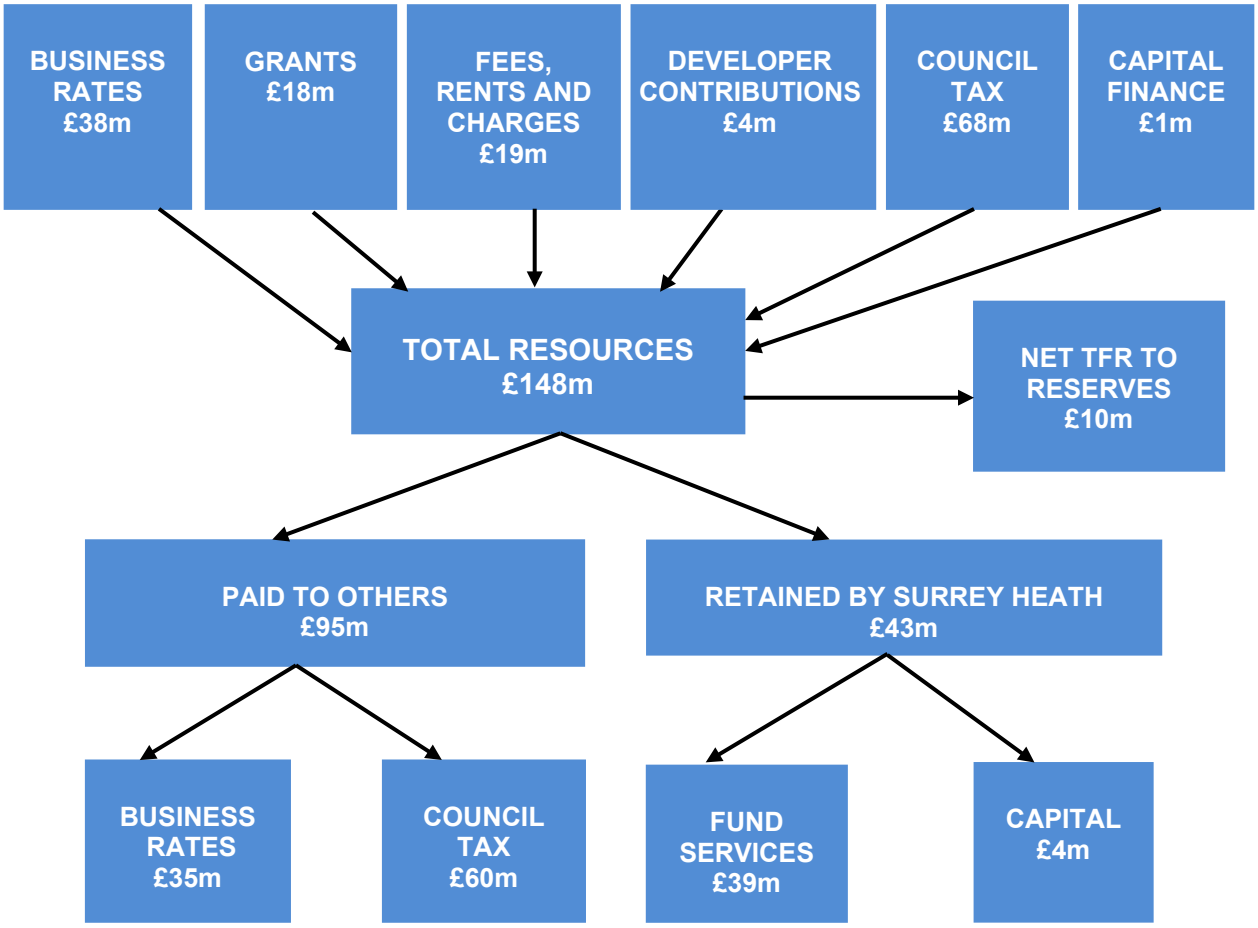
- Collects £38m but only keeps £1.4m. This means that almost 97% is passed to Central Government and Surrey County Council
- Holds £195m of fixed assets of which £46m are operational assets and £149m are used to support regeneration and to deliver income to support services
- Generates £19m in fees, charges and property rents which are used to pay for services

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. Annual treasury management of these cashflows and our borrowings leads to over £700m of cash transactions each year.

Capital Cash Flows chart



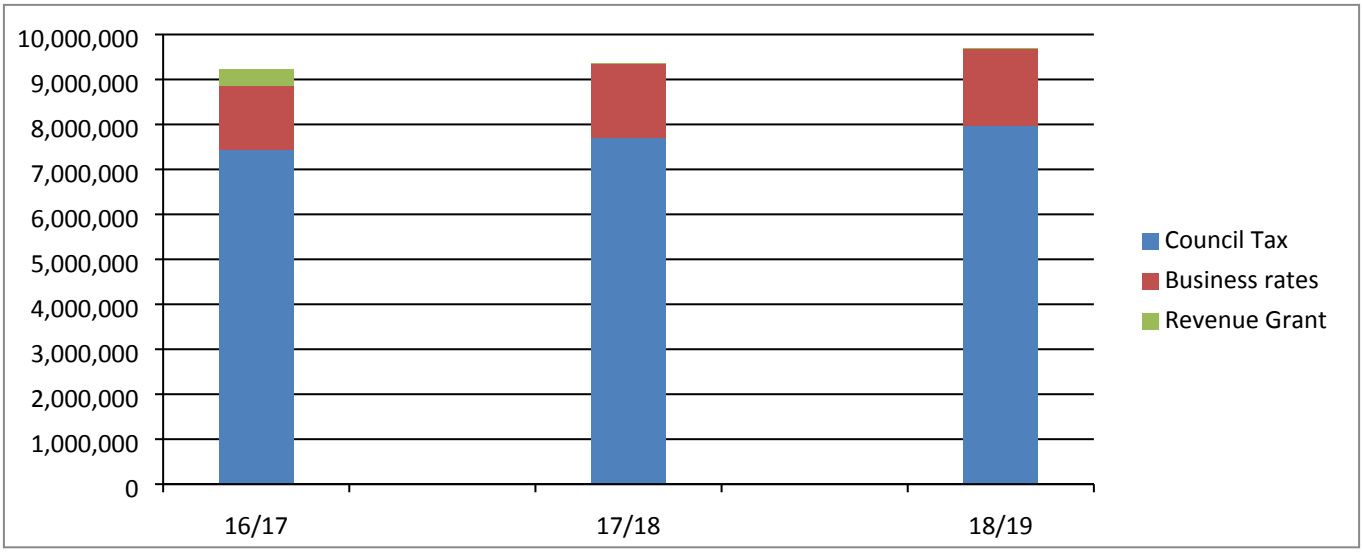
Revenue cash flows



DCLG £18m
SURREY CC £4m
TARIFF & LEVY £13m

SURREY CC £51m
SURREY POLICE £9m

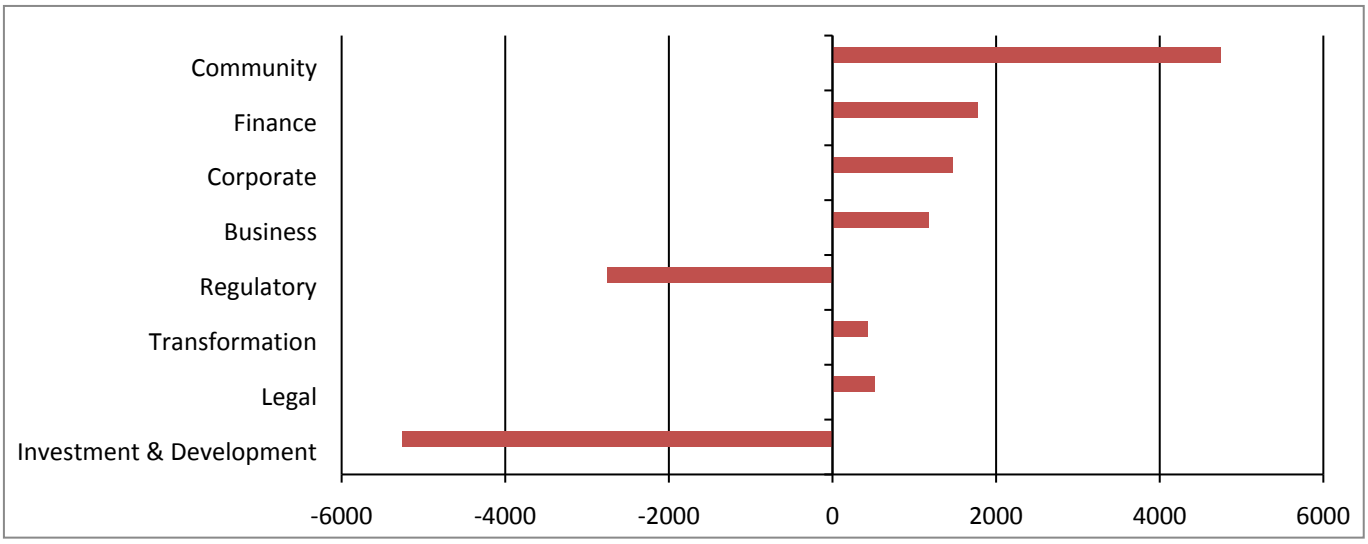
In common with the rest of Local Government Surrey Heath has seen a steady reduction in its core funding which has had to be replaced in part by Council Tax.



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.

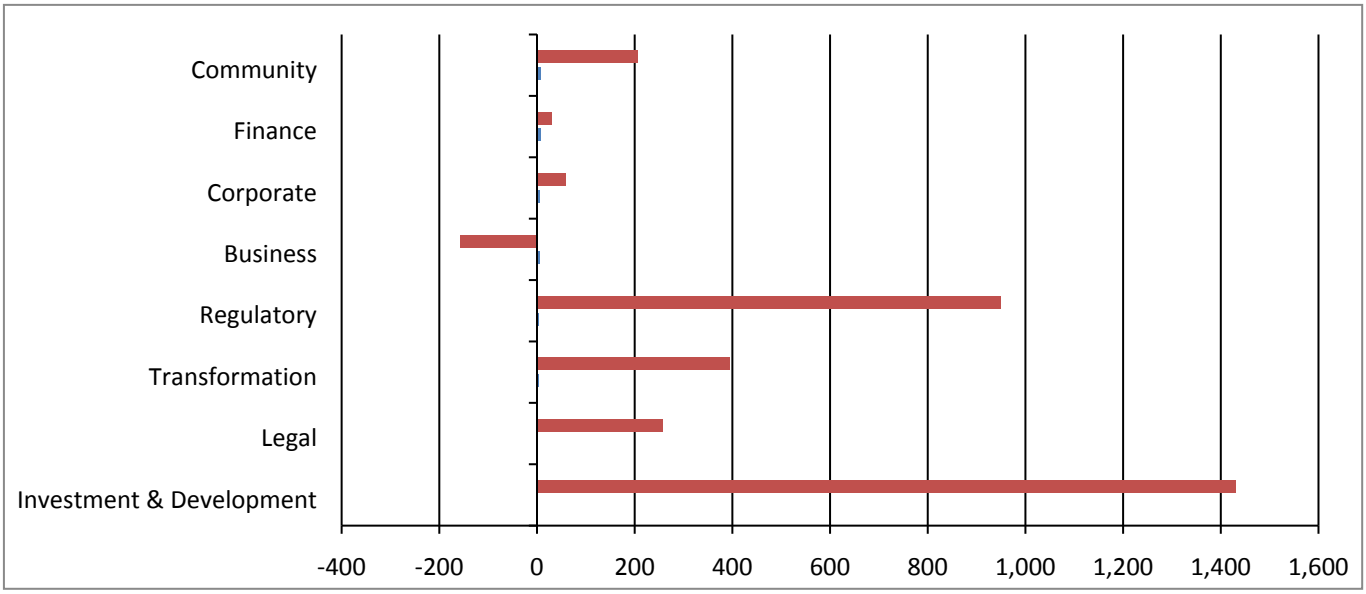
Council Spending 2017/18

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



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

INTRODUCTION



Major variances were caused by:

Regulatory	Planning Applications £87k underspend Planning Appeals £94k underspend Local Plan £135k underspend but some of this will be carried forward One public estate £373k underspend but some of this will be carried forward Homelessness £213k underspend
Legal	Building control £31k underspend re income Corporate Land Management £155k mainly on repairs to go back to reserves St Georges Industrial Estate £52k underspend re rents Ashwood House £171k overspend due to vacant unit and costs for pending development Albany Park £321k underspend as acquired in year
Finance	Counter fraud fund £57k underspend to be carried forward Council Tax £54k underspend due to more summons Income and lower costs. Housing benefits £141k underspend due to recoveries not budgeted for
Community	SCC recycling grant £25k underspend due to increased grant Recycling and Waste £134k underspend re saving in contract costs and increased income Community Transport £49k overspend due to higher salary costs and a fall in income.
Investment and Development	Regeneration £88k underspend due to lower salary and consultant costs Strategic Property Development £160k underspend due to lower salary and supplies and service costs. Town Centre Investment £1.164m underspend due to increased dividend income.
Transformation	Economic development £22k underspend re salaries and savings in supplier costs. Revenue grants £124k underspend re grants awarded ICT £25k underspend re savings in supplier costs
Corporate	Electoral Registration £52k underspend re grants received
Business	Theatre £180k over budget but actual performance has improved by £87k and cumulative savings are in line with business plan Parking £275k over budget due to lower income and increased business rates payable. Arena £61k overspend due to emergency repairs and lower income Parks and Open Spaces £19k underspend re lower salary costs and higher income

Council Tax and Business Rates

The Council achieved a surplus on Council Tax during the year. Of the £2.4m surplus on Council Tax approximately £294k is due to the Council in future years, while there was a deficit on business rates of the £188k with £75k payable in future years. The surpluses were due to improved collection and increases in tax bases greater than predicted while the business rate deficit was as a result of an increased appeals provision.

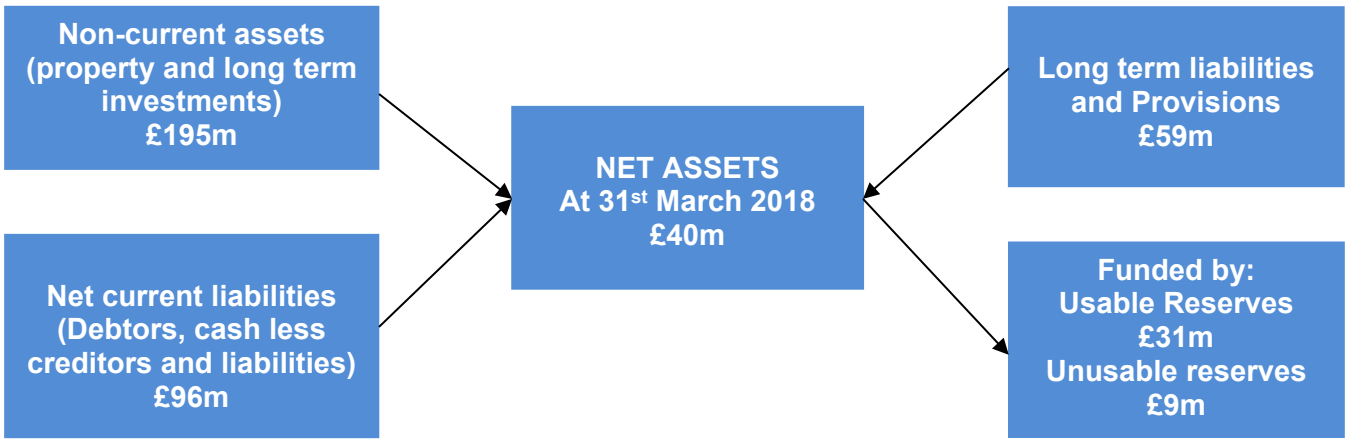
Pensions Liabilities

The Pension's liability, calculated on accordance with accounting standards, is currently £39m as at the 31st March 2018. 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 2018.

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 £119m. Of this £17m is long term and £102m short term. The Council will seek to fix a proportion of its borrowing in the years 2020/21 & 2021/22 to minimise the risk of interest rate increases. Over the year £900k was charged in the accounts for interest all of which was covered by additional income generated from the assets acquired. The treasury strategy allows an upper limit of £190m for borrowing.

Internal and External sources of funds available for the capital program

The Council has £25m in reserves of which approximately just under half could be used to support the capital program, but could borrow up to its Capital Funding requirement of £143m if the need arose.

Significant Provisions and contingencies

Details of these are given in the financial statements. The most significant provision continues to be that relating to appeals in respect of business rates. This has increased by £2.9m to just over £6.8m this year and reflects that an increased number of appeals may arise from the 2017 rating list and current legal action taking place concerning NHS properties and their liability to pay business rates. Surrey Heath has a number of NHS properties within the borough.

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 Financial forecast at the end of last year showed that by 2020/21 the Council would need to have made cumulative savings of £1.3m. In reality the level of savings is likely to be higher due to the fact that the Government is likely to claw back even more funding, income from Surrey County Council will reduce, more investment in the Town Centre will need to be funded and interest rates could rise. That said this is a real turnaround from previous years and although the Council is subject to greater risk, particularly from the property market and interest rates, it does mean that services can be maintained.

For 2018/19 Surrey Heath is a member of the Surrey wide Business rates pilot which means more growth is retained within Surrey to support economic growth and regeneration in the borough. Although it is Government policy to move towards a full localisation of business rates in the next couple of years the impact on Surrey Heath is difficult to judge. Although Surrey Heath may keep a greater proportion of its business rates this amount of business rates actually received will be impacted by the “Fair Funding Review” and a rebasing across the country. The are no details available on either of these changes at the moment.

Looking forward the Council wishes 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. A fall in retail demand could lead to a fall in value of the Councils assets. This could be weathered as there is no intention to sell in the near future, however the resultant fall in income would need to be covered by other areas in the Council’s budget.

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 however this seems to be a distant prospect at the moment.

1.6 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 from April 2017 pays an apprenticeship levy. The levy is 0.5% of the Council's total pay bill can be used to pay for apprenticeship training, against an approved apprenticeship standard for both new recruits and for existing Council employees. New types of apprenticeship standards will be available to accredit specific specialist roles to a professional standard, including degree level.

This wider scope allows us 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.

1.7 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
- Treasury & Property investment , and
- Loss of funding from Government and partners.

Summary Position

The Council's financial and non-financial performance in 2017/18 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 steos 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. This is especially the case this year with the requirements to deliver them 1 month earlier by the 31st May. I would also like to thank them for all their support and assistance during the year.

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

Explanation of the Financial Statements

INTRODUCTION

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2018. 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 2017/18, which in turn is underpinned by International Financial Reporting Standards;

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

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 Council is required to:

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

The Executive Head of Finance's responsibilities

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

The Executive Head of Finance has also:

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

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at the reporting date and of its income and expenditure for the year ended 31st March 2018.

Kelvin Menon BSc ACA
Executive Head of Finance
31st July 2018

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Committee on 31st July 2018.

Cllr Oliver Lewis
Chairman of the Audit and Standards Committee
31st July 2018

2. ANNUAL GOVERNANCE STATEMENT 2017/18

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

Council, Executive and Leader
- Provides leadership, develops and sets policy
- Develops and sets policy to deliver the Council's Key Priorities
- Develops and sets policy to drive growth within the borough

Decision Making and Risk Management
- All Meetings held in public
- All decisions and papers available on the Council's website
- Risks are considered as a standard part of every Executive and Council decision
- Corporate risks are identified and mitigation put in place

SURREY HEATH GOVERNANCE FRAMEWORK

Corporate Management Team
- Head of Paid Service is the CEX and is responsible for all council staff and leads the CMT
- All Executive Heads and Heads of Service are members of CMT
- The Sec 151 officer is a member of CMT and is responsible for safeguarding the Council's finances
- The Monitoring Officer is a member of CMT and is responsible for ensuring legality and maintaining standards of public conduct

Scrutiny and Review
- Scrutiny committees can review and challenge decisions
- Performance and Finance Committee monitors performance, value for money and service delivery
- Executive working groups recommend policy to the Executive
- The public can submit petitions for consideration by Executive and Council
- Executive members appear at scrutiny committees to answer questions

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 2017/18.

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 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.

This year the Council continued with its "Talk Surrey Heath" webcast where residents are able to ask questions of the Leader, Executive Members, Service Heads and the Chief Executive via a live webcast on different topics during the year. Topics discussed include the Town Centre, Annual Plan, Planning, changes to the Refuse Service and Finance.

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 such as the new waste collection arrangements.

PRINCIPLES C AND D

Defining, optimising and achieving outcomes

This year 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 service decisions are subject to scrutiny 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 work more efficiently. During the year a number of IT applications were upgraded and the Council started to introduce Okta (single sign on) and “box” for the storage of its documents in order to support collaborative working and enable agile working.
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. In the current year, training on the new General Data Protection Regulations (GDPR), in preparation for its introduction on 25 May 2018, was made mandatory for all staff. 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, two more apprentices were appointed, to add to those already in place, whom the Council are supporting through training and experience. This is seen as a key route 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 investment has been made in technology to enable agile working and thereby increase productivity for services such as Planning and Building Control.

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. Discussions are on-going to extend this arrangement to other Councils in Surrey. 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. All staff were required to attend mandatory training on the new General Data Protection Regulations and a new Data Protection Officer has also been appointed. Further work is planned during the coming months to ensure compliance with the GDPR and the new Data Protection Act, following guidance issued by the Information Commissioner's Office. Information Management is recorded on the Corporate Risk Register and with the increase in potential fines the initial impact is high but is reduced to low with the Council's commitment to management of information.

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 invested in property in the town centre and is bringing forward plans to regenerate both the Square shopping centre and the London Road Development opportunity. It 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.

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 Internal Audit Manager (Section 151 Officer). A total of 25 internal audits have been carried out in the year to date, or are in the process of being carried out. 23 of these are from the audit annual plan as well as a further 2 unscheduled reviews. These have included individual audits of housing, development control, health and safety and fraud which are not reviewed every year. 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, Internal Audit have raised 83 audit recommendations, 5 of which were classified as essential, and the Internal Audit team regularly monitors all recommendations due to ensure they are being actioned by managers on time. At the time of writing this statement, there were no essential recommendations overdue which had not been actioned.

The internal auditors' opinion for 2017/18 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 2017/18	Agreed action
Operation of the new Glide parking app. Service needs to improve the billing of its new parking payment systems to ensure VAT is correct and Council receives parking income more promptly.	Service company to be billed and income to be received in full and accounted for in current year's set of accounts.
Homelessness Reduction Action 2017. A risk assessment has been produced in respect of the Homelessness Reduction Act 2017 and Housing Services are to make use of this risk assessment to direct resources to areas of highest risk. Consideration should be given to reporting the risk assessment to CMT/ Councillors.	Report to CMT and consideration be given to raising the risk assessment at the Scrutiny Committee.
Creditors system. Staff should be raising purchase orders promptly before placing orders for goods and services. It was found that several POs were being placed after invoices had been received.	All staff to be reminded to ensure that a purchase order has to be raised on the Council's finance system prior to placing an order with a Supplier.
Leisure (greenspace) income generation. Review and improve income reported by Council leisure contractor. Not all golf income due to the Council had been identified as being recorded on contractor system, so there was a need to review income recording processes with contractor.	Golf income findings to be raised with contractor and agree action plan. Periodic meetings are to be held with contractor going forward to improve income.
Leisure (greenspace) income generation. Audit found that year on year income was down on 3 months in respect of golf and foot golf at Frimley Lodge.	Discuss findings with contractor and agree action plan to improve performance

The Council's External Auditor KPMG provides assurance on the accuracy of the year end statement of Accounts and the overall adequacy of securing and improving value for money. The most recent Audit Letter, issued in December 2017, gave an unqualified opinion in respect of the financial statements and value for money

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 2017/18:

Issues Identified	Performance for 2017/18
Formal reports by sec 151 or Monitoring Officer	None issued
Outcomes from Standards Committee of Monitoring Officer investigations	No breaches of member or officer code of conduct have occurred
Proven frauds carried out by members or officers	None identified in 2017/18
Objections received from local electors	None in 2017/18
Local Government Ombudsman referrals upheld exceed national average	Data to be completed, however 2016/17 was below national average
Unsatisfactory/limited internal audit report	None apart from those identified above

Follow up of issues identified in 2016/17

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

Issues identified in 2016/17	Action Taken to Date
The purchase of the Town centre brings significant new risks and governance issues	The Council has appointed professional advisers to run and manage the centre and has put in place a governance structure consisting of the Chief Executive, the s151 Officer, the Leader and Deputy Leader to monitor performance. In addition there has been regular reporting to Members on performance to the Executive and the Scrutiny Committee.
Surrey Heath becoming lead authority for the Joint Waste partnership	The Council has put in place a team to manage the contract arrangements and this reports through a formal public joint waste committee which monitors performance.
Implementation of the General Data Protection Regulation	A Data Protection Officer has been appointed. All staff were required to complete mandatory formal training on the GDPR regulations.

Any issues identified for 2018/19

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

Issues identified in 2018/19	Action Taken
Implementation of the General Data Protection Regulation	Work will continue to be undertaken to ensure that the Council complies with the GDPR in accordance with its Implementation Plan.
London Road Block Development	A team of professional advisers will be put place to ensure that the Council has the expertise to carry this project forward. Members will be consulted at various stages to ensure that they understand the opportunities and risks of the project.
Introduction of IAS 9	The implications of this new accounting standard on the Council's general fund, particularly in relation to investments, will be explored during the year.
New contract Arena Leisure centre	Professional advisers in place to ensure that the Council follows an OJEU compliant process and can make an informed judgement as to the options presented by tenderers.
Change of Auditor	The Council will work closely with its new auditor, BDO, to ensure that they are on board for the 2018/19 year end.

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 Moira Gibson
Leader

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Surrey Heath Borough Council ('the Authority') for the year ended 31 March 2018 which comprise the Authority and Group Comprehensive Income and Expenditure Statement(s), the Authority and Group Balance Sheets, the Authority and Group Movement in Reserves Statement(s), the Authority and Group Cash Flow Statements, the Collection Fund and the related notes, including the accounting policies in note 4.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information published with the financial statements

The Executive Head of Finance officer is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

Executive Head of Finance Officer's responsibilities

As explained more fully in the statement set out on page 17, the Head of Finance is responsible for: the preparation of the Authority's 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 2017/18; such

internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using 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.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Surrey Heath Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether Surrey Heath Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Surrey Heath Borough Council put in

place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Statutory reporting matters

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

CERTIFICATE OF COMPLETION OF THE AUDIT

We certify that we have completed the audit of the financial statements of Surrey Heath Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Neil Hewitson
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

XX July 2018

4. ACCOUNTING POLICIES

4.1 General

The Statement of Accounts has been prepared in accordance with the 2017/18 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 2018 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 Cost of Support Services

All management and administrative costs have been charged to services based on estimated allocations and apportionments with any balances being transferred to the general fund.

4.14 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.

4.15 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.

4.16 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.

4.17 Unquoted Equity Investments

The Council acquired the total Camberley land holdings of Capital and Regional PLC in Nov 2016 in the form of units in a Jersey Property Unit Trust (JPUT) – this was a requirement placed on the Council by the vendor. The Council holds 99.99% of the units in the Trust with the remaining 0.01% held by wholly owned subsidiary of the Council - Surrey Heath Borough Council Camberley Limited, a company registered in England and Wales. JPUTs are regulated by the Jersey Financial Services Authority and are "transparent" for UK tax in that the tax status of the trust reflects the tax status of the unit holders.

The trust holds significant land holdings in Camberley Town Centre including the Square shopping centre, House of Fraser and various properties on London Road. The trust was acquired to give the Council control of these sites to further its regeneration aspirations rather than purely for investment and/or capital growth. During the year the Council reviewed the accounting treatment of this investment and has re-categorised it as "Other Land and Buildings" reflecting the underlying substance of the holding and the reason for its initial acquisition.

Income from the trust is recognised as it becomes due whether paid or not since the Councils is entitled to it at that point.

4.18 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.

4.19 Impact of Accounting Standards Issued but not yet adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (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:

- IFRS 9 – Financial Instruments. The Council will adopt IFRS 9 Financial Instruments with effect from 1st April 2018. The main changes include the reclassification of financial assets and the earlier recognition of the impairment of financial assets.

The Council does not expect the reclassification changes to have a material impact upon the financial statements because the majority of its financial assets will retain the same measurement basis.

The Council does not expect the impairment changes to have a material impact upon the financial statements because the impairment charge will be immaterial for its treasury management assets (e.g. bank deposits and bonds) and it already makes a provision for doubtful debts on its service assets (e.g. trade receivables). The estimated additional provision to be made as at 1st April 2018 is £12k.

- IFRS15 - Construction Contracts. This replaces IAS11 and will apply form 1st April 2018. The standard may change the point as to when revenues and obligations are recognised in the financial statements.

- IFRS19 – Leases. This comes into effect on the 1st April 2019 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.

ACCOUNTING POLICIES

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.

2017/2018				2016/2017		
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
1,174		1,174	Business	1,000		1,000
4,747		4,747	Community	4,237		4,237
1,472		1,472	Corporate	1,370		1,370
1,780		1,780	Finance	1,781		1,781
116		116	Legal	175		175
(5,263)		(5,263)	Investment & Development	0		0
(2,757)		(2,757)	Regulatory	972		972
437		437	Transformation	882		882
1,706	**0**	**1,706**	**Net Cost of Services**	**10,417**	**0**	**10,417**
566	(3)	569	Other Operating Expenditure	613	56	557
4,248	4,241	7	Financing & Investment Income	(1,592)	587	(2,179)
(537)	(12,012)	11,475	Adjustments between Funding & Accounting	0	(3,006)	3,006
(13,718)	(1,501)	(12,217)	Taxation and non-specific grant income	(11,007)	2,199	(13,206)
(7,735)	**(9,275)**	**1,540**	**Surplus or Deficit**	**(1,569)**	**(164)**	**(1,405)**
(21,298)			Opening General Fund	(19,729)		
(7,735)			**Less/Plus Surplus or (Deficit) on General Fund in Year**	**(1,569)**		
(29,033)			**Closing General Fund at 31 March**	**(21,298)**		

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.

2017/2018				2016/2017		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
5,670	(4,496)	1,174	Business	5,388	(4,388)	1,000
7,126	(2,379)	4,747	Community	6,702	(2,465)	4,237
1,740	(268)	1,472	Corporate	1,635	(265)	1,370
18,197	(16,417)	1,780	Finance	18,610	(16,829)	1,781
634	(518)	116	Legal	1,072	(897)	175
494	(5,757)	(5,263)	Investment & Development	0	0	0
3,824	(6,581)	(2,757)	Regulatory	3,569	(2,597)	972
450	(13)	437	Transformation	920	(38)	882
38,135	**(36,429)**	**1,706**	**Cost of Services**	**37,896**	**(27,479)**	**10,417**
		569	Other Operating expenditure			557
		7	Financing and investment income and expenditure (note 20)			(2,179)
		11,475	Other items not included in cost of services for reporting purposes			3,006
		(12,217)	Taxation and Non-specific Grant Income & Expenditure (note 21)			(13,206)
		1,540	**(Surplus) or Deficit on Provision of Services**			**(1,405)**
		(2,377)	Surplus or deficit on revaluation of property, plant and equipment assets			1,561
		1,980	Change in hedging instruments fair value			0
		(97)	Surplus or deficit on revaluation of available for sale financial assets			(71)
		(1,391)	Remeasurement of the net defined benefit liability/(asset)			7,819
		(1,885)	**Other Comprehensive Income and Expenditure**			**9,309**
		(345)	**Total Comprehensive Income and Expenditure**			**7,904**

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	Total Usable reserves £'000	Unusable reserves £'000	Total Authority reserves £'000
Current Year						
Balance at 31st March 2018	**(21,298)**	**(151)**	**(14)**	**(21,463)**	**(18,112)**	**(39,575)**
Movement in Reserves during 2017/2018						
Total Comprehensive Income and Expenditure	1,540			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)**	**(9,791)**	**8,977**	**(814)**
Balance at 31 March 2018 carried forward	**(29,033)**	**0**	**(2,221)**	**(31,254)**	**(9,135)**	**(40,389)**

Comparative Year						
Balance at 31 March 2017 carried forward	**(19,729)**	**(483)**	**(14)**	**(20,226)**	**(27,253)**	**(47,479)**
Movement in Reserves during 2016/2017						
Total Comprehensive Income and Expenditure	(1,405)			(1,405)	9,309	7,904
Adjustments between accounting basis & funding basis under regulations (note 19)	(164)	332	0	168	(168)	0
Increase or Decrease in 2016/2017	**(1,569)**	**332**	**0**	**(1,237)**	**9,141**	**7,904**
Balance at 31 March 2017 carried forward	**(21,298)**	**(151)**	**(14)**	**(21,463)**	**(18,112)**	**(39,575)**

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 2018 £'000	31st March 2017 £'000
Property, plant & equipment			
Other land and buildings	22	139,581	40,581
Vehicles, plant and equipment	22	2,070	2,102
Infrastructure assets	22	34	43
Community assets	22	1,960	1,908
Surplus assets not held for sale	22	961	969
Assets under construction	22	1,034	610
Total property, plant & equipment		**145,640**	**46,213**
Heritage Assets	23	334	334
Investment property	25	46,551	43,912
Unquoted Equity Investments	25	0	105,236
Long term investments	44	2,151	4,054
Long term debtors	30	173	166
Long term assets		**194,849**	**199,914**
Short term investments	44	2,018	0
Inventories		55	92
Short term debtors	31	10,679	5,717
Cash and cash equivalents	32	10,813	6,457
Current assets		**23,565**	**12,266**
Short-term borrowing	44	(103,215)	(102,100)
Short term creditors	33	(14,013)	(12,961)
Short term derivatives	33	(1,980)	0
Current liabilities		**(119,208)**	**(115,061)**
Long term creditors	45	(85)	(47)
NDR Provision for Appeals	33	(2,712)	(1,563)
Long-term borrowing	45	(16,493)	(16,860)
Other long term liabilities - Pensions	42	(39,527)	(39,074)
Long term liabilities		**(58,817)**	**(57,544)**
Net assets		**40,389**	**39,575**
Usable reserves		(31,254)	(21,463)
Unusable reserves	28	(9,135)	(18,112)
Total Reserves		**(40,389)**	**(39,575)**

Kelvin Menon BSc ACA
Executive Head of Finance
July 2018

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	2017/18 £'000	2016/17 £'000
Net (surplus) or deficit on the provision of services		(1,540)	1,405
Adjustments for Non-cash movements		8,219	(88)
Adjustments for items that are investing and financing activities		(3,551)	(5,727)
Net cash (inflows)/outflows from operating activities		**3,128**	**(4,410)**
Investing activities	35	1,068	(102,091)
Financing activities	36	160	104,928
Net (increase)/decrease in cash and cash equivalents		**4,356**	**(1,573)**
Cash and cash equivalents at the beginning of the reporting period		6,457	8,030
Cash and cash equivalents at the end of the reporting period		10,813	6,457
Movement in cash	**32**	**4,356**	**(1,573)**

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 2017/18 financial year and its position at the year-end of 31st March 2018. 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 2017/18 ("the Code") and the Service Reporting Code of Practice for Local Authorities 2017/18, 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 27 to 33 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 2018 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 £37k 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 £10.348m. However, the assumptions interact in complex ways. During 2017/18, the Council's actuaries advised that the net pension's liability has increased by £9m.
Debtors	At 31st March 2018, the Council had a balance of sundry debtors of £5.533m. A review of significant balances suggested that an allowance for doubtful debts of £1.018m 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.
Provisions	Since the introduction of the Business Rate Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2015/16 and earlier financial years, in their proportionate share. A provision has been recognised as the best estimate that businesses have been overcharged based on the Valuation Office ratings list of appeals, an analysis of previously settled appeals, and other relevant known information.	The Council's share of the business rate appeal provision amounted to £2.712m. For each 1% change in success rate the provision changes by £204k.

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

On the 22 June 2018 House of Fraser Limited, a tenant of one of the properties owned by the Trust and hence by the Council, entered into a Company Voluntary Arrangement ("CVA") the main provisions of which were to amend the tenancy terms with certain landlords.

Within the CVA arrangement the store is one of twelve listed within Category 3 for which the amount of rent payable will be reduced by 70% for a minimum of 6 months. House of Fraser will then have the option to vacate the premises or continue on the new arrangements with each party being able to terminate the lease upon serving notice. The Managing agents are exploring options which include retaining House of Fraser, bringing in new retailers, changing the offer or arranging for existing tenants operating nearby to relocate. This is being done with a view to improve the mix and balance of the stores within the centre and thereby the overall experience.

15. EXPENDITURE AND FUNDING ANALYSIS

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 £'000**	**Net change for the Pensions Adjustment £'000**	**Other Differences £'000**	**Total Adjustments £'000**
Business	(1,731)	(283)	0	(2,014)
Community	(316)	(303)	0	(619)
Corporate	(21)	(128)	0	(149)
Finance	(22)	(223)	0	(245)
Investment & Civic Duties	(10,500)	(51)	0	(10,551)
Legal	3,084	(92)	0	2,992
Regulatory	(434)	(426)	0	(860)
Transformation	(2)	(27)	0	(29)
Net Cost of Services	**(9,942)**	**(1,533)**	**0**	**(11,475)**
Other Operating Expenditure	0	0	(3)	(3)
Financing & Investment Income	3,254	0	987	4,241
Adjustments Between Funding and Accounting	(537)	0	0	(537)
Taxation and non-specific grant income	0	0	(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 between Funding and Accounting Basis - 2016/2017				
Adjustments from General Fund to arrive at the comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes £'000**	**Net change for the Pensions Adjustment £'000**	**Other Differences £'000**	**Total Adjustments £'000**
Business	(1,056)	(98)	0	(1,154)
Community	(378)	(124)	0	(502)
Corporate	(88)	(43)	0	(131)
Finance	(83)	(89)	0	(172)
Investment & Civic Duties	0	0	0	0
Legal	(45)	(38)	0	(83)
Regulatory	(782)	(134)	0	(916)
Transformation	(25)	(23)	0	(48)
Net Cost of Services	**(2,457)**	**(549)**	**0**	**(3,006)**
Other Operating Expenditure	0	0	56	56
Financing & Investment Income	603	0	(16)	587
Adjustments Between Funding and Accounting	0	0	0	0
Taxation and nonspecific grant income	0	0	2,199	2,199
Difference between General fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(1,854)	(549)	2,239	(164)

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	2017/2018 £'000	2016/2017 £'000
Expenditure		
Employee benefits expenses	8,063	7,068
Other services expenses	24,554	26,056
Support service recharges	6,149	4,387
Depreciation, amortisation, impairment	9,942	2,457
Interest payments	902	934
Precept & Levies	569	557
Gain on the disposal of assets	0	0
Total Expenditure	**50,179**	**41,459**
Income		
Fees, charges and other service income	(34,034)	(26,084)
Interest and investment income	(2,388)	(4,175)
Income from Council tax, non-domestic rates, district rate income	(10,305)	(10,789)
Government grants and contributions	(1,912)	(1,816)
Total Income	**(48,639)**	**(42,864)**
(Surplus) or Deficit on the Provision of Services	**1,540**	**(1,405)**

17. MEMBERS' ALLOWANCES

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

	2017/18 £'000	2016/17 £'000
Allowances	288	274
Travel and other allowances	4	2
Mayor	5	5
Total allowances	**297**	**281**

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	**2017/18**	**118**	**6**	**1**	**19**	**144**	**7**	**151**	
	2016/17	116	2	12	18	148	6	154	
Executive Head of Finance	**2017/18**	**87**	**0**	**6**	**13**	**106**	**0**	**106**	
	2016/17	86	0	6	13	105	0	105	
Executive Head of Corporate	**2017/18**	**84**	**0**	**6**	**13**	**103**	**0**	**103**	
	2016/17	83	0	6	13	102	0	102	
Executive Head of Transformation	**2017/18**	**84**	**2**	**0**	**13**	**99**	**0**	**99**	
	2016/17	80	3	0	12	95	0	95	
Executive Head of Community	**2017/18**	**84**	**0**	**6**	**13**	**103**	**0**	**103**	
	2016/17	66	0	6	10	82	0	82	
Executive Head of Business	**2017/18**	**78**	**2**	**0**	**12**	**92**	**0**	**92**	
	2016/17	74	2	0	11	87	0	87	
Executive Head of Regulatory	**2017/18**	**84**	**2**	**0**	**13**	**99**	**0**	**99**	
	2016/17	83	2	0	13	98	0	98	
Head of Legal	**2017/18**	**77**	**0**	**0**	**12**	**89**	**0**	**89**	
	2016/17	75	0	0	12	87	0	87	
Head of Investment & Development	**2017/18**	**63**	**2**	**0**	**10**	**75**	**0**	**75**	Created May 17
	2016/17	0	0	0	0	0	0	0	

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	2017/18 Number of employees	2016/17 Number of employees
£50,000 - £54,999	10	7
£55,000 - £59,999	3	3
£60,000 - £64,999	2	1
£65,000 - £69,999	1	1
£70,000 - £74,999	1	1
£75,000 - £79,999	1	3
£80,000 - £84,999	2	1
£85,000 - £89,999	1	1
£90,000 - £94,999	3	1
£95,000 - £99,999	0	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	1
£130,000 - £134,999	1	0
£135,000 - £139,999	0	0
	25	**20**

Exit packages

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies for 2017/18 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	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18 £	2016/17 £
£0 - £20,000	1	1	0	2	1	3	175	19,156
£20,001 - £40,000	0	3	1	4	1	7	23,380	199,342
£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	2	0	2	0	253,551
Total	**1**	**4**	**1**	**8**	**2**	**12**	**23,555**	**472,049**

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.

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)	0	0	(9,185)
Pensions costs (transferred to (or from) the Pensions Reserve	(1,844)	0	0	(1,844)
Financial instruments (transferred to the Financial Instruments Adjustments Account)	0	0	0	0
Capital grants and contributions applied	587	0	0	90
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(1,501)	0	0	(1,501)
Holiday pay (transferred to the Accumulated Absences Reserve)	(3)	0	0	(3)
Equal pay settlements (transferred to the Unequal Pay/Back Pay Account)	0	0	0	0
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	0	0	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,318	0	0	1,318
Capital expenditure financed from revenue balances (transfers to the Capital Adjustment Account)	112	0	0	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	0	151
Application of capital grants to finance capital expenditure	**0**	**151**	**0**	**151**
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,738	0	(1,738)	0
Cash payments in relation to deferred capital receipts	0	0	0	0
Total Adjustments to Capital Resources	**1,738**	**0**	**(1,738)**	**0**
Total Adjustments	**(9,275)**	**151**	**(1,738)**	**(10,862)**

2016/17	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	(1,327)	0	0	1,327
Pensions costs (transferred to (or from) the Pensions Reserve	(725)	0	0	725
Financial instruments (transferred to the Financial Instruments Adjustments Account)	0	0	0	0
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	1,664	0	0	(1,664)
Holiday pay (transferred to the Accumulated Absences Reserve)	64	0	0	(64)
Equal pay settlements (transferred to the Unequal Pay/Back Pay Account)	0	0	0	0
Total Adjustments to Revenue Resources	**(324)**	**0**	**0**	**324**
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	0	0	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	160	0	0	(160)
Capital expenditure financed from revenue balances (transfers to the Capital Adjustment Account)	0	92	0	(92)
Total Adjustments between Revenue and Capital Resources	**160**	**92**	**0**	**(252)**
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	0	240	0	(240)
Application of capital grants to finance capital expenditure	**0**	**240**	**0**	**(240)**
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0
Cash payments in relation to deferred capital receipts	0	0	0	0
Total Adjustments to Capital Resources	**0**	**0**	**0**	**0**
Total Adjustments	**(164)**	**332**	**0**	**(168)**

20. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

Financing and Investment Income and Expenditure	2017/18 £'000	2016/17 £'000
Interest payable and similar charges	1,017	934
Net interest on the defined benefit liability/(asset)	987	1,062
Interest receivable and similar	(165)	(1,081)
Income & Expenditure in relation to investment properties	(1,832)	(3,094)
Total	**7**	**(2,179)**

21. TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

Taxation and Non-specific Grant Income and Expenditure	2017/18 £'000	2016/17 £'000
Council tax income	(8,395)	(8,448)
Non-domestic rates income and expenditure	(1,910)	(2,341)
Non ring-fenced government grants:		
New Homes Bonus	(1,226)	(1,421)
Revenue Support Grant	0	(357)
Transition Grant	(85)	(38)
Capital Grants and expenditure	(601)	(601)
Total	**(12,217)**	**(13,206)**
Grant Income Credited to services		
Rent Allowance subsidy	(15,490)	(15,903)
Housing Benefit administration grant	(166)	(236)
Family Support	(209)	(211)
Personalisation & Prevention	0	(74)
Housing benefit grant	0	(54)
Other grants	(1,169)	(777)
Total	**(17,034)**	**(17,255)**

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 2018 the authority has entered into a number of contracts for the construction or enhancement of property and plant in 2018/19 and future years budgeted to cost £14,340m.

The major commitments are:

- Refuse Lorries for new joint waste Contract £3.2m
- Ashwood House Redevelopment for housing £0.865m
- Acquisition of Sangs Land to enable Development £1.2m
- Phase 1 of "The Square" Refurbishment £4.1m
- High Street Public Realm Improvements £4.4m
- Main Square Car Park Refurbishment £0.575m

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:			
31-Mar-18	133,151	961	**134,112**
31-Mar-17	3,436	0	**3,436**
31-Mar-16	1,576	0	**1,576**
31-Mar-15	1,417	0	**1,417**
Total Cost or Valuation	**139,580**	**961**	**140,541**

2017/18	Other land & buildings	Vehicles, plant & equipment	Infrastructure	Community Assets	Surplus Assets	Assets under construction	Total PP&E
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation At 1 April 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**

2016/17 Restated	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure	Community Assets	Surplus Assets	Assets Under Construction	Total PP&E
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation At 1 April 2016	**49,600**	**4,402**	**129**	**1,802**	**969**	**40**	**56,942**
Additions	0	185	0	106	0	610	**901**
Donations	0	0	0	0	0	0	**0**
Revaluation Increases/(decreases) recognised in the revaluation reserve	(1,561)	0	0	0	0	0	**(1,561)**
Revaluation Increases/(decreases) recognised in the surplus / deficit on the provision of services	0	0	0	0	0	0	**0**
Derecognition - disposals	0	(35)	0	0	0	0	**(35)**
Derecognition - other	0	(171)	0	0	0	0	**(171)**
Assets reclassified (to) / from held for sale	0	0	0	0	0	(40)	**(40)**
At 31 March 2017	**48,040**	**4,381**	**129**	**1,908**	**969**	**610**	**56,037**
Accumulated depreciation and Impairment At 1 April 2016	**(5,975)**	**(2,050)**	**(76)**	**0**	**0**	**0**	**(8,101)**
Depreciation Charge	(767)	(427)	(10)	0	0	0	**(1,204)**
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	816	27	0	0	0	0	**843**
Impairment losses/reversals recognised in the surplus / deficit on the provision of services	(1,534)	0	0	0	0	0	**(1,534)**
Derecognition - disposals	0	0	0	0	0	0	**0**
Derecognition - other	0	171	0	0	0	0	**171**
Other movements in depreciation and impairment	0	0	0	0	0	0	**0**
At 31 March 2017	**(7,460)**	**(2,279)**	**(86)**	**0**	**0**	**0**	**(9,825)**
Net Book Value At 31 March 2017	**40,580**	**2,102**	**43**	**1,908**	**969**	**610**	**46,212**
At 31 March 2016	**43,625**	**2,352**	**53**	**1,802**	**969**	**40**	**48,841**

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	0	0	0	0
31st March 2017	**175**	**111**	**48**	**334**
Cost or Valuation 1st April 2017	175	111	48	334
Revaluations	0	0	0	0
31st March 2018	**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

	2017/18 £'000	2016/17 £'000	2015/16 £'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 2017/18 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.

	2017/18 £'000	2016/17 £'000
Rental income from investment property	(2,698)	(1,582)
Direct operating expenses arising from investment property	866	262
Profit on Sale of Assets	0	0
Revaluations (Gains)/Losses on Revaluations	(3,254)	(603)
Investment Equity Income	0	(1,239)
Investment Equity Expenditure	0	68
Net (Income)/Expenditure on Investment Properties	**(5,086)**	**(3,094)**

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:

	2017/18 £'000	2016/17 £'000
Balance at start of the year	43,912	26,825
Purchases	576	16,484
Disposals	0	0
Transfers	(1,191)	0
Net gains/(losses) from fair value adjustments	3,254	603
Balance at end of the year	**46,551**	**43,912**

Unquoted Equity Investment

The Council held the following unquoted equity investments:

	2017/18 £'000	2016/17 £'000
Balance at start of the year	105,236	0
Purchases		
Main Square Camberley Unit Trust	2,342	105,236
SHBC Camberley Limited (£1)	0	0
Transfers	(107,578)	0
Balance at end of the year	**0**	**105,236**

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.

	2017/18 £'000	2016/17 £'000
Opening capital financing requirement	**140,190**	**18,101**
Capital investment		
Property, plant and equipment	2,743	185
Community assets	52	105
Investment assets	520	16,444
Unquoted Equity Investments	0	105,236
Assets under construction	627	610
Revenue expenditure funded from capital under statute	459	535
Sources of finance		
Capital receipts	(151)	(239)
Government grants and other contributions	(851)	(627)
Sums set aside from revenue	(112)	0
Unfinanced Capital Expenditure in year	**3,287**	**122,249**
Less: Statutory provision for the financing of Capital Investment	(1,318)	(160)
Closing capital financing requirement	**142,159**	**140,190**
Explanation for Movement in year		
Increase/(decrease) in underlying need to borrow	**1,969**	**122,089**

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 2017/18.

* More detail on the purpose of each earmarked reserve can be found in the Glossary at the end of this document.

Reserve	Balance 31 March 2016 £'000	Net Transfers for 2016/17 £'000	Balance March 2017 £'000	Transfers in 2017/18 £'000	Transfers out 2017/18 £'000	Balance 31 March 2018 £'000
Capital Fund	9,672	(227)	9,445	1,227	(250)	10,422
Earmarked Revenue purposes						
Affordable Housing	777	274	1,051	483	0	1,534
Atrium public art	13	0	13	0	0	13
Atrium S106 Agreement	334	(8)	326	1	(10)	317
Blackwater Valley developers contributions	101	(6)	95	0	(7)	88
Chewing gum machine	10	(2)	8	0	(8)	0
Chobham and Town Team Partnership	5	0	5	0	0	5
Community fund 2002	300	(47)	253	0	(11)	242
C.I.L	288	212	500	0	(500)	0
C.I.L. Admin and Monitoring		44	44	60	0	104
Commuted sums	628	(30)	598	1	(106)	493
Crime and disorder partnership	109	(7)	102	0	(34)	68
Custom Build	0	15	15	27	0	42
Deepcut Village Centre: Alma Dettingen	377	(19)	358	1	(76)	283
Frimley Lodge Park 3G Pitch	25	21	46	21	0	67
Heatherside: multi-use games area	33	0	33	0	(4)	29
Insurance reserve fund	203	0	203	0	(8)	195
Interest Equalisation	0	675	675	1,816	0	2,491
Land drainage	384	0	384	0	0	384
LLC Personal Search Revocation	34	(11)	23	0	0	23
New Burdens Fund	103	0	103	5	(8)	100
Old Dean toddlers playground	20	(2)	18	2	(3)	17
One Public Estate		119	119	372	0	491
Personalisation and Prevention Partnership Fund	57	30	87	0	(62)	25
Planning S106 Agreements	190	26	216	9	0	225
Planning Tariff Contributions	613	22	635	2	(637)	0
Property Maintenance	1,784	120	1,904	128	(13)	2,019
Recycling/Refuse Equalisation	206	(26)	180	0	0	180
Remediation fund	45	0	45	0	0	45
Rental Equalisation	0	0	0	970	0	970
SAMM		0	0	39	0	39
SANGS	997	248	1,245	3,540	(655)	4,130
Surrey Family Support Programme	201	41	242	0	0	242
Total Revenue Purposes	**7,837**	**1,689**	**9,526**	**7,477**	**(2,142)**	**14,861**
TOTAL	**17,509**	**1,462**	**18,971**	**8,704**	**(2,392)**	**25,283**

28. UNUSABLE RESERVES

Unusable Reserves	2017/18 £'000	2016/17 £'000
Revaluation Reserve	(23,833)	(21,854)
Capital Adjustment Account	(26,532)	(33,648)
Deferred Capital Receipts Reserve	0	0
Pensions Reserve	39,527	39,074
Collection Fund Adjustment Account	(219)	(1,720)
Accumulated Absences Account	93	90
Hedging Reserve	1,980	0
Available for Sale Fin Inst Reserve	(151)	(54)
Total Unusable Reserves	**(9,135)**	**(18,112)**

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	2017/18 £'000	2016/17 £'000
Balance at 1 April	**(21,854)**	**(22,911)**
Upward revaluation of assets	(5,023)	(5,452)
Downward revaluation of assets and impairment losses not charged to the surplus / deficit on the provision of services	2,646	7,013
(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	**(2,377)**	**1,561**
Difference between fair value depreciation and historical cost depreciation	398	(504)
Amount written off to the Capital Adjustment Account	**398**	**(504)**
Balance at 31 March	**(23,833)**	**(21,854)**

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. Note 24 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

Capital Adjustment Account	**2017/18 £'000**	**2016/17 £'000**
Balance at 1 April	**(33,648)**	**(34,987)**
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	1,094	388
Revaluation losses/gains(-) on property, plant and equipment	11,605	1,533
Revenue expenditure funded from capital under statute	496	535
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	4	8
	13,199	**2,464**
Adjusting amounts written out of the Revaluation Reserve	(398)	504
Net written out amount of the non-current assets consumed in the year	**12,801**	**2,968**
Capital financing applied in the year:		
Use of the capital receipts reserve to finance new capital expenditure	(151)	(239)
Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	(587)	(535)
Application of grants to capital financing from the capital grants unapplied account	0	0
Capital Expenditure funded from Reserves	(264)	(92)
Capital Expenditure funded from Revenue	(112)	0
Statutory provision for the financing of capital investment charged against the General Fund Balance	(1,317)	(160)
Capital expenditure charged against the General Fund Balance	0	0
	(2,431)	**(1,026)**
Movements in the market value of investment properties debited or (credited) in the Comprehensive Income and Expenditure Statement	(3,254)	(603)
Balance at 31 March	**(26,532)**	**(33,648)**

28.3 Deferred Capital Receipts Reserve

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

Deferred Capital Receipts Reserve	2017/18 £'000	2016/17 £'000
Balance 1st April	**0**	**0**
Transfer to the capital receipts reserve upon receipt of cash	0	0
Balance at 31 March	**0**	**0**

28.4 Pensions Reserve

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

Pension Reserve	2017/18 £'000	2016/17 £'000
Balance 1st April	**39,074**	**30,530**
Actuarial (gains) and losses on pensions assets and liabilities	(1,391)	7,819
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	4,239	2,885
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,395)	(2,160)
Balance at 31 March	**39,527**	**39,074**

28.5 Collection Fund Adjustment Account

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

Collection Fund Adjustment Account	2017/18 £'000	2016/17 £'000
Balance 1st April	**(1,720)**	**(56)**
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	1,501	(1,664)
Balance at 31 March	**(219)**	**(1,720)**

28.6 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 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	2017/18 £'000	2016/17 £'000
Balance 1st April	**90**	**154**
Comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3	(64)
Balance at 31 March	**93**	**90**

28.7 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	2017/18 £'000	2016/17 £'000
Balance at 1 April	**(54)**	**17**
Upward revaluation of investments	(102)	(877)
Downward revaluation of investments not charged to the surplus / deficit on the provision of services	5	239
	(151)	**(621)**
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of other investment income	0	567
Balance at 31 March	**(151)**	**(54)**

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	2017/18 £'000	2016/17 £'000
Balance 1st April	**0**	**0**
Cash Flow Hedge Reserve movement in year Hedge accounting entries for 2 x forward starting loans @ £25m each at average 2.88% starting 2021 and 2022	1,980	0
Balance at 31 March	**1,980**	**0**

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	2017/18 £'000	2016/17 £'000
Not later than one year	50	56
Later than one year and not later than five years	124	69
Later than five years	2	0
Total	**176**	**125**

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

29.3 Council as Lessor – Operating Leases

Operating lease expenditure charged	2017/18 £'000	2016/17 £'000
Adult social care	25	25
Other Services	151	28
Total	**176**	**53**

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	2017/2018 £'000	2016/17 £'000
Not later than one year	1,956	1,810
Later than one year and not later than five years	4,667	4,901
Later than five years	5,134	5,701
Total	**11,757**	**12,412**

The Council is also Lessor of the Atrium shopping centre in Camberley for which it receives a fixed percentage of net rent collected. In 2017/18 the income was £235,430 and in 2016/17 £243,589. 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. LONG TERM DEBTORS

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

Long Term Debtors	2017/18 £'000	2016/17 £'000
Charges on properties	162	166
Other Debtors	11	0
Total	**173**	**166**

31. SHORT TERM DEBTORS

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

Short Term Debtors	2017/18 £'000	2016/17 £'000
Central government bodies	2,665	862
Other local authorities	1,790	1,462
Sundry debtors	5,533	3,055
Other Entities and Individuals	1,709	1,285
	11,697	**6,664**
Allowance for bad debts	(1,018)	(947)
Total	**10,679**	**5,717**

32. CASH AND CASH EQUIVALENTS

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

Cash and Cash Equivalents	2017/18 £'000	2016/17 £'000
Cash held by the Council	10	11
Bank current accounts	1,027	2,399
Short term deposits	9,776	4,047
Total cash and cash equivalents	**10,813**	**6,457**

33. SHORT TERM CREDITORS & PROVISIONS

33.1 Short Term Creditors

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

Creditors	2017/18 £'000	2016/17 £'000
Central government bodies	(6,288)	(5,666)
Other local authorities	(4,328)	(4,347)
Other entities and individuals	(3,397)	(2,948)
Total	**(14,013)**	**(12,961)**

33.2 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.

Provisions	2017/18 £'000	2016/17 £'000
Balance 1st April 2017	**0**	**60**
Additional provisions	0	(60)
Balance 31 March 2018	**0**	**0**

NDR Provision	2017/18 £'000	2016/17 £'000
Balance 1st April 2017	**1,563**	**1,760**
Additional provisions	1,149	(197)
Balance 31 March 2018	**2,712**	**1,563**

Derivatives	2017/18 £'000	2016/17 £'000
Balance 1st April 2017	**0**	**0**
Movement in year	(1,980)	0
Balance 31 March 2018	**(1,980)**	**0**

34. CASH FLOW STATEMENT – OPERATING ACTIVITIES

2017/2018		2016/2017

£'000		£'000
59	Interest received	840
(1,889)	Interest paid	(500)
(5,757)	Dividends received	(1,239)
The surplus or deficit on the provision of services has been adjusted for the following non-cash movements		

2017/2018 £'000		2016/2017 £'000
1,134	Depreciation	1,204
8,311	Impairment and downward valuations	718
496	Amortisation	535
13	Increase/(decrease) in impairment for bad debts	75
257	Increase/decrease in creditors	(276)
(3,752)	Increase/decrease in debtors	(1,262)
37	Increase/decrease in inventories	(42)
(104)	Increase/decrease in borrowing interest	(221)
1,844	Movement in pension liability	725
4	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	8
(21)	Other non-cash items charged to the net surplus or deficit on the provision of services	615
8,219		**2,079**

35. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for investing activities include the following items:

Cash Flow Statement - investing activities	2017/18 £'000	2016/17 £'000
Purchase of property, plant and equipment, investment property and intangible assets	(3,345)	(122,885)
Purchase of short term and long term investments	(18)	16,259
Other payments for investing activities	4,431	3,932
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	0	0
Net cash flows from investing activities	**1,068**	**(102,694)**

36. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for financing activities include the following items:

Cash Flow Statement - financing activities	2017/18 £'000	2016/17 £'000
Cash receipts of short and long term borrowing	748	100,986
Other receipts from financing activities	(588)	3,942
Net cash flows from financing activities	**160**	**104,928**

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.

	2017/18		2016/17	
	Turnover £'000	(Surplus) / deficit £'000	Turnover £'000	(Surplus) / deficit £'000
Camberley Theatre	(1,008)	346	(846)	451
Car parks	(2,070)	(696)	(2,070)	(873)
Building control - chargeable	(313)	(22)	(307)	(9)
Total	**(3,391)**	**(372)**	**(3,223)**	**(431)**

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.

	2017/18 £'000	2016/17 £'000
Suitable Alternative Natural Green Space (SANGS)		
Income	(655)	(487)

Expenditure	456	416
(Surplus) / deficit on the agency arrangement	**(199)**	**(71)**
Gypsy sites **		
Income	0	(116)
Expenditure	15	100
(Surplus) / deficit on the agency arrangement	**15**	**(16)**
Parking Services *		
Income	(337)	(364)
Expenditure	395	418
(Surplus) / deficit on the agency arrangement	**58**	**54**

* 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.

** 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:

	2017/18 £'000	2016/17 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	46	48
Fees payable for the certification of grant claims and returns for the year	11	8
	57	**56**

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. Four members are also members of Surrey County Council but have no personal interest in any transactions. Payments totalling £47,068 were paid to 5 organisations in which 5 members had an interest. The relevant members did not take part in any discussion or decision relating to the payments. Payments totalling £16,340 were received from five organisations in which 5 members had an interest. Details of all these transactions are recorded in the Register of Members' Interests, open to public inspection at Surrey Heath House during office hours.

The total of Members' allowances paid in 2017/18 is shown in Note 17.

Officers

Chief Officers have the ability to influence the Council. For 2017/18, no outside interests were declared, other than those arising by virtue of being the Council's representative.

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 2017/18.

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	
	2017/18 £'000	2016/17 £'000
Comprehensive Income and Expenditure Statement		
Service Costs included in Cost of Services - Current Service Cost	3,252	1,823
Included in Financing and Investment Income and Expenditure - Net Interest expense	987	1,062
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**4,239**	**2,885**
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)	(592)	9,687
- Actuarial gains and losses arising on changes in financial assumptions	1,992	(16,475)
- Other experience	(9)	(1,031)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**1,391**	**(7,819)**

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	
	2017/18 £'000	2016/17 £'000
Present value of the defined benefit obligation	(116,468)	(115,242)
Fair value of plan assets	76,941	76,168
Net liability arising from defined benefit obligation	**(39,527)**	**(39,074)**

41.4 Reconciliation of fair value of the scheme assets:

	Funded Assets: local government pension scheme		Unfunded Assets: discretionary benefits arrangements	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000

Opening fair value of scheme assets	**76,168**	**65,184**	**0**	**0**
Interest Income	1,896	2,263	0	0
Remeasurement gain/(loss):				
- the return on plan assets, excluding the amount included in the net interest expense	(592)	9,687	0	0
Contributions from employer	2,193	1,952	202	208
Contributions from employees in the scheme	547	481	0	0
Benefits paid	(3,271)	(3,399)	(202)	(208)
Closing fair value of scheme assets	**76,941**	**76,168**	**0**	**0**

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

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

41.5 Reconciliation of present value of the scheme liabilities

	Funded Liabilities: local government pension scheme		Unfunded Liabilities: discretionary benefits arrangements	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000
Opening Balance at 1 April	**(115,450)**	**(95,714)**	**0**	**0**
Current Service cost	(3,252)	(1,823)	0	0
Interest cost	(2,883)	(3,325)	0	0
Contributions from scheme participants	(547)	(481)	0	0
Remeasurement (gains) and losses:				
- Actuarial gains/losses arising from changes in financial assumptions	1,992	(16,475)	0	0
- Other Experience	(9)	(1,031)	0	0
Past service cost	0	0	0	0
Liabilities assumed on entity combinations	0	0	0	0
Unfunded Benefits paid	0	0	202	208
Benefits paid	3,271	3,399	0	0
Closing balance at 31 March	**(116,878)**	**(115,450)**	**202**	**208**

41.6 Local Government Pension Scheme Assets

The fair value of the Local Government Scheme assets are shown in the table below:

Asset category Percentage of Total Assets	Period Ended 31 March 2018	Period Ended 31 March 2017

		Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total £'000	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total £'000
Cash and cash equivalents							
All	12%	9,115		9,115	9,023		9,023
Equity Securities							
Consumer	8%	6,242		6,242	6,179		6,179
Manufacturing	7%	5,658		5,658	5,602		5,602
Energy and Utilities	4%	3,102		3,102	3,071		3,071
Financial Institutions	7%	5,443		5,443	5,388		5,388
Health and Care	3%	2,056		2,056	2,035		2,035
Information Technology	6%	4,333		4,333	4,290		4,290
Other	0%	157		157	155		155
Bonds							
Corporate Bonds (investment grade)	4%	2,671		2,671	2,644		2,644
Corporate bonds (non-investment grade)	0%	169		169	167		167
UK Government	0%	157		157	155		155
Other	0%	353		353	349		349
Private Equity							
All	4%		3,229	3,229		3,197	3,197
Real Estate							
UK Property	6%	1,226	3,149	4,375	1,214	3,117	4,331
Overseas Property	0%		28	28	0	28	28
Investment Funds and Unit Trusts							
Equities	28%	21,336		21,336	21,122		21,122
Bonds	11%	8,410		8,410	8,326		8,326
Other	0%			0			0
Derivatives							
Interest Rate	0%	(2)		(2)	(2)		(2)
Foreign Exchange	0%	109		109	108		108
	100%	**70,535**	**6,406**	**76,941**	**69,826**	**6,342**	**76,168**

41.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been

assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1st April 2016.

The principal assumptions used by the Actuary are shown in the table below:

	Local Government Pension Scheme	
	2017/18	2016/17
Mortality assumptions:	**Years**	**Years**
Longevity at 65 for current pensioners:		
Men	22.5	22.5
Women	24.6	24.6
Longevity at 65 for future pensioners:		
Men	24.1	24.1
Women	26.4	26.4
Rate of inflation	2.40%	2.40%
Rate of increase in salaries	2.70%	2.70%
Rate of increase in pensions	2.40%	2.40%
Rate for discounting scheme liabilities	2.60%	2.50%

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

	Approximate % increase to Employer Liability	Approximate monetary amount (£'000)
Change in assumptions at 31 March 2018		
0.5% decrease in Real Discount Rate	9%	10,348
0.5% increase in the Salary Increase Rate	1%	1,229
0.5% increase in the Pension Increase Rate	8%	9,000

41.8 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 £39.5m 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 2018/19.

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 £177k, 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 2018 was £3 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 £162,000.

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	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000
Investments				

Loans and receivables - Investments Principal	0	2,000	2,000	0
Available-for-sale financial assets	2,151	2,054	0	0
Loans and receivables - Investments accrued interest	0	0	18	0
Investments	**2,151**	**4,054**	**2,018**	**0**
Loans and receivables-Cash and cash equivalents	0	0	10,789	6,417
Loans and receivables-Cash and cash equivalents accrued interest	0	0	24	41
Total Investments	**2,151**	**4,054**	**12,831**	**6,458**
Debtors				
Financial assets carried at contract amount	173	166	10,680	5,717
Total Financial Assets	**2,324**	**4,220**	**23,511**	**12,175**

Financial Liabilities	Long Term		Current	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000
Borrowing				
Financial liabilities at amortised costs - Loans Principal	(16,493)	(16,860)	(102,877)	(101,866)
Financial liabilities at amortised costs - Loans accrued interest	0	0	(338)	(234)
Total	**(16,493)**	**(16,860)**	**(103,215)**	**(102,100)**
Creditors				
Financial liabilities carried at contract amount	(85)	(47)	(14,013)	(12,961)
Total creditors	**(85)**	**(47)**	**(14,013)**	**(12,961)**

44.2 Reclassifications

In 2017-18, the following investments were reclassified from Long Term Investments to Short Term Investments at year end: Glasgow City Council (£2.0m). No investments were reclassified in 2016-17.

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:

2017/18						2016/17				

Financial liabilities measured at amortised cost £'000	Financial assets: loans and receivables £'000	Financial assets: available for sale £'000	Assets and liabilities at fair value through profit and loss £'000	Total £'000		Financial liabilities measured at amortised cost £'000	Financial assets: loans and receivables £'000	Financial assets: available for sale £'000	Assets and liabilities at fair value through profit and loss £'000	Total £'000
912	0	0	0	**912**	Interest expense	661	0	0	0	**661**
0	0	0	0	**0**	Impairment Losses	0	213	0	0	**213**
92	0	13	0	**105**	Fee expenses	47	0	13	0	**60**
1,004	**0**	**13**	**0**	**1,017**	**Total expense in surplus or deficit on the provision of services**	**708**	**213**	**13**	**0**	**934**
0	(34)	0	0	**(34)**	Interest income	0	(105)	(25)	0	**(130)**
0	0	0	0	**0**	Increase in fair value	0	(26)	0	0	**(26)**
0	0	(131)	0	**(131)**	Dividend income	0	0	(358)	0	**(358)**
0	0	0	0	**0**	Gains on de-recognition	0	0	(567)	0	**(567)**
0	**(34)**	**(131)**	**0**	**(165)**	**Total income in surplus or deficit on the provision of services**	**0**	**(131)**	**(950)**	**0**	**(1,081)**
0	0	(98)	0	**(98)**	(Gains) on revaluation	0	0	33	0	**33**
0	0	0	0	**0**	Losses on revaluation	0	0	(104)	0	**(104)**
0	**0**	**(98)**	**0**	**(98)**	**(Surplus) / deficit arising on revaluation of financial assets in other comprehensive income and expenditure**	**0**	**0**	**(71)**	**0**	**(71)**
1,004	**(34)**	**(216)**	**0**	**754**	**Net (gain) / loss for the year**	**708**	**82**	**(1,008)**	**0**	**(218)**

The Council has no soft loans.

44.4 Fair values of assets and liabilities

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31st March 2018, using the following methods and assumptions:

- Certificates of deposit and forward loan contracts have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial assets classified as loans and receivables and all non-derivative financial liabilities 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 2018, 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	31/03/2018 Fair Value £'000	31/03/2017 Fair Value £'000
Available for sale-long term investments	Level 1	Quoted prices in active markets for identical assets	2,151	2,054

As at 31/3/18 the Council held £2.1m (2017 - £2.0) 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 2017/18.

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

	Fair Value Level	Balance sheet 31.03.18 £'000	Fair Value 31.03.18 £'000	Balance sheet 31.03.17 £'000	Fair Value 31.03.17 £'000
Financial assets held at fair value:					
Money market funds	1	9,753		-	
Bond, equity and property funds	1	2,174		2,077	
Financial assets held at amortised cost:					
Long term loans to local authorities	2			2,017	2,063
Total		**11,927**		**4,094**	**2,063**
Assets for which fair value is not disclosed*		13,907		12,300	
Total Financial Assets		**25,834**		**16,394**	
Recorded on balance sheet as:					
Long term debtors		173		166	
Long term investments		2,151		4,054	
Short term investments		2,018			
Short term debtors		10,679		5,717	
Cash and cash equivalents		10,813		6,457	
Total Financial Assets		**25,834**		**16,394**	

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

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

		2017/18		2016/17	
	Fair Value Level	Balance Sheet £'000	Fair Value £'000	Balance Sheet £'000	Fair Value £'000
Financial liabilities held at amortised cost:					
Loans from PWLB	2	16,277	18,772	16,400	19,511
Other Loans	2	103,431	103,444	102,560	102,593
Total		**119,708**	**122,216**	**118,960**	**122,104**
Liabilities for which fair value is not disclosed		53,625	53,625	52,082	52,082
Total Financial liabilities		**173,333**	**175,841**	**171,042**	**174,186**
Recorded on Balance Sheet as:					
Short Term Creditors		14,013		12,961	
Short Term Borrowing		103,215		102,100	
Long Term Creditors		85		47	
Long Term Borrowing		16,493		16,860	
Other long Term Liabilities		39,527		39,074	
Total Financial Liabilities		**173,333**		**171,042**	

*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 2017.

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					
Challenger Banks	£1m for 6 months					
Supranational Banks	£3m for up to 5 years where rated A or above					
UK Local Councils	£2m per authority for up to 5 years					

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £5m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

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 - Restated	
	31/03/2018 £000s	31/03/2017 £000s	31/03/2018 £000s	31/03/2017 £000s
AAA	-	-	9,753	0
AA+	-	-	-	-
AA	-	-	-	-
AA-	-	-	-	-
A+	-	-	-	-
A	-	-	-	2,003
A-	-	-	-	-
BBB+	-	-	1,037	2,411
Unrated local authorities	-	2,017	2,018	2,003
Unrated banks	-	-	-	-
Unrated building societies	-	-	-	-
Unrated pooled funds	2,151	2,077	23	40
Impaired Investments	-	-	-	-
Total Investments	**2,151**	**4,094**	**12,831**	**6,457**

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.

	31/03/2018		31/03/2017	
	Lease receivables £'000	Trade receivables £'000	Lease receivables £'000	Trade receivables £'000
Neither past due nor impaired	350	1,185	419	232
Past due <3 months	23	65	8	39
Past due 3 - 6 months	27	46	0	37
Past due 6 - 12 months	56	24	10	36
Past due 12+ months	23	79	8	64
Total	**479**	**1,399**	**445**	**408**

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)	31/03/2018			31/03/2017 Restated		
	Liabilities £'000	Assets £'000	Net £'000	Liabilities £'000	Assets £'000	Net £'000
Not over 1	103,215	(12,808)	90,407	102,065	(6,457)	95,608
Over 1 but not over 2	388	(2,174)	(1,786)	392	(4,054)	(3,662)
Over 2 but not over 5	2,680	0	2,680	2,935	0	2,935
Over 5 but not over 10	795	0	795	770	0	770
Over 10 but not over 20	2,035	0	2,035	1,970	0	1,970
Over 20 but not over 30	2,817	0	2,817	2,727	0	2,727
Over 30 but not over 40	3,899	0	3,899	3,774	0	3,774
Over 40	3,879	0	3,879	4,327	0	4,327
Total	**119,708**	**(14,982)**	**104,726**	**118,960**	**(10,511)**	**108,449**

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 “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the 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 classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

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 2018, £13m (2017: £7m) of net principal borrowed on long term loans (i.e. debt net of investments) was exposed to fixed rates and £91m (2017: £99m) 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:

	£'000
Increase in interest payable on variable rate borrowings	1,025
Increase in interest receivable on variable rate investments	(119)

Impact on Surplus or Deficit on the Provision of Services	**906**
Decrease in fair value of available for sale financial assets	98
Impact on Comprehensive Income and Expenditure	**1,004**
Decrease in fair value of loans and receivables *	(4,002)
Decrease in fair value of fixed rate borrowings/liabilities *	(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 £2.1m (2017 - £2.0m). A 5% fall in commercial property prices would result in a £0.1m (2017 - £0.1m) charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

45.6 Hedge Accounting

The Council hedged its exposure to interest rate risk on borrowing during the 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 £1.979m (2017: £nil). £1.979m (2017: £nil) was recognised in other comprehensive income during the year, £nil (2017: £nil) was recycled from reserves to the surplus/deficit on the provision of services, and £nil (2017: £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.

	31.03.2018			31.03.2017		
	Gross assets (liabilities) £000s	(Liabilities) assets set off £000s	Net position on balance sheet £000s	Gross assets (liabilities) £000s	(Liabilities) assets set off £000s	Net position on balance sheet £000s
Trade receivables	1,489		1,489	46		46
Total financial assets	1,489	-	1,489	46	-	46
Trade payables	- 306		- 306	- 49		- 49
Total financial liabilities	- 306	-	- 306	- 49	-	- 49

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.

	2017/18			2016/17		
	Business Rates £'000	Council Tax £'000	Total £'000	Business Rates £'000	Council Tax £'000	Total £'000
INCOME						
Council Tax Receivable		67,765	67,765		64,138	64,138
Business Rates Receivable	37,609		37,609	37,737		37,737
	37,609	**67,765**	**105,374**	**37,737**	**64,138**	**101,875**
EXPENDITURE						
Apportionment of Previous Year Surplus/(Deficit)						
Central Government	1,028		1,028	(438)		(366)
Surrey Heath Borough Council	822	239	1,061	(351)	72	98
Surrey County Council	205	1,500	1,705	(88)	449	(9)
Surrey Police Commissioner		261	261		79	0
	2,055	**2,000**	**4,055**	**(877)**	**600**	**(277)**
Precepts, Demands and Shares						
Central Government	17,251		17,251	17,568		17,568
Surrey Heath Borough Council	13,801	8,154	21,955	14,054	8,139	22,193
Surrey County Council	3,451	49,691	53,142	3,514	46,787	50,301
Surrey Police Commissioner		8,381	8,381		8,123	8,123
	34,503	**66,226**	**100,729**	**35,136**	**63,049**	**98,185**
Charges to the Collection Fund						
Transitional Protection Payments due to Central Government	1,076		1,076	136		136
Less: Write off for uncollectible amounts		61	61			0
Less: Increase/Decrease in Bad Debt Provision	733	(541)	192	(307)	80	(227)
Less: Increase/Decrease in Provision for Appeals	2,874		2,874	(493)		(493)
Less: Cost of Collection	123		123	126		126
Interest Payable			0			0
	4,806	**(480)**	**4,326**	**(538)**	**80**	**(458)**
Total Expenditure	**41,364**	**67,746**	**109,110**	**33,721**	**63,729**	**97,450**
Surplus/(Deficit) arising during the year	**(3,755)**	**19**	**(3,736)**	**4,016**	**409**	**4,425**
Surplus/(Deficit) b/fwd 1st April	**3,567**	**2,386**	**5,953**	**(449)**	**1,977**	**1,528**
Surplus/(Deficit) c/fwd 31st March	**(188)**	**2,405**	**2,217**	**3,567**	**2,386**	**5,953**

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 2018, the total non-domestic rateable value of properties owned by the Council was £3.388m. The 2017/18 national non-domestic rate multiplier was 46.6p for small businesses and 47.9p 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 2017/18 tax base is shown below:

2017/18			
Band	**Number of chargeable homes less exemptions and discounts**	**Factor**	**Band D equivalents**
A*	0	5/9	0
A	338	6/9	225
B	1,328	7/9	1,033
C	4,520	8/9	4,018
D	8,195	9/9	8,195
E	5,919	11/9	7,234
F	5,324	13/9	7,690
G	4,753	15/9	7,923
H	462	18/9	924
Total	**30,839**		**37,242**
New properties Band D equivalent			155
MOD properties			482
Less: allowance for non-collection			(561)
Council tax base			**37,318**
Collection rate assumed			**98.50%**

47. OTHER GROUP FINANCIAL STATEMENTS

47.1 General

These notes should be read in conjunction with the Accounting Policies used to prepare their Surrey Heath Borough council's accounts. Unless otherwise stated, the Group Financial Statements have been prepared on the same basis.

47.2 Financial Year End

Surrey Heath Borough Council's financial statements are based on a financial year ended 31st March. The Subsidiary investment fund – The Main Square Camberley Unit trust and the subsidiary Company SHBC Camberley Limited prepare their financial statements to the 31st December each year. For the purpose of preparing the group financial statements the financial statements have been consolidated using different year end, adjusted as necessary to reflect any material transactions taking place between January and March.

47.3 Accounting Convention

The Financial statements of the subsidiary company and investment fund have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial reporting standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

48. GROUP COMPANY AND INVESTMENT FUND INFORMATION

48.1 SHBC Camberley Limited

Company Number	10437873
Date of Incorporation	20th October 2016
Director	Mrs Karen Whelan
Share capital	1 share of £1
Ownership	100% by Surrey Heath Borough Council
Profit/Loss	£1,441 loss
Net Assets	(£1,441)
Purpose	To hold units in property investment trust to comply with Jersey Investment regulations

The wholly own subsidiary SHBC Camberley Limited is a company incorporated in England and Wales and was incorporated on the 20th October 2016. It has not been consolidated on the grounds of materiality as its issued share capital at the 31st March 2018 was £1, it holds £454 in cash and owes the Council £10,719 being the value of 0.01% of the total trust assets.

48.2 Main Square Camberley Unit Trust

Trust Type	Jersey Property Unit Trust
Date of creation	7th January 2005
Date of acquisition by SHBC	11th November 2016
Trustees	Camberley Trustee No 1 Ltd and Camberley Trustee No 2 Ltd
Immediate Parent Undertaking	Surrey Heath Borough Council
Ownership	Surrey Heath Borough Council
Profit/Loss	£4.450m profit
Net Assets	£95.570m at 31st December 2017
Purpose	To hold and invest in property

48.3 Group Movement in Reserves

	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 2017	(21,146)	(151)	(14)	(815)	(22,126)	(18,112)	(40,238)
Movement in Reserves during 2017/2018							
Total Comprehensive Income and Expenditure	1,538		(467)	815	1,886	(1,885)	1
Adjustments between accounting basis & funding basis under regulations (note 19)	(9,275)	151	(1,738)		(10862)	10,862	0
Increase or Decrease in 2017/2018	(7,737)	151	(2,205)	815	(8,976)	8,977	1
Balance at 31 March 2018 carried forward	(28,883)	0	(2,219)	0	(31,102)	(9,135)	(40,237)
Comparative Year							
Balance at 31st March 2016	(19,729)	(483)	(14)	0	(20,226)	(27,253)	(47,479)
Movement in Reserves during 2016/2017							
Total Comprehensive Income and Expenditure	(1,253)			(815)	(2,068)	9,309	7,241
Adjustments between accounting basis & funding basis under regulations (note 19)	(164)	332	0	0	168	(168)	0
Increase or Decrease in 2016/2017	(1,417)	332	0	(815)	(1,900)	9,141	7,241
Balance at 31 March 2017 carried forward	(21,146)	(151)	(14)	(815)	(22,126)	(18,112)	(40,238)

48.4 Group Comprehensive Income and Expenditure Statement

2017/2018				2016/2017		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
5,670	(4,496)	1,174	Business	5,388	(4,388)	1,000
7,126	(2,379)	4,747	Community	6,702	(2,465)	4,237
1,740	(268)	1,472	Corporate	1,635	(265)	1,370
18,197	(16,417)	1,780	Finance	18,610	(16,829)	1,781
825	(118)	707	Legal	1,072	(897)	175
494	(5,945)	(5,451)	Investment & Development	0	0	0
3,824	(6,581)	(2,757)	Regulatory	3,569	(2,597)	972
450	(13)	437	Transformation	920	(38)	882
38,326	**(36,217)**	**2,109**	**Cost of Services**	**37,896**	**(27,479)**	**10,417**
		569	Other Operating expenditure (note 11)			557
		(396)	Financing and investment income and expenditure			(2,994)
		152	Amortisation of Goodwill on consolidation			152
		11,475	Other items not included in costs of services for reporting purposes			3,006
		(12,217)	Taxation and Non-specific Grant Income & Expenditure			(13,206)
		1,692	**(Surplus) or Deficit on Provision of Services**			**(2,068)**
		(2,377)	Surplus or deficit on revaluation of property, plant and equipment assets			1,561
		1,980	Change in Hedging Instrument fair value			0
		(97)	Surplus or deficit on revaluation of available for sale financial assets			(71)
		(1,391)	Remeasurement of the net defined benefit liability/(asset)			7,819
		(1,885)	**Other Comprehensive Income and Expenditure**			**9,309**
		(193)	**Total Comprehensive Income and Expenditure**			**7,241**

48.5 Group Balance Sheet

	Note		31st March 2018 £'000	31st March 2017 £'000
	SHBC	Group		
Property, plant & equipment				
Other land and buildings	22		139,581	40,580
Vehicles, plant and equipment	22		2,070	2,102
Infrastructure assets	22		34	43
Community assets	22		1,960	1,908
Surplus assets not held for sale	22		961	969
Assets under construction	22		1,034	610
Total property, plant & equipment			**145,640**	**46,212**
Intangible Assets - Goodwill		3	**7,294**	**7,446**
Heritage Assets	23		334	334
Investment property		4	39,002	143,158
Long term investments	44		2,151	4,054
Long term debtors		5	420	677
Long term assets			**194,841**	**201,881**
Inventories			55	92
Short term Investment	44		2,018	0
Short term debtors		6	13,874	6,366
Cash and cash equivalents		7	11,662	10,095
Current assets			**27,609**	**16,553**
Short-term borrowing	44		(103,215)	(102,100)
Short term creditors		8	(18,047)	(18,421)
Short term derivatives			(1,980)	0
Current liabilities			**(123,242)**	**(120,521)**
Long term creditors		9	(239)	(178)
NDR Provision for Appeals	33		(2,712)	(1,563)
Long-term borrowing	44		(16,493)	(16,860)
Other long term liabilities - Pensions	13		(39,527)	(39,074)
Long term liabilities			**(58,971)**	**(57,675)**
Net assets			**40,237**	**40,238**
Usable reserves			(31,102)	(22,126)
Unusable reserves			(9,135)	(18,112)
Total Reserves			**(40,237)**	**(40,238)**

49. GROUP CASH FLOW

	Note	2017/18 £'000	2016/17 £'000
Net (surplus) or deficit on the provision of services		(1,540)	(2,220)
Adjustments for Non-cash movements		9,327	4,234
Adjustments for items that are investing and financing activities		(3,551)	6,528
Net cash (inflows)/outflows from operating activities		**4,236**	**8,542**
Investing activities	10	1,539	96,101
Financing activities	11	160	(104,928)
Net (increase)/decrease in cash and cash equivalents		**5,935**	**(285)**
Cash and cash equivalents at the beginning of the reporting period		7,745	(8,030)
Cash and cash equivalents at the end of the reporting period		13,680	7,745
Movement in cash	32	**5,935**	**(285)**

50. GROUP FINANCIAL STATEMENTS – EXPLANATORY NOTES

50.1 General

These notes should be read in conjunction with the explanatory notes to Surrey Heath Borough Council's Financial Statements. Explanatory Notes have been provided only where the group financial statements differ from the Surrey Heath Borough Council financial statements.

50.2 Subsidiary Entities

The operating income and expenditure of the subsidiary entities has been included within Investment Property.

50.3 Tangible Assets

The Goodwill is being amortised over 50 years being the life of the underlying assets.

	2017/18 £'000	2016/17 £'000
Balance brought forward 1st April	**7,446**	**0**
Goodwill arising on Consolidation	0	7,598
Amortised in year	(152)	(152)
Balance carried forward 31st march	**7,294**	**7,446**

50.4 Investment Properties

	2017/18 £'000	2016/17 £'000
Balance at start of the year	143,158	26,825
Purchases	576	119,307
Eliminated on consolidation	(3,431)	(3,577)
Disposals	0	0
Transfers	(104,555)	0
Net gains/(losses) from fair value adjustments	3,254	603
Balance at end of the year	**39,002**	**143,158**

Financing and Investment Income and Expenditure	2017/18 £'000	2016/17 £'000
Interest payable and similar charges	1,008	934
Net interest on the defined benefit liability/(asset)	987	1,062
Interest receivable and similar	(165)	(1,081)
Income & Expenditure in relation to investment properties and changes in their fair value	(2,226)	(3,909)
Total	**(396)**	**(2,994)**

50.5 Long Term Debtors

Long Term Debtors	2017/18 £'000	2016/17 £'000
Charges on properties	162	166
Unamortised tenant and rent incentives	247	511
Other Debtors	11	0
Total	**420**	**677**

50.6 Short Term Debtors

Short Term Debtors	2017/18 £'000	2016/17 £'000
Central government bodies	2,665	862
Other local authorities	1,790	1,462
Sundry debtors	8,728	3,704
Other Entities and Individuals	1,709	1,285
	14,892	**7,313**
Allowance for bad debts	(1,018)	(947)
Total	**13,874**	**6,366**

50.7 Cash and Cash Equivalents

Cash and Cash Equivalents	2017/18 £'000	2016/17 £'000
Cash held by the Council	10	11
Bank current accounts	1,876	6,037
Short term deposits	9,776	4,047
Total cash and cash equivalents	**11,662**	**10,095**

50.8 Short Term Creditors

Creditors	2017/18 £'000	2016/17 £'000
Central government bodies	(6,288)	(5,666)
Other local authorities	(4,328)	(4,347)
Other entities and individuals	(7,431)	(8,408)
Total	**(18,047)**	**(18,421)**

50.9 Long Term Creditors

Long Term creditors	2017/18 £'000	2016/17 £'000
Financial liabilities carried at contract amount	85	47
Sundry Creditors	154	131
Total	**239**	**178**

50.10 Cash Flow Statement – Investing Activities

Cash Flow Statement - investing activities	2017/18 £'000	2016/17 £'000
Purchase of property, plant and equipment, investment property and intangible assets	(4,892)	116,895
Purchase of short term and long term investments	2,000	(16,258)
Other payments for investing activities	4,431	(4,536)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	0	0
Net cash flows from investing activities	**1,539**	**96,101**

50.11 Cash Flow Statement – Financing Activities

Cash Flow Statement - financing activities	2017/18 £'000	2016/17 £'000
Cash receipts of short and long term borrowing	748	(100,986)
Other receipts from financing activities	(588)	(3,942)
Net cash flows from financing activities	**160**	**(104,928)**

51. GENERAL GLOSSARY

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

Cash - Comprises cash in hand and demand deposits.

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

Class of property, plant and equipment - Grouping of assets of a similar nature and used in the Council's operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

Operating activities - Activities of the Council that are not investing or financing activities.

Operating lease - A lease other than a finance lease.

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

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

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

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

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

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

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

Termination benefits - Employee benefits payable as a result of either: The Council's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits.
Useful life - The period which an asset is expected to be available for use by the Council.

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

52. EARMARKED RESERVES GLOSSARY

Earmarked Reserves - Earmarked reserves are a means of building up funds to meet known or predicted future requirements; although accounted for separately they remain legally part of the General Fund.

The Council has the following Earmarked Reserves:

- Capital Fund – this reserve is sourced from revenue to support capital expenditure.
- Affordable Housing - this fund is made up of contributions received from developers who are unable to provide affordable housing on the site of their development. The fund will enable the Council to provide affordable housing elsewhere.
- C. I. L. Admin and Monitoring – The reserve is to cover officer costs of monitoring the community infrastructure levy.
- Custom Build – This fund is set up form money from Central Government so that Planning Departments can produce and maintain the Brownfield Register and Self Build Registers required under legislation.
- Interest Equalisation – Contingency against future borrowing rate rises.
- Rental Equalisation – Contingency against future rental income reductions.
- One Public Estate – This money is awarded to Surrey Heath form the Governments One Public Estate programme to explore the possibilities around release of publicly owned land for residential development.

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

Atrium S106 Agreement – This fund is made up of the developer contributions towards Town Centre Management Improvements as part of the Atrium Development legal agreement.

Blackwater Valley Developer's Contributions – This is a sum held to contribute towards the maintenance costs of the Blackwater Valley leisure projects. The balance includes miscellaneous contributions from developers.

Chewing Gum Machine – This fund was set up from S106 income, to fund the projected 8 year life of the machine to cover the running costs and replacement of the machine.

Chobham and Town Team Partnership – A fund, granted by the Department of Communities and Local Government (DCLG), is held on behalf of Chobham BEE (Chobham Better Experience for Everyone) for planning and implementing improvements to Chobham High Street.

Community Fund 2002 – This fund is to make grants to community based organisations. This fund also includes the environmental bursary, as the balance was transferred into the fund as per the Executive 2nd October 2007, minute 066/E refers.

GLOSSARY OF TERMS

Community Infrastructure Levy – This reserve holds balances relating to the timing differences between collection of the levy and the allocation of spending.
Commuted Sums – These funds are contributed by developers for the maintenance of open spaces and amenities.

Crime and Disorder Partnership – The Crime and Disorder Act 1999 required a partnership to be set up to improve community safety. This money will be used to fund the activities of mutual benefit to the whole partnership.

Deepcut Village Centre: Alma Dettingen – This is a sum held to contribute towards structural maintenance and the eventual refurbishment of this community facility.

Frimley Lodge Park 3G Pitch – Fund set up to meet the costs of replacing the playing surface as required.

Heatherside: Multi-Use Games Area – The Safer Surrey Heath partnership set aside £150,000 to fund a multi user games area in Surrey Heath. This is a facility where various ball games can be played in a safe environment.

Insurance Reserve Fund - this fund has been set aside for two reasons:

- in connection with the close of trading of the Municipal Mutual Insurance (MMI) and the potential contribution towards costs
- to deliver a risk management policy including risk management, business continuity and health and safety

Jersey Property Unit Trust (JPUT) – A property trust established in Jersey under Jersey financial regulations to hold property. The trust is UK tax transparent. i.e. The UK tax status of the trust is the same as that of the unit holders.

Land Drainage – This fund finances the land drainage programme.

LLC Personal Search Revocation – This fund is to finance claims for refund of fees, paid by way of Personal Searches of the Land Charges Register from 2005 to August 2010. The settlement process is ongoing.

New Burdens Fund – Funding received from the DCLG in recognition of additional resources/works required by local authorities under the Localism Act.

Old Dean Toddlers Playground – This fund has been set up for the project from payments received from The Accent Foundation, Frimley Fuel Allotments, Beacon Church and parents support group for the installation of the playground and future maintenance.

Personalisation and Prevention Partnership – Funding provided by Surrey County Council (SCC) to enable the Council to invest in projects which through improved efficiency and increased income will benefit the older community.

Planning S106 Agreements – This fund reflects developer contributions collected to fulfil specific financial obligations contained in S106 Agreements and are to be used for specific projects and purposes as detailed in the Section 106 Agreements.

Planning Tariff Contributions – This fund reflects developer contributions collected via the Surrey Heath Developer Tariff Scheme for the provision of additional infrastructure projects in the borough in order to mitigate the impact of new development on local infrastructure.

Property Maintenance – This fund is used to finance the planned preventative maintenance programme for the Council's properties.

Recycling/Refuse Equalisation - This fund has been set up to mitigate the effect of any fall in prices for recycled materials in future years.

Remediation Fund – This fund is used to fund works to restore land following illegal occupation.

SANGS (Suitable Alternative Natural Green Space) - This fund was set up from developer contributions to fund the long term costs of mitigation for the Special Protection Areas (SPA). The Earmarked Reserve represents agreements for which the Council acts as the Principal. The Council also acts as Agent for 2 further SANGS agreements which are shown elsewhere in these Financial Statements.

Surrey Family Support Programme – This fund is used to finance the Troubled Families Project until 2020. It is funded by Surrey County Council using government grant funding.

Windle Valley Well Being Centre – This fund was used to provide support to people living in Surrey Heath who are in need of advice, information and assistance regarding memory problems, confusion and dementia.

53. PENSION GLOSSARY

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

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

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

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

Defined benefit plan - Post-employment benefit plans other than defined contribution plans.

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

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

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

Plan assets - Comprise:

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

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

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

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

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

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

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

Vested employee benefits - Employee benefits which are not conditional on future employment.

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