
Surrey Heath Borough Council
Audited Statement of Accounts
2014/15

Contents

Explanatory Foreword Presented by the Executive Head of Finance 2

Introduction..... 2

Statement of Responsibilities 8

Movement in Reserves Statement 10

Comprehensive Income and Expenditure Statement 12

Balance Sheet 14

Balance Sheet Supplement 15

Cash Flow Statement 16

Notes to the Core Financial Statements..... 17

Collection Fund..... 63

Accounting Policies..... 66

General Glossary..... 81

Pension Glossary..... 85

Draft Annual Governance Statement 2014/15..... 87

Independent auditor’s report to the members of Surrey Heath Borough Council..... 99

Explanatory Foreword

Explanatory Foreword Presented by the Executive Head of Finance

Introduction

I am pleased to be able to present to you the Statement of Accounts for the year 2014/15.

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

The Statement of Accounts comprises:

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

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

i) Statement of Responsibilities

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

ii) Core Financial Statements

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

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

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

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

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

iii) **Notes to the Core Financial Statements**

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

iv) **Supplementary Financial Statements**

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

v) **Notes to the Supplementary Financial Statements**

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

vi) **Annual Governance Statement**

The *Annual Governance Statement* is not part of the Statement of Accounts, but is required to be included alongside it in the same publication, and as such is not covered by the Chief Finance Officer's certification.

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

Service Expenditure

General Fund Compared to Budget

The 2014/15 budget predicted the general fund balance of £1.122m as at 31st March 2015. In reality, the balance was £2.702m which is higher than predicted. £1.0m of the difference is due to accounting for business rates but the remainder is because of better performance from services as explained below and additional new homes bonus received.

Explanatory Foreword

Service revenue spending compared with budget

The council managed to achieve its annual budget for the year despite the fact that it included a £400k reduction in Government funding compared to the previous year. Key areas (excluding the effect of asset charges) were:

- Arena Sports centre £55k under budget due to increased usage
- Waste and recycling £275k under budget due to increased recycling and renegotiated contract
- Street Cleaning £70k under budget due to a contract renegotiation
- Planning applications £261k under budget due to increased income as the economy picks up
- Planning appeals £71k under budget as fewer appeals than anticipated
- Housing £133k under budget due to the work being done to ensure that B&B stays are kept to a minimum
- Corporate Land Management £157k under budget due to increased income from assets and savings on repairs
- Theatre over budget due to income not meeting expectations. Steps were taken in the new year to address these issues
- Housing Benefits £156k over budget due to reductions in grant and disallowed claims

New Homes Bonus

The Council received £922k in the year as its share of new homes bonus of which £600k was budgeted to be used to support the council's revenue spend. The remainder is in the general fund

Business Rates

Before 2013/14 all business rates collected by the Council went to central government to be redistributed as grant using a formula. In 2013/14 the system changed so that Councils were incentivised to deliver economic growth by allowing them to retain a proportion (20% for district councils) of any growth above a predetermined baseline. The downside was that any loss (40% for district councils) below this baseline down to a determined safety net figure represented a reduction in funding.

During 2014/15, the Council estimated that it would collect £34.070m of business rates. However, during the year as more information was received from the Valuation Office, it became clear that the level of appeals and revaluations outstanding - many dating back to 2005 – had increased significantly, resulting in a £1.8m increase in the Council's provision for NDR appeals in 2014/15.

This significant increase in the provision of the NDR appeals contributed towards the total deficit of £2.992 m on the NDR Collection Fund as at 31st March 2015. The Council's share of this deficit is £1.4m

Use of Reserves

In 2014/15 the Council increased its earmarked reserves by £100k. Reserves were used to complete work at the Windle Valley Centre, to support the Family Well Being Programme, complete Section 106 works, community fund grants, drainage works and Support the town centre amongst other things.

The biggest transfers in to reserves came from SANGS, (Suitable Alternative Natural Green Space), and various planning tariffs attached to new housing developments. Full details are given in the financial statements.

New Computer System

The Council implemented a new finance computer system, Civica Financials which replaced Oracle Financials which had been in place for over 20 years. The implementation has presented a number of challenges in terms of financial reporting and accounting given the size of the finance team but the system did go live on time on the 1st April 2014.

The new system will result in a number of improvements in the way the Council manages its finances, some of which were realised in 2014/15 and some of which will be realised in are being realised in early 2015/16:

- Commitment accounting has been introduced, meaning budget monitoring information is more accurate;
- Real time access to budgets is available to all managers, who no longer have to wait for the finance department to produce budget reports;
- Financial controls have been improved, with preventative computer controls replacing weaker paper based authorised signatory controls; and
- The new system is virtually paperless, which saves time processing transactions and storage of data

Further work will be done during the year to ensure that the benefits of the system can be fully exploited.

vii) Capital Spending

In 2014/15 the Council spent £2.650m on capital projects. Details of this expenditure and how it was funded is shown below:

Summary of Schemes funded from Capital

Assets Acquired and Capitalised	£'000
Depot Improvements	277
Main square improvements	152
Parking equipment	348
Windle Valley day centre	106
Frimley Lodge Park	40
Playgrounds and play areas	120
3g pitch	614
Web portal	9
Camberley Theatre Projector	35
Deposit re acquisition of SANGS Land	101
Deposit re Property acquisition	848
	<hr/> 2,650 <hr/>

Explanatory Foreword

The deposit of £101k against the purchase of Suitable Alternative Natural Greenspace (SANG) land to enable housing development in the borough. This was completed in 2015/16 at a total cost of £1.5m

The deposit of £845k against the purchase of Ashwood House in Camberley to support the Council's regeneration aims for the Town centre. This £8m purchase was completed in 2015/16.

In 2014/15 there have been no capital receipts. Of the available historic receipts £1.160m were used during the year, leaving £0.903m to fund future capital expenditure, with the remainder of capital expenditure being financed from grants, internal borrowings, revenue and earmarked reserves.

viii) Brief note explaining significance of any pension liability or asset disclosed

Details of the Council's pension liability calculated under IAS19 are shown at note 31 of the core financial statements.

Any surplus or deficit on the Council's pension fund is required to be shown within the balance sheet. In 2014/15 the estimated return on investments within the fund was £2.5m (£2.6m in 2013/14). The value of the Council's share of the pension fund administered by Surrey County Council has been assessed by the scheme's actuary as at 31st March 2015. The current valuation shows a deficit on the fund of £38.3m (previously £31.3m in 2013/14) based upon the nationally set criteria. The increase in liabilities is caused by very low corporate and government bond yields, resulting in a reduction in the discount rate used by the actuary to determine the rate at which pension benefits are discounted back to the present value. The large reduction in the discount rate used has increased the estimated value of the pension liabilities.

The actual contributions payable by the Council are based upon the actuary's own assumptions in a review that is undertaken on a triennial basis. The most recent review was completed as at 31st March 2013 and this has resulted in an increase in the deficit funding payment of about £170k pa compounded from 2014/15 until the next triennial review. No change was made to current in-year payments.

ix) Significant changes in accounting policies

Cars are now depreciated on a straight line basis rather than reducing balance basis as had been the case previously

x) Prior Year Adjustment

These financial statements contain a prior year adjustment relating to the accounting treatment of the collection fund. The effect of the restatement is shown where applicable on the core statements and a full explanation is given in note 30 to these financial statements

xi) Brief note on the current borrowing facilities and capital borrowing

A number of schemes in the 2014/15 capital programme were funded by internal borrowing. Since the year end, the Council has borrowed £16.3m from the Public Works Loans Board (PWLB) and £1.5m from the Hampshire Local Enterprise Partnership (LEP) to finance property acquisitions to support its regeneration aims.

xii) An explanation of the impact of the current economic climate on the Council and the services it provides

Through prudent actions in the past the Council has carried forward healthy reserves into 2015/16. This is against a background of reducing formula grant which has reduced by £2.5m over the last four years and is likely to disappear completely in the next Parliament. This means that the way the Council provides its services and interacts with residents will need to change in this period. It also means that there will be greater emphasis on income generation – a process which has already started as can be evidenced by the property investment and improved treasury returns.

The overall uplift in the general economy has seen growth in planning income and rents. However this has made it more difficult to recruit new staff as the skilled employment market has become more competitive.

The Council realises that there are real financial challenges ahead and is committed to, and continues with a programme of continual transformation working with partners and maximising income in order to preserve front line services. However it recognises that it may not be possible to protect all services given the challenges ahead.

Sarah Parmenter ACMA, CGMA, MAAT
Deputy Section 151 Officer

8th July 2015

Surrey Heath Borough Council
Surrey Heath House
Knoll Road
Camberley,
Surrey GU15 3HD

Statement of Responsibilities

Statement of Responsibilities

The Executive Head of Finance's responsibilities

The Head of Finance is legally and professionally responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* - the Code.

In preparing this statement of accounts, I have:

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

The Executive Head of Finance has also:

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

Deputy Section 151 Officer's certification

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at the reporting date and its income and expenditure for the year ended 31st March 2015.

Sarah Parmenter ACMA, CGMA, MAAT
Deputy Section 151 Officer
8th July 2015

Executive Head of Finance's re-certification

These financial statements replace the unaudited financial statements certified and placed on the council's website on the 8th July 2015

Kelvin Menon BSc ACA
Executive Head of Finance
31st March 2016

The Council's responsibilities

The Council is required to:

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

Council approval

The Statement of Accounts for the year to 31st March 2015 have been prepared and I confirm that these accounts were approved by the Audit and Standards committee at its meeting on the 31st March 2016.

Councillor Valerie White
Chairman of Audit and Standards Committee
31st March 2016

Core Financial Statements

Movement in Reserves Statement

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

Core Financial Statements

	2014/15						
	General fund balance	Earmarked GF reserves	Capital receipts reserves	Capital grants unapplied	Total usable reserves	Unusable reserves	Total council reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance	(2,415)	(16,522)	(2,063)	(14)	(21,014)	(17,740)	(38,754)
(Surplus) or deficit on provision of services	(2,717)	0	0		(2,717)	0	(2,717)
Other comprehensive income and expenditure					0	(3,696)	(3,696)
Total comprehensive income and expenditure	(2,717)	0	0	0	(2,717)	(3,696)	(6,413)
Adjustments between accounting basis & funding basis under regulations	2,154	0	1,254	0	3,408	(3,408)	0
Net (increase) / decrease before transfers to earmarked reserves	(563)	0	1,254	0	691	(7,104)	(6,413)
Transfers (to) / from earmarked reserves	100	(100)			0		0
(Increase) / decrease in year	(463)	(100)	1,254	0	691	(7,104)	(6,413)
Other CIES	176				176	0	176
Closing balance	(2,702)	(16,622)	(809)	(14)	(20,147)	(24,844)	(44,991)

	2013/14						
	General fund balance	Earmarked GF reserves	Capital receipts reserves	Capital grants unapplied	Total usable reserves	Unusable reserves	Total council reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance	(1,378)	(16,395)	(3,015)	(14)	(20,802)	(21,376)	(42,178)
(Surplus) or deficit on provision of services	2,560				2,560	0	2,560
Other comprehensive income and expenditure					0	1,137	1,137
Total comprehensive income and expenditure	2,560	0	0	0	2,560	1,137	3,697
Adjustments between accounting basis & funding basis under regulations	(3,724)	0	952	0	(2,772)	2,772	0
Net (increase) / decrease before transfers to earmarked reserves	(1,164)	0	952	0	(212)	3,909	3,697
Prior Year adjustment - CFAA					0	(273)	(273)
Transfers (to) / from earmarked reserves	127	(127)			0	0	0
(Increase) / decrease in year	(1,037)	(127)	952	0	(212)	3,636	3,424
Closing Balance	(2,415)	(16,522)	(2,063)	(14)	(21,014)	(17,740)	(38,754)

Core Financial Statements

Comprehensive Income and Expenditure Statement

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

	2014/15		
	Expenditure	Income	Net
	£'000	£'000	£'000
Central services to the public	1,936	(868)	1,068
Cultural, environmental & planning services	9,822	(5,160)	4,662
Highways, roads & transportation	1,480	(2,569)	(1,089)
Housing services	19,596	(17,244)	2,352
Adult social care services	2,315	(1,613)	702
Corporate & democratic core	2,429	(42)	2,387
Non distributed costs	0	0	0
Other Operating Income and Expenditure	0	0	0
Cost of services	37,578	(27,496)	10,082
Other operating expenditure			
Parish precepts			509
Payments to Government housing capital receipts pool			0
			509
Financing and investment income and expenditure			
Pensions interest cost and expected return on pensions assets			1,348
Interest receivable and similar income			(241)
Income and expenditure in relation to investment properties and changes in their fair value			(2,633)
			(1,526)
(Surplus) or deficit on discontinued operations			0
Taxation and non-specific grant income			
Council tax income			(7,756)
Non domestic rates			(1,152)
Non-ringfenced government grants			(2,591)
Capital grants and contributions			(283)
			(11,782)
(Surplus)/deficit on provision of services			(2,717)
(Surplus) or deficit on revaluation of property, plant and equipment assets			(9,251)
(Surplus) or deficit on revaluation of available for sale financial assets			(144)
Movement on collection fund adjustment account			0
Actuarial (gains) / losses on pension assets / liabilities			5,699
Other comprehensive income and expenditure			(3,696)
Total comprehensive income and expenditure			(6,413)

Core Financial Statements

	2013/14		
	Expenditure	Income	Net
	£'000	£'000	£'000
Central services to the public	2,410	(1,108)	1,302
Cultural, environmental & planning services	13,301	(4,732)	8,569
Highways, roads & transportation	1,943	(2,034)	(91)
Housing services	18,848	(17,707)	1,141
Adult social care services	1,468	(648)	820
Corporate & democratic core	1,798	(69)	1,729
Non distributed costs	0	(5)	(5)
Other Operating Income and Exp	0	0	0
Cost of services	39,768	(26,303)	13,465
Other operating expenditure			
Parish precepts			496
Payments to Government housing capital receipts pool			2
			498
Financing and investment income and expenditure			
Pensions interest cost and expected return on pensions assets			1,300
Interest receivable and similar income			(290)
Distribution from joint venture			
Income and expenditure in relation to investment properties and changes in their fair value			(563)
			447
			0
(Surplus) or deficit on discontinued operations			
Taxation and non-specific grant income			
Council tax income			(7,599)
Non domestic rates			(1,283)
Non-ringfenced government grants			(2,689)
Capital grants and contributions			(279)
			(11,850)
(Surplus)/deficit on provision of services			2,560
(Surplus) or deficit on revaluation of property, plant and equipment assets			(219)
(Surplus) or deficit on revaluation of available for sale financial assets			0
Movement on collection fund adjustment account			0
Actuarial (gains) / losses on pension assets / liabilities			1,356
Other comprehensive income and expenditure			1,137
Total comprehensive income and expenditure			3,697

Core Financial Statements

Balance Sheet

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

2013/14 Original £'000	Prior Year Adjustment £000	2013/14 Amended £000		2014/15 note	£'000
			Property, plant & equipment		
36,165		36,165	Other land and buildings	11	48,464
1,916		1,916	Vehicles, plant and equipment	11	2,460
72		72	Infrastructure assets	11	63
609		609	Community assets	11	609
237		237	Surplus assets not held for sale	11	237
161		161	Assets under construction	11	963
39,160		39,160	Total property, plant & equipment		52,796
334		334	Heritage Assets	12	334
10,327		10,327	Investment property	14	12,534
2,009		2,009	Long term investments	34	11,623
327		327	Long term debtors	19	320
52,157	0	52,157	Long term assets		77,607
2,666		2,666	Short term investments		2,676
33		33	Inventories		34
5,356	(304)	5,052	Short term debtors	20	6,513
15,236	1,553	16,789	Cash and cash equivalents	21	9,264
23,291	1,249	24,540	Current assets		18,487
(4,766)	(976)	(5,742)	Short term creditors	22	(11,376)
(4,766)	(976)	(5,742)	Current liabilities		(11,376)
(132)		(132)	Long term creditors		(136)
(561)		(561)	NDR Provision for Appeals		(1,280)
(31,508)		(31,508)	Other long term liabilities - Pensions	31	(38,310)
(32,201)	0	(32,201)	Long term liabilities		(39,726)
38,481	273	38,754	Net assets		44,992
(2,415)		(2,415)	General Fund balance		(2,703)
(2,063)		(2,063)	Capital receipts reserve		(809)
(14)		(14)	Government Grants Unapplied		(14)
(16,522)		(16,522)	Earmarked reserves	16	(16,622)
(21,014)	0	(21,014)	Usable reserves		(20,148)
(17,141)		(17,141)	Revaluation reserve	17	(25,385)
(32,680)		(32,680)	Capital adjustment account	17	(38,712)
(23)		(23)	Deferred capital receipts	17	(23)
0		0	Available for sale Fin Inst Reserve	17	(144)
31,508		31,508	Pensions reserve	17	38,310
732	(273)	459	Collection fund adjustment account	17	975
137		137	Accumulated absences account	17	135
(17,467)	(273)	(17,740)	Unusable reserves		(24,844)
(38,481)	(273)	(38,754)	Total reserves		(44,992)

Balance Sheet Supplement

Executive Head of Finance's re-certification

These financial statements replace the unaudited financial statements certified and placed on the council's website on the 8th July 2015

Kelvin Menon BSc ACA
Executive Head of Finance
31st March 2016

Members' re-approval

The Statement of Accounts for the year to 31st March 2015 have been prepared and I confirm that these accounts were approved by the Audit and Standards committee at its meeting on the 31st March 2016.

Kelvin Menon BSc ACA
Executive Head of Finance
31st March 2016

Core Financial Statements

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.

2013/14 Restated				2014/15	
Original	Prior year adjustment	Restated		note	
£'000	£'000	£'000		£'000	
(2,559)		(2,559)	Net (surplus) or deficit on the provision of services		(2,717)
1,193	0	1,193	Adjust net surplus or deficit on the provision of services for noncash movements		(2,143)
(549)		(549)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		2,632
(1,915)	0	(1,915)	Net cash (inflows)/outflows from operating activities		(2,228)
3,469	1,553	5,022	Investing activities	23	9,792
2,244	0	2,244	Financing activities	24	(39)
3,798	1,553	5,351	Net (inflows)/outflows in cash and cash equivalents		7,525
11,438		11,438	Cash and cash equivalents at the beginning of the reporting period		16,789
15,236	1,553	16,789	Cash and cash equivalents at the end of the reporting period	21	9,264
3,798	1,553	5,351	Movement in cash		(7,525)

Notes to the Core Financial Statements

1 Basis of Preparation

Last year the Statement of Accounts document was reviewed, resulting in the notes being presented in an order most likely to be of importance to the reader. The notes are intended to aid the understanding of the key drivers of the financial position of the Council.

A further review is scheduled to be completed during the 2015/16 financial year, to ensure that the Council's Statement of Accounts does not include notes which are either deemed unnecessary or immaterial.

Details of the order of the notes can be found in the index on page 1 of this document.

2 Accounting Policies

2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31st March 2015. The Council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* ("**the Code**") and the *Service Reporting Code of Practice for Local Authorities 2014/15*, 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 page 67 of this document.

3 Accounting standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015/16 Code:

IFRS 13 Fair Value Measurement. This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13. Overall this standard is not expected to have a material impact on the Statement of Accounts, due to the low value of surplus assets held by the Council.

IFRIC 21 Levies. This standard provides guidance on levies imposed by government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a

threshold is reached, or both. This standard will not have a material impact on the Statement of Accounts.

Annual Improvements to IFRSs (2011 – 2013 Cycle). These improvements are minor, principally proving clarification and will not have a material impact on the Statement of Accounts.

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 Statement of Accounts.

4 Critical judgements in applying accounting policies

In applying the accounting policies set out on page 67 onwards of this document, 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.

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

The Statement of Accounts contains estimated figures that are based on assumptions 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 2015 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 £0.053m for every year that useful lives had to be reduced.
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £9.487m. However, the assumptions interact in complex ways. During 2014/15, the Council's actuaries advised that the net pension's liability has increased by £6.8m. This is principally because financial assumptions at 31 st March 2015 were less favorable than they were at 31 st March 2014.
Debtors	At 31 st March 2015, the Council had a balance of sundry debtors of £1.30m. A review of significant balances suggested that an impairment for doubtful debts of £1.07m was appropriate.	If collection rates were to deteriorate, a full review of the bad debt provision would be undertaken to review the debts on a case by case basis.

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

6 Material items of income and expense

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

7 Events after the Balance Sheet date (restated)

The Statement of Accounts were initially certified for issue by the Deputy Section 151 Officer on the 8th July 2015. At the conclusion of the audit the Statement of Accounts will be recertified and re- issued and events taking place after this recertification are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

8 Members' allowances

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

	2013/14	2014/15
	£'000	£'000
Allowances	271	275
Travel and other allowances	2	1
Mayor	5	5
Total allowances	278	281

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

8.1 Officers remuneration

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

Following the departure of the Executive Head of Business and Executive Head of Transformation during 2014/15, an interim management structure was put in place on 1st June 2014. There were some small changes to the allocation of teams as a result of this interim structure and a permanent structure is to be addressed during 2015/16.

		Salary (including fees & allowances)	Expenses	Benefits in kind	Compensation for Loss of Office	Employers Pension Contributions	Sub Total	Returning Officer Amount	Total	Note
2014/15		£000	£000	£000	£000	£000	£000	£000	£000	
Chief Executive	2014/15	113	2	10	0	18	143	3	146	
	2013/14	109	2	7	0	18	136	3	139	
Executive Head of Finance	2014/15	83	0	5	0	13	101	0	101	
	2013/14	80	0	6	0	13	99	0	99	
Executive Head of Corporate	2014/15	12	0	1	0	2	15	0	15	April - May 2014
	2013/14	71	0	6	0	11	88	0	88	
Executive Head of Corporate (Interim)	2014/15	57	2	0	0	9	68	0	68	Interim Structure from June 2014
	2013/14	0	0	0	0	0	0	0	0	
Executive Head of Transformation	2014/15	26	1	0	0	4	31	0	31	Left 19/08/14
	2013/14	42	1	0	0	7	50	0	50	Started 20/08/13
	2013/14	36	0	4	76	6	122		122	Left 30/09/13
Executive Head of Transformation	2014/15	62	0	4	0	10	76	0	76	Interim Structure from June 2014
	2013/14	0	0	0	0	0	0	0	0	
Executive Head of Community	2014/15	74	0	5	0	12	91	0	91	
	2013/14	71	0	6	0	11	88	0	88	
Executive Head of Business	2014/15	9	0	0	0	0	9	0	9	Left 15/05/2014
	2013/14	71	2	0	0	9	82	0	82	
Executive Head of Business (Interim)	2014/15	55	2	0	0	9	66	0	66	Interim Structure from June 2014
	2013/14	0	0	0	0	0	0	0	0	
Executive Head of Regulatory	2014/15	74	3	0	0	12	89	0	89	
	2013/14	71	2	0	0	11	84	0	84	
Head of Legal	2014/15	11	0	0	0	2	13	0	13	April - May 2014
	2013/14	65	0	0	0	10	75	0	75	
Head of Legal and Property (interim)	2014/15	63	0	0	0	10	73	0	73	Interim Structure from June 2014
	2013/14	0	0	0	0	0	0	0	0	
Head of Human Resources	2014/15	10	0	0	0	2	12	0	12	Effected by interim structure. HR function
	2013/14	57	0	0	0	9	66	0	66	
* The salaries for the Chief Executives includes an amount for his/her services as Returning Officer.										

8.2 Remuneration Bands

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

Remuneration band	2013/14 number of employees	2014/15 number of employees
£50,000 - £54,999	5	6
£55,000 - £59,999	5	3
£60,000 - £64,999	0	1
£65,000 - £69,999	2	2
£70,000 - £74,999	2	1
£75,000 - £79,999	2	3
£80,000 - £84,999	0	0
£85,000 - £89,999	1	1
£90,000 - £94,999	0	0
£95,000 - £99,999	0	0
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	1	0
£115,000 - £119,999	1	0
£120,000 - £124,999	0	1
£125,000 - £129,999	0	0
£130,000 - £134,999	0	0
£135,000 - £139,999	0	0
	<hr/> 19	<hr/> 18

8.3 Exit Packages

The Council did not terminate the contracts on any employees during 2014/15.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies for 2013/14 are set out in the table below.

Exit package cost band (including special payments)	b Number of compulsory redundancies		c Number of other departures agreed		d Total number of exit packages by cost band b + c		e Total cost of exit packages in each band	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 £	2014/15 £
£0 - £20,000	2	0	6	0	8	0	88,505	0
£20,001 - £40,000	0	0	0	0	0	0	0	0
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	1	0	1	0	75,912	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
Total	2	0	7	0	9	0	164,417	0

9 Adjustments between accounting basis and funding basis under regulations

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

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 in to 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.

	Usable reserves			Movement in unusable reserves
	General fund balance	Capital receipts reserve	Capital grants unapplied	
2014/15	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	2,060	0	0	(2,060)
Revaluation losses on property, plant and equipment	(279)	0	0	279
Movements in the market value of investment properties	2,207	0	0	(2,207)
Capital grants and contributions applied	283	0	0	(283)
Revenue expenditure funded from capital under statute	(633)	0	0	633
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	(129)	0	0	129
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	0	0	0	0
Capital expenditure charged against the general fund balance	84	0	0	(84)
Adjustments primarily involving the capital grants unapplied account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0
Application of grants to capital financing transferred to the capital adjustment account	178	0	0	(178)
Adjustments primarily involving the capital receipts reserve				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	1,254	0	(1,254)
Transfer from deferred capital receipts reserve upon receipt of cash	0	0	0	0
Adjustments primarily involving the deferred capital receipts reserve				
Transfer of deferred sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0
Adjustment primarily involving the financial instruments adjustment account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	0	0
Adjustments primarily involving the pensions reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and expenditure Statement	(2,883)	0	0	2,883
Employer's contributions and direct payments to pensioners payable in year	1,780	0	0	(1,780)
Adjustments primarily involving the collection fund adjustment account				
Amount by which council tax 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	(516)	0	0	516
Adjustments primarily involving the accumulated absences account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2	0	0	(2)
Other Adjustments recorded in CIES				0
Total adjustments	2,154	1,254	0	3,408

	Usable reserves			Movement in unusable reserves
	General fund balances	Capital receipts reserve	Capital grants unapplied	
2013/14	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	(1,781)	0	0	1,781
Revaluation losses on property, plant and equipment	14	0	0	(14)
Movements in the market value of investment properties	0	0	0	0
Capital grants and contributions applied	0	0	0	0
Revenue expenditure funded from capital under statute	(358)	0	0	358
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	(52)	0	0	52
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	0	0	0	0
Capital expenditure charged against the general fund balance	233	0	0	(233)
Adjustments primarily involving the capital grants unapplied account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0
Application of grants to capital financing transferred to the capital adjustment account	281	0	0	(281)
Adjustments primarily involving the capital receipts reserve				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	11	(11)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	962	0	(962)
Transfer from deferred capital receipts reserve upon receipt of cash	(1)	1	0	0
Adjustments primarily involving the deferred capital receipts reserve				
Transfer of deferred sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0
Adjustment primarily involving the financial instruments adjustment account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	0	0
Adjustments primarily involving the pensions reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and expenditure Statement	(2,705)	0	0	2,705
Employer's contributions and direct payments to pensioners payable in year	1,526	0	0	(1,526)
Adjustments primarily involving the collection fund adjustment account				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(892)	0	0	892
Adjustments primarily involving the accumulated absences account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	0	0
Total adjustments	(3,724)	952	0	2,772

10 Grant income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

	2013/14 £'000	2014/15 £'000
Credited to taxation and non specific grant income		
Revenue support grant	(2,059)	(1,578)
Capital Grants	(279)	(283)
Other grants	(630)	(1,740)
Total	(2,968)	(3,601)
Credited to services		
Housing benefit administration grant	(338)	(252)
Council tax benefit grant	0	(56)
Rent allowance subsidy	(16,194)	(16,934)
Other grants	(531)	(688)
Total	(17,063)	(17,930)
Total Grants	(20,031)	(21,531)

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

11 Property, plant and equipment

11.1 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
Officer's Cars	20% Straight line method
Intangible	Written off in year of purchase
Infrastructure	10 to 20 years

11.2 Construction Contracts

At 31st March 2015, the Council has agreed the following schemes:-

- The A30/A331 corridor improvements (Meadows Gyrotory) and Blackwater Valley Connectivity project at an estimated cost (25%) to the Council of £673,000.
- The acquisition of Ashwood House, Pembroke Broadway, Camberley for the sum of £8m including fees and taxes. The deposit for the purchase of the property was paid in March 2015.

The acquisition of land for use as Suitable Alternative Natural Greenspace (SANG) land between Station Road and Chertsey Road, Chobham for the sum of up to £1.5million including stamp duty and legal costs subject to a satisfactory business case. A deposit of £0.106m was paid in 2014/15.

11.3 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 the Council's in house surveyors. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or the latest list prices adjusted for the condition of the asset.

	Other Land & Buildings £'000	Surplus Assets £'000	Total £'000
Value at fair value as at:			
31 March 2015	22,833		22,833
31 March 2014	541		541
31 March 2013	5,503		5,503
31 March 2012	12,479	237	12,716
31 March 2011	7,108		7,108
Total Cost or Valuation	48,464	237	48,701

2014/15	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 2014	45,794	6,784	154	609	237	161	53,739
Additions	533	1,154	0	0	0	963	2,650
Donations	0	0	0	0	0	0	0
Revaluation Increases/(decreases) recognised in the revaluation reserve	9,251	0	0	0	0	0	9,251
Revaluation Increases/(decreases) recognised in the surplus / deficit on the provision of services	(1,337)	0	0	0	0	0	(1,337)
Derecognition - disposals	0	(35)	0	0	0	(94)	(129)
Derecognition - other	0	0	0	0	0	0	0
Assets reclassified from Assets under Construction	59	8	0	0	0	(67)	0
Other movements in cost or valuation	0	0	0	0	0	0	0
At 31 March 2015	54,300	7,911	154	609	237	963	64,174
Accumulated depreciation and impairment							
At 1 April 2014	(9,629)	(4,868)	(82)	0	0	0	(14,579)
Depreciation Charge	(1,240)	(583)	(9)	0	0	0	(1,832)
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	3,892	0	0	0	0	0	3,892
Impairment losses/reversals recognised in the revaluation reserve	0	0	0	0	0	0	0
Impairment losses/reversals recognised in the surplus / deficit on the provision of services	1,141	0	0	0	0	0	1,141
Derecognition - disposals	0	0	0	0	0	0	0
Derecognition - other	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	0	0	0	0	0	0
At 31 March 2015	(5,836)	(5,451)	(91)	0	0	0	(11,378)
Net Book Value							
At 31 March 2015	48,464	2,460	63	609	237	963	52,796
At 31 March 2014	36,165	1,916	72	609	237	161	39,160

2013/14	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 2013	45,512	6,282	154	609	237	30	52,824
Additions	154	554	0	0	0	131	839
Donations	0	0	0	0	0	0	0
Revaluation Increases/(decreases) recognised in the revaluation reserve	135	0	0	0	0	0	135
Revaluation Increases/(decreases) recognised in the surplus / deficit on the provision of services	(7)	0	0	0	0	0	(7)
Derecognition - disposals	0	(52)	0	0	0	0	(52)
Derecognition - other	0	0	0	0	0	0	0
Assets reclassified (to) / from held for sale	0	0	0	0	0	0	0
Other movements in cost or valuation	0	0	0	0	0	0	0
At 31 March 2014	45,794	6,784	154	609	237	161	53,739
Accumulated depreciation and Impairment							
At 1 April 2013	(8,480)	(4,402)	(72)	0	0	0	(12,954)
Depreciation Charge	(1,233)	(466)	(10)	0	0	0	(1,709)
Depreciation written out to the revaluation reserve	63	0	0	0	0	0	63
Depreciation written out to the surplus / deficit on the provision of services	21	0	0	0	0	0	21
Impairment losses/reversals recognised in the revaluation reserve	0	0	0	0	0	0	0
Impairment losses/reversals recognised in the surplus / deficit on the provision of services	0	0	0	0	0	0	0
Derecognition - disposals	0	0	0	0	0	0	0
Derecognition - other	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	0	0	0	0	0	0
At 31 March 2014	(9,629)	(4,868)	(82)	0	0	0	(14,579)
Net Book Value							
At 31 March 2014	36,165	1,916	72	609	237	161	39,160
At 31 March 2013	37,032	1,880	82	609	237	30	39,870

12 Heritage Assets

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

	Museum	Civic	Other	Total
	£'000	Regalia	£'000	£'000
		£'000		
Cost or Valuation				
1 st April 2013	158	107	48	313
Revaluations	0	0	0	0
Other Movements	17	4	0	21
31st March 2014	175	111	48	334
Cost or Valuation				
1 st April 2014	175	111	48	334
Revaluations	0	0	0	0
Other Movements	0	0	0	0
31st March 2015	175	111	48	334

12.1 Civic Regalia

An additional jewel for the Civic Regalia was located in the 2013/14 year resulting in a £4k increase in the total valuation to £0.111m.

12.2 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.

12.3 Other

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

12.4 Five Year Summary of Transactions

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Cost of Acquisitions of Heritage Assets					
Museum Artwork	149	149	149	166	166
Civic Regalia	49	49	107	111	111
Other	48	48	48	48	48
Total Cost of Purchases	246	246	304	325	325
Value of Heritage Assets Acquired by Donation					
Museum Artwork	9	9	9	9	9
Civic Regalia					
Other					
Total Donations	9	9	9	9	9

13 Intangible Assets

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

During 2014/15 no Capital expenditure was incurred in relation to this category.

14 Investment Properties

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

	2013/14 £'000	2014/15 £'000
Rental income from investment property	(580)	(751)
Direct operating expenses arising from investment property	17	324
Net (gain) / loss	(563)	(427)

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:

	2013/14 £'000	2014/15 £'000
Balance at start of the year	10,120	10,327
Purchases	207	0
Net gains / (losses) from fair value adjustments	0	2,207
Balance at end of the year	10,327	12,534

15 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.

	2013/14 £'000	2014/15 £'000
Opening capital financing requirement	0	0
Capital investment		
Property, plant and equipment	708	1,687
Investment assets	207	0
Assets under construction	131	963
Intangible assets	71	0
Revenue expenditure funded from capital under statute	359	633
Sources of finance (Restated)		
Capital receipts	(962)	(1,254)
Government grants and other contributions	(281)	(461)
Sums set aside from revenue	(233)	(84)
Closing capital financing requirement	0	1,484

16 Transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund Balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

Reserve	note	Balance 1 April 2013	Net Transfers 2013/14	Balance 31 March 2014	Net Transfers 2014/15	Balance 31 March 2015
		£000	£000	£000	£000	£000
Revenue purposes						
Capital Fund	(a)	9,987	(283)	9,704	(337)	9,367
Earmarked Revenue purposes						
Atrium development agreement	(b)	0	0	0	0	0
Affordable Housing	(b)	0	0	0	316	316
Atrium Public Art	(c)	12	0	12	1	13
Atrium S106 Agreement	(d)	394	(27)	367	(26)	341
Blackwater Valley developers contributions	(e)	144	(7)	137	(31)	106
Chewing Gum Machine	(f)	22	(9)	13	0	13
Chobham and Town Team Partnership	(g)	9	(3)	6	(1)	5
Community Fund 2002	(h)	410	(55)	355	(26)	329
Commuted Sums	(i)	838	(52)	786	(95)	691
Crime and Disorder Partnership	(j)	144	(19)	125	(3)	122
Deepcut Village Centre: Alma Dettingen	(k)	373	2	375	2	377
Heatherside: multi-use games area	(l)	46	(3)	43	(4)	39
Insurance Reserve Fund	(m)	239	(21)	218	(1)	217
Land drainage	(n)	404	(20)	384	0	384
LLC Personal Search Revocation	(o)	34	(9)	25	0	25
New Burdens Fund	(p)	81	(32)	49	81	130
Old Dean toddlers playground	(q)	20	0	20	0	20
Personalisation and Prevention Partnership Fund	(r)	115	(45)	70	(26)	44
Planning S106 Agreements	(s)	134	1	135	(1)	134
Planning Tariff Contributions	(t)	294	111	405	54	459
Property Maintenance	(u)	508	1,333	1,841	73	1,914
Recycling/Refuse Equalisation	(v)	250	(44)	206	0	206
Remediation Fund	(w)	45	0	45	0	45
Repairs and Renewals	(x)	1,187	(1,187)	0	0	0
Safer Surrey Heath ¹	(y)	7	0	7	(7)	0
SANGS	(z)	698	189	887	280	1,167
Surrey Family Support Programme	(aa)	0	247	247	(89)	158
Windle Valley Well Being Centre	(bb)	0	60	60	(60)	0
Total - Revenue Purposes		6,408	410	6,818	437	7,255
TOTAL		16,395	127	16,522	100	16,622

Note 1 - Safer Surrey Heath Reserve was merged with the Crime and Disorder Reserve during 2014/15.

Note 2 – Affordable Housing Reserve – Fund set up with contributions from developers who are unable to provide affordable housing on their site to enable SHBC to provide affordable housing elsewhere.

- a) **Capital Fund** – this reserve is sourced from revenue to support capital expenditure
- b) **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) **Atrium Public Art** – this fund was set up to meet the on-going maintenance and insurance costs of the project.
- d) **Atrium S106 Agreement** – this fund is made up of the developer contributions towards Town Centre Management Improvements as part of the Atrium Development legal agreement.
- e) **Blackwater Valley Developer’s Contributions** – this is a sum held to contribute towards the maintenance costs of the Blackwater Valley leisure projects. The balance includes miscellaneous contributions from developers.
- f) **Chewing Gum Machine** – this fund was set up from S106 income, to fund the projected 8 year life of the machine to cover the running costs and replacement of the machine.
- g) **Chobham and Town Team Partnership** – A fund, granted by the Department of Communities and Local Government (DCLG), is held on behalf of Chobham BEE (Chobham Better Experience for Everyone) for planning and implementing improvements to Chobham High Street.
- h) **Community Fund 2002** – this fund is to make grants to community based organisations. This fund also includes the environmental bursary, as the balance was transferred into the fund as per the Executive 2nd October 2007, minute 066/E refers.
- i) **Commuted Sums** – these funds are contributed by developers for the maintenance of open spaces and amenities.
- j) **Crime and Disorder Partnership** – the Crime and Disorder Act 1999 required a partnership to be set up to improve community safety. This money will be used to fund the activities of mutual benefit to the whole partnership.
- k) **Deepcut Village Centre: Alma Dettingen** – this is a sum held to contribute towards structural maintenance and the eventual refurbishment of this community facility.
- l) **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.
- m) **Insurance Reserve Fund** - this fund has been set aside for three reasons:
 - in connection with the close of trading of the Municipal Mutual Insurance (MMI) and the potential contribution towards costs
 - to provide a credit guarantee for loans made under the council’s car loans scheme for officers and;
 - to deliver a risk management policy including risk management, business continuity and health and safety.
- n) **Land Drainage** – this fund finances the land drainage programme.

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- o) **LLC Personal Search Revocation** – this fund is to finance claims for refunds of fees, paid by way of Personal Searches of the Land Charges Register from 2005 to August 2010.
 - p) **New Burdens Fund** – funding received from the DCLG in recognition of additional resources/works required by local authorities under the Localism Act.
 - q) **Old Dean Toddlers Playground** – this fund has been set up for this project from payments received from The Accent Foundation, Frimley Fuel Allotments, Beacon Church and parents support group for the installation of the playground and future maintenance.
 - r) **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.
 - s) **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.
 - t) **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.
 - u) **Property Maintenance** – this fund is used to finance the planned preventative maintenance programme for the council's properties.
 - v) **Recycling/Refuse Equalisation** - this fund has been set up to mitigate the effect of any fall in prices for recycled materials in future years.
 - w) **Remediation Fund** – this fund is used to fund works to restore land following illegal occupation.
 - x) **Repairs and Renewals** – this fund is used to finance the repairs and renewal of equipment, vehicles and plant.
 - y) **Safer Surrey Heath** – the Safer Surrey Heath Partnership receives funding from the Home Office and others which it allocates by way of grant to partners and other organisations to fund community safety projects. The reserve relates to grants/projects previously approved by the partnership for which the funding is being held by the council.
 - z) **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 is shown elsewhere in these Financial Statements.
 - aa) **Surrey Family Support Programme** – this fund is used to finance the Troubled Families Project for the period 2012- 2015. It is funded by Surrey County Council using government grant funding.
 - bb) **Windle Valley Well Being Centre** – this fund is 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.

17 Unusable Reserves

17.1 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	2013/14	2014/15
	£'000	£'000
Balance at 1 April	(17,551)	(17,141)
Upward revaluation of assets	(219)	(9,348)
Downward revaluation of assets and impairment losses not charged to the surplus / deficit on the provision of services (Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	0	97
Difference between fair value depreciation and historical cost depreciation	(219)	(9,251)
Amount written off to the Capital Adjustment Account	629	1,007
Balance at 31 March	(17,141)	(25,385)

17.2 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 11 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2013/14 £'000	2014/15 £'000
Application of grants to capital financing from the capita	(32,752)	(32,680)
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i>		
Charges for depreciation and impairment of non-current assets	1,781	(2,060)
Revaluation losses/gains(-) on property, plant and equipment	(14)	279
Revenue expenditure funded from capital under statute	358	633
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	52	129
	<u>2,177</u>	<u>(1,019)</u>
Adjusting amounts written out of the Revaluation Reserve	(629)	(1,007)
Net written out amount of the non-current assets consumed in the year	1,548	(2,026)
<i>Capital financing applied in the year:</i>		
Use of the capital receipts reserve to finance new capital expenditure	(962)	(1,254)
Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	(281)	0
Application of grants to capital financing from the capital grants unapplied account	0	(461)
Statutory provision for the financing of capital investment charged against the General Fund Balance	0	
Capital expenditure charged against the General Fund Balance	(233)	(84)
	<u>(1,476)</u>	<u>(1,799)</u>
Movements in the market value of investment properties debited or (credited) in the Comprehensive Income and Expenditure Statement	0	(2,207)
Movements in the donated assets account credited in the Comprehensive Income and Expenditure Statement	0	0
Balance at 31 March	<u>(32,680)</u>	<u>(38,712)</u>

17.3 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.

	2013/14 £'000	2014/15 £'000
Balance at 1 April	(23)	(23)
Transfer of deferred sales proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0
Transfer to the capital receipts reserve upon receipt of cash	0	0
Balance at 31 March	(23)	(23)

17.4 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.

	2013/14 £'000	2014/15 £'000
Balance at 1 April	28,973	31,508
Actuarial (gains) and losses on pensions assets and liabilities	1,356	5,699
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	2,705	2,883
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,526)	(1,780)
Balance at 31 March	31,508	38,310

17.5 Collection Fund Adjustment Account (Restated)

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.

	2013/14	2014/15
	£'000	£'000
Balance at 1 April	(160)	459
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	619	516
	459	975

17.6 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.

	2013/14	2014/15
	£'000	£'000
Balance at 1 April	137	137
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	(2)
Balance at 31 March	137	135

17.7 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.

	2013/14	2014/15
	£'000	£'000
Balance at 1 April	0	0
Upward revaluation of investments		0
Downward revaluation of investments not charged to the surplus / deficit on the provision of services	0	144
	0	144
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of other investment income		
Balance at 31 March	0	144

18 Leases

18.1 Council as Lessee – Operating Leases

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

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

	31 March 2014	31 March 2015
	£	£
Not later than one year	25	25
Later than one year and not later than five years	68	68
Later than five years	0	0
	<u>93</u>	<u>93</u>

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

	2013/14	2014/15
	£'000	£'000
Adult social care	25	25
	<u>25</u>	<u>25</u>

18.2 Council as Lessor – Operating Leases

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

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

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

	31 March 2014	31 March 2015
	£'000	£'000
Not later than one year	172	232
Later than one year and not later than five years	636	674
Later than five years	2,031	1,877
	<u>2,839</u>	<u>2,783</u>

The Council is also Lessor of the Atrium shopping Centre in Camberley for which is receives a fixed percentage of net rent collected. In 2014/15 the income was £239,968 and in 2013/14 £174,289. This lease is expected to continue in to the foreseeable future however on the grounds of materiality this has not been separated in to the component parts within this note.

19 Long Term Debtors

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

	31 March 2014	31 March 2015
	£'000	£'000
Charges on properties	182	176
Housing loans	145	144
	<u>327</u>	<u>320</u>

20 Short Term Debtors

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

	31 March 2014	Prior year adjustment	31 March 2014 Restated	31 March 2015
	£'000	£'000	£'000	£'000
Central government bodies	2,379	(254)	2,125	1,838
Other local authorities	494	(50)	444	1,598
Sundry debtors	3,463	0	3,463	1,295
Bodies External to Central Government				2,847
	<u>6,336</u>	<u>(304)</u>	<u>6,032</u>	<u>7,578</u>
Provision for impairment of bad debts	(980)		(980)	(1,065)
	<u>5,356</u>	<u>(304)</u>	<u>5,052</u>	<u>6,513</u>

21 Cash and Cash Equivalents

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

	31 March 2014	Prior year adjustment	31 March 2014 Restated	31 March 2015
	£'000	£'000	£'000	£'000
Cash held by the Council	7	0	7	(21)
Bank current accounts	(1,227)	1,553	326	834
Short term deposits	16,456	0	16,456	8,451
Total cash and cash equivalents	<u>15,236</u>	<u>1,553</u>	<u>16,789</u>	<u>9,264</u>

22 Short Term Creditors

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

	31 March 2014	Prior year adjustment	31 March 2014 Restated	31 March 2015
	£'000	£'000	£'000	£'000
Central government bodies	(1,713)	(121)	(1,834)	(4,517)
Other local authorities	(1,204)	(481)	(1,685)	(3,621)
Other entities and individuals	(1,849)	(374)	(2,223)	(3,238)
	(4,766)	(976)	(5,742)	(11,376)

23 Cash flow statement – investing activities

The cash flows for investing activities include the following items:

	2013/14 £000 Restated	2014/15 £000
Purchase of property, plant and equipment, investment property and intangible assets	(1,248)	(3,245)
Purchase of short term and long term investments	5,089	(9,625)
Other payments for investing activities	1,128	3,043
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	53	35
Net cash flows from investing activities	5,022	(9,792)

24 Cash flow statement – financing activities

The cash flows for financing activities include the following items:

	2013/14 £000 Restated	2014/15 £000
Cash receipts of short and long term borrowing	1,352	562
Other receipts from financing activities	892	(523)
Net cash flows from financing activities	2,244	39

25 Amounts reported for resource allocation decisions

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

- no charges (apart from an estimate for asset charges) are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the

balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)

- the cost of retirement benefits is based on an estimate of current service cost of benefits accrued in the year, however this changes after the actuaries review
- expenditure on some support services is budgeted for centrally and not charged to portfolios
- some expenditure from reserves is not included within the budget reports that go to the Executive

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

Portfolio Income and Expenditure 2014/15	Business	Regulatory	Community	Corporate	Finance	Transformation	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(3,843)	(960)	(2,603)	(73)	(541)	(1,545)	(9,565)
Government grants	(30)	(228)	(320)	(93)	(17,243)	(16)	(17,930)
Total income	(3,873)	(1,188)	(2,923)	(166)	(17,784)	(1,561)	(27,495)
Employee expenses	1,734	1,865	1,993	580	1,856	(336)	7,692
Other service expenses	1,371	382	4,776	695	16,509	(406)	23,327
Support service recharges	742	881	964	430	1,255	343	4,615
Total expenditure	3,847	3,128	7,733	1,705	19,620	(399)	35,634
Net expenditure	(26)	1,940	4,810	1,539	1,836	(1,960)	8,139

Portfolio Income and Expenditure 2013/14	Business	Regulatory	Community	Corporate	Finance	Transformation	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(3,384)	(1,986)	(2,379)	(102)	(539)	(701)	(9,091)
Government grants	(18)	(379)	(136)	(16)	(16,657)	(3)	(17,209)
Total income	(3,402)	(2,365)	(2,515)	(118)	(17,196)	(704)	(26,300)
Employee expenses	1,311	1,322	1,378	486	893	717	6,107
Other service expenses	2,718	1,555	4,772	556	16,622	806	27,029
Support service recharges	806	940	1,143	334	1,199	436	4,858
Total expenditure	4,835	3,817	7,293	1,376	18,714	1,959	37,994
Net expenditure	1,433	1,452	4,778	1,258	1,518	1,255	11,694

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

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

	2013/14 £'000	2014/15 £'000
Net expenditure in the Portfolio Analysis	11,694	8,139
Net expenditure of services and support services not included in the analysis	1,770	1,943
Cost of Services in Comprehensive Income and Expenditure Statement	13,464	10,082

25.3 Reconciliation to subjective analysis

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

	Portfolio analysis	Services and support services not in analysis	Amounts not reported to management for decision making	Cost of services	Corporate amounts	Total
2014/15	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(9,565)	0	0	(9,565)	0	(9,565)
Financing and investment income and expenditure	0	0	0	0	(2,633)	(2,633)
Income from council tax	0	0	0	0	(7,756)	(7,756)
Income from non domestic rates	0	0	0	0	(1,152)	(1,152)
Past service gain on pensions	0	0	0	0	1,348	1,348
Government grants and contributions	(17,930)	0	0	(17,930)	(2,874)	(20,804)
Total income	(27,495)	0	0	(27,495)	(13,067)	(40,562)
Employee expenses	7,693	0	0	7,693	0	7,693
Other service expenses	23,326	0	0	23,326	0	23,326
Support service recharges	4,615	0	0	4,615	0	4,615
Depreciation, amortisation and impairment	0	0	1,943	1,943	0	1,943
Interest payments	0	0	0	0	(241)	(241)
Payments to housing pool	0	0	0	0	0	0
Precepts & levies	0	0	0	0	509	509
Total expenditure	35,634	0	1,943	37,577	268	37,845
Surplus or deficit on the provision of services	8,139	0	1,943	10,082	(12,799)	(2,717)

	Portfolio analysis	Services and support services not in analysis	Amounts not reported to management for decision making	Cost of services	Corporate amounts	Total
2013/14	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service	(9,091)	0	0	(9,091)	0	(9,091)
Interest and investment income	0	0	0	0	(853)	(853)
Income from council tax	0	0	0	0	(7,599)	(7,599)
Income from non domestic rates	0	0	0	0	(1,283)	(1,283)
Post stock transfer capital receipts	0	0	0	0	0	0
Government grants and contributions	(17,209)	0	0	(17,209)	(2,968)	(20,177)
Total income	(26,300)	0	0	(26,300)	(12,703)	(39,003)
Employee expenses	6,107	0	0	6,107	0	6,107
Other service expenses	27,029	0	0	27,029	0	27,029
Support service recharges	4,858	0	0	4,858	0	4,858
Depreciation, amortisation and impairment	0	0	1,770	1,770	0	1,770
Interest payments	0	0	0	0	1,300	1,300
Payments to housing pool	0	0	0	0	2	2
Precepts & levies	0	0	0	0	496	496
Total expenditure	37,994	0	1,770	39,764	1,798	41,562
Surplus or deficit on the provision of services	11,694	0	1,770	13,464	(10,905)	2,559

26 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.

	2013/14		2014/15	
	Turnover	(Surplus) / deficit	Turnover	(Surplus) / deficit
	£'000	£'000	£'000	£'000
Camberley Theatre	(738)	787	(757)	2,044
Car parks	(1,675)	(149)	(1,890)	(1,270)
Building control - chargeable	(278)	(39)	(307)	(59)
	(2,691)	599	(2,954)	715

Camberley Theatre

The Council owns and manages a theatre that puts on a variety of productions. In 2014/15 the catering concession was outsourced. All other functions remained in-house.

Car Parks

The car parks are owned and managed by the Council.

27 Agency services

27.1 The Council provides the following services on behalf of Surrey County Council and Hampshire County Council through agency agreements:

- Management of two gypsy sites at Swift Lane and Kalima,
- Civil parking enforcement and controlled parking zones.
- - SANGS agreements in relation to Swan lakes and Hawley Meadows

Gypsy sites

Income	(169)	(146)
Expenditure	173	331
(Surplus) / deficit on the agency arrangement	4	185

Parking Services

Income	(359)	(671)
Expenditure	417	684
(Surplus) / deficit on the agency arrangement	58	13

Total (surplus) / deficit on the agency arrangements	62	198
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28 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:

	2013/14 £'000	2014/15 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	55	56
Fees payable for the certification of grant claims and returns for the year	15	15
	<u>70</u>	<u>71</u>

29 Related Parties

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

29.1 Central Government

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 25.3 on reporting resources allocation decisions.

29.2 Members

Members of the Council have direct control over the Council's financial and operating policies. One member is an employee of Guildford Borough Council but is not involved in contracting nor any activity paid for by Surrey Heath. Three members are also members of Surrey County Council but have no personal interest in any transactions. Grants totaling £84,788 were paid to 4 voluntary organisations in which 7 members had an interest. The grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the register of members' interest, open to public inspection at Surrey Heath House during office hours.

The total of members' allowances paid in 2014/15 is shown in Note 8.

29.3 Officers

No outside interests were declared.

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

The Council had significant financial transactions with both Surrey County Council and Surrey Police Authority details of which are shown in the Collection Fund Statement for 2014/15 on page 62.

30 Prior year adjustments

There are two prior year adjustments which have resulted in the 2013/14 financial statementst being restated. These relate to the Collection Fund and Reserves

Collection Fund

These financial statements contain a prior year adjustment relating to changes required to accounting for the Collection Fund relating to the financial year 2012/13 and before.

The Collection Fund contains all of the Council Tax and Business Rates collected from ratepayers in the borough and also the payments out to preceptors. During the preparation of the accounts for 2014/15 it became apparent that the Collection Fund had not been properly accounted for over a number of years.

This related to in particular to the way that “receipts in advance” had been treated. In the Collection fund calculation used in precious years the “receipts in advance” figures was taken to be the balancing figure in the collection fund calculation rather than the actual figure as in the revenues system. This discrepancy only became apparent with the changes to the Localisation of Business Rates and the new computer system. It is clear that the “receipts in advance” in the revenue system and that used in the accounts have drifted apart over many years leading to the differences below. As a result of a thorough review of the collections fund to further adjustments were found also relating to 2012/13.

The adjustment of £1.5m, which was wrongly shown as a reduction in cash in the 2013/14 accounts has arisen for the following reasons:

- £830,822 as a result of the wrong opening figure being used on the 1st April 2013 for “payments in advance” in respect of business rates;
- £447,082 as a result of the wrong opening figure being used on the 1st April 2013 for “payments in advance” in respect of business rates;
- £195,000 as a result of a surplus on Council Tax not being paid over relating to 2012/13;
- £122,480 representing an amount due to the Government representing transitional relief not paid over in 2012/13
- (£42,380) being Business Rates creditor in relation to the BID area

These adjustments have the effect of increasing the cash balances at the 31st March 2014 and creating a number of creditors which were not included in the original accounts.

A summary of the adjustments are shown below:

DR: Cash and Cash Equivalents	1,553,000	
CR: Other creditors – SCC		481,561
DR: Other Creditors – BID	42,380	

CR: Other Creditors – Police	83,470
CR: Other creditors – central Government	453,763
CR: Collection Fund Adjustment Account	276,864
CR: Other debtors – Central Government	249,769
CR: Other debtors – SCC	49,953

31 Defined Benefit Pension schemes

31.1 Participation in Pension Schemes

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

The Council participates in two post-employment schemes:

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

Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

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 page 67).

31.2 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	
	2013/14 £'000	2014/15 £'000
Comprehensive Income and Expenditure Statement		
Cost of Services		
Service Cost comprising:		
- Current Service Cost	1,403	1,535
- Past Service Costs	2	0
- (gain)/loss from settlements	0	0
<i>Financing and Investment Income and Expenditure</i>		
Net interest expense	1,300	1,348
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	2,705	2,883
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement comprising:		
- Return on plan assets (excluding the amount included in the net interest expense)	1,378	(5,414)
- Actuarial gains and losses arising on changes in demographic assumptions	1,554	0
- Actuarial gains and losses arising on changes in financial assumptions	381	11,991
- Other experience	(1,957)	(878)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	1,356	5,699

31.3 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**

	2013/14	2014/15
	£'000	£'000
Present value of the defined benefit obligation	(90,085)	(103,742)
Fair value of plan assets	58,577	65,432
Net liability arising from defined benefit obligation	(31,508)	(38,310)

31.4 Reconciliation of fair value of the scheme assets:

	Funded Assets: local government pension		Unfunded Assets: discretionary benefits	
	2013/14	2014/15	2013/14	2014/15
	£'000	£'000	£'000	£'000
Opening fair value of scheme assets	58,750	58,577	0	0
Interest Income	2,611	2,495		
Remeasurement gain/(loss):				
- the return on plan assets, excluding the amount included in the net interest expense	(1,378)	5,414		
The effect of changes in foreign exchange rates				
Contributions from employer	1,304	1,557	222	223
Contributions from employees in the scheme	399	467		
Benefits paid	(3,109)	(3,078)	(222)	(223)
Closing fair value of scheme assets	58,577	65,432	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.

31.5 Reconciliation of present value of the scheme liabilities

	Funded Liabilities: local government		Unfunded Liabilities: discretionary benefits	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Opening Balance at 1 April	(87,723)	(90,085)		
Current Service cost	(1,403)	(1,535)		
Interest cost	(3,911)	(3,843)		
Contributions from Schemes participants	(399)	(467)		
Remeasurement (gains) and losses:				
- Actuarial gains/losses arising from change in demographic assumptions	(1,554)	0		
- Actuarial gains/losses arising from changes in financial assumptions	(381)	(11,991)		
- Other Experience	1,957	878		
Past service cost	(2)	0		
Liabilities assumed on entity combinations				
Unfunded Benefits paid			222	223
Benefits paid	3,109	3,078		
Closing balance at 31 March	(90,307)	(103,965)	222	223
Being				
Present value of funded liabilities	(86,456)	(99,976)		
Present value of unfunded liabilities	(3,629)	(3,766)		
	(90,085)	(103,742)		

31.6 Local Government Pension Scheme Assets

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

Asset category	Period Ended 31 March 2014			Period Ended 31 March 2015			Percentage of Total Assets
	Quoted prices in active markets	Quoted prices not in active markets	Total	Quoted prices in active markets	Quoted prices not in active markets	Total	
	£'(000)	£'(000)	£'(000)	£'(000)	£'(000)	£'(000)	
Equity Securities:							
Consumer	4,941		4,941	4,901		4,901	7%
Manufacturing	4,006		4,006	3,544		3,544	5%
Energy and Utilities	2,842		2,842	2,144		2,144	3%
Financial Institutions	3,823		3,823	4,192		4,192	6%
Health and Care	2,140		2,140	2,302		2,302	4%
Information Technology	3,186		3,186	3,125		3,125	5%
Bonds							
Corporate Bonds (investment grade)	2,238		2,238	2,381		2,381	4%
corporate bonds (non-investment grade)	100		100	263		263	0%
UK Government	1,346		1,346	1,473		1,473	2%
Other	380		380	609		609	1%
Private Equity:							
All	0	2,227	2,227	0	2,455	2,455	4%
Real Estate							
UK Property	1,247		1,247	1,842	2,287	4,129	6%
Overseas Property	2,000		2,000	0	32	32	0%
Investment Funds and Unit Trusts:							
Equities	16,330		16,330	19,059		19,059	29%
Bonds	5,251		5,251	6,116		6,116	9%
Other	5,760		5,760	7,546		7,546	12%
Derivatives:							
Interest Rate	4		4	(9)		(9)	0%
Foreign Exchange	275		275	(52)		(52)	0%
Cash and Cash Equivalents:							
All	481		481	1,223		1,223	2%
	56,351	2,227	58,577	60,658	4,774	65,432	100%

31.7 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, 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 2013.

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

	2013/14	2014/15
Long-term expected rate of return on assets in the scheme:		
Equity investments	4.3%	3.2%
Bonds	4.3%	3.2%
Property	4.3%	3.2%
Other	4.3%	3.2%
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	24.5	24.5
Women	26.9	26.9
Rate of inflation	2.8%	2.4%
Rate of increase in salaries	4.1%	3.8%
Rate of increase in pensions	2.8%	2.4%
Rate for discounting scheme liabilities	4.3%	3.2%

The estimation of the defined benefit obligations is sensitive to the actuaries assumptions set out in the above table. The sensitivity analysis in the table below have been determined based on reasonably 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)
0.5% decrease in Real Discount Rate	9%	9,487
1 year increase in member life expectancy	3%	3,112
0.5% increase in the Salary Increase Rate	2%	2,249
0.5% increase in the Pension Increase Rate	7%	7,099

31.8 Impact on Council's Cashflows

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. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the act, the Local Government Pension Scheme in England and Wales and 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 total liability of £103.7m 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 £1.7m contributions to the scheme in 2015/16.

The weighted average duration of the defined benefit obligation for scheme members is 17.2 years.

32 Contingent liabilities

Surrey Heath Borough Council was a defendant in proceedings brought by two groups of Property Search Companies for refunds of fees paid to the Council to access land charges data. A payment was made to the first group during the year and a provision made in this year's financial statements to cover the second group. The second group have also made a claim for costs of £25,000 which is being heavily resisted by the Council's officers. As the outcome of the case is not known and it is believed that the actual costs due is a far smaller figure, no allowance has been made for this in the 2014/15 financial statements. Were the liability to crystallize it would fall on the General Fund although it will be no greater than the £25k claimed.

The Council was a member of the Municipal Mutual Insurance Limited. The Council is party to a reserve scheme arrangement with the company which was entered into in October 1993 after the company ceased trading in September 1992. The company has advised that the Council's potential liability from unpaid claims is £141k for which the Council has set up a reserve included in earmarked reserves in these accounts. A Supreme Court judgement during the year has crystallized this liability and an initial payment of £21k was made during the year and has been charged to the Income and Expenditure account. Due to the level of uncertainty as to when the remainder may be called upon no provision has been made at this time.

The Council has received a claim relating to mesothelioma of a former employee of Bagshot Rural District Council. The solicitors acting for the estate have previously valued the claim at £137k. The claim has been made against two former employers of which Bagshot RDC was one in the 1950s. This Council which was incorporated into Surrey Heath when the borough was created. The Council's legal advice suggests the claim is unlikely to succeed against the Council and it is currently being defended. As the outcome is unknown no provision has been made. Depending on the outcome, there could be a future liability.

33 Contingent assets

No contingent assets had been identified as at 31st March 2015.

34 Financial Instruments

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

	Long Term		Current	
	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000
Investments				
Loans and receivables	2,009	3,500	2,666	2,676
Available-for-sale financial assets	0	8,123	0	0
Total investments	2,009	11,623	2,666	2,676
Debtors				
Loans and receivables	0	0	0	0
Financial assets carried at contract amount	327	320	5,052	6,514
Total debtors	327	320	5,052	6,514
Creditors				
Financial liabilities at amortised cost	0	0	0	0
Financial liabilities carried at contract amount	(132)	(136)	(6,074)	(11,376)
Total creditors	(132)	(136)	(6,074)	(11,376)

34.2 Reclassifications

No financial instruments were reclassified during the year.

34.3 Income, expense, gains and losses

2013/14					2014/15					
Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	Total		Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	Total
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
0	0	0	0	0	Interest expense	0	0	0	0	0
0	0	0	0	0	Losses on derecognition	0	0	0	0	0
0	0	0	0	0	Reductions in fair value	0	0	0	0	0
0	0	0	0	0	Impairment losses	0	0	0	0	0
0	0	0	0	0	Fee expense	0	0	0	0	0
0	0	0	0	0	Total expense in surplus or deficit on the provision of services	0	0	0	0	0
0	(225)	(65)	0	(290)	Interest income	0	(157)	(84)	0	(241)
0	0	0	0	0	Interest income accrued on impaired financial assets	0	0	0	0	0
0	0	0	0	0	Increase in fair value	0	0	0	0	0
0	0	0	0	0	Gains on derecognition	0	0	0	0	0
0	0	0	0	0	Fee income	0	0	0	0	0
0	(225)	(65)	0	(290)	Total income in surplus or deficit on the provision of services	0	(157)	(84)	0	(241)
0	0	0	0	0	(Gains) on revaluation	0	0	0	0	0
0	0	0	0	0	Losses on revaluation	0	0	0	0	0
0	0	0	0	0	Amounts recycled to the surplus or deficit on the provision of services after impairment	0	0	0	0	0
0	0	0	0	0	(Surplus) / deficit arising on revaluation of financial assets in other comprehensive income and expenditure	0	0	0	0	0
0	(225)	(65)	0	(290)	Net (gain) / loss for the year	0	(157)	(84)	0	(241)

34.4 Fair values of assets and liabilities

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

- no early repayment or impairment is recognised
- where appropriate cash flows arising from long term investments have been discounted at money market rates available for investments of similar remaining maturities on the balance sheet date.

- where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.
- Available for sale assets are held on the balance sheets at fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	2013/14		2014/15	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Financial liabilities	0	0	0	0
Long term creditors	(132)	(132)	(136)	(136)

	2013/14		2014/15	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Loans and receivables	4,675	4,708	6,177	6,255
Available for sale	0	0	8,123	8,123
Long term debtors	327	327	320	320

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a fixed rate loan where the interest rate receivable is lower than the rates available for similar loans at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2015) attributable to the commitment to receive interest below current market rates.

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

35 Nature and extent of risks of financial instruments

35.1 Introduction

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

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

The Council manages its treasury risk exposures in compliance with the CIPFA Code of Practice on Treasury Management in the Public Services and seeks to minimize the potentially adverse impacts on its resources that may arise from the holding of financial instruments. Treasury activities are conducted by the Executive Head of Finance and his staff in accordance with the

Council's Financial Regulations and Treasury Management Policy and Practices. In addition, full Council approves a treasury management strategy each financial year which includes its strategy for managing financial risks.

35.2 Credit risk

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

	<i>Rating</i>	<i>Cash limit</i>	<i>Time limit</i>
<i>Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:</i>	AAA	<i>£3 million each</i>	5 years
	AA+		3 years
	AA		3 years
	AA-		3 years
	A+		2 years
	A		1 year
	A-		6 months
<i>UK Building Societies</i>	A+	<i>£2 million each</i>	2 years
	A-		1 year
	<i>£1 billion assets</i>		6 months
	<i>£250 million assets</i>	<i>£1 million each</i>	6 months
<i>Money market funds² and similar pooled vehicles whose lowest published credit rating is AAA</i>		<i>£3 million each</i>	<i>Not Applicable</i>
<i>Other pooled investments – commercial property funds, equity funds, corporate bond funds and multi-asset funds</i>		<i>£2 million each</i>	<i>Not Applicable</i>
<i>UK Central Government (irrespective of credit rating)</i>		<i>unlimited</i>	<i>5 years</i>
<i>Supranational banks such as the EIB etc.</i>		<i>£3 million</i>	<i>5 years</i>
<i>UK Local Authorities³ without credit ratings</i>		<i>£2 million each</i>	<i>5 years</i>

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

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

The Council's maximum exposure to credit risk in relation to its short term investments has been estimated at £1.25k. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence that at the 31st March 2015 this was likely to crystallise.

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

35.3 Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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

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

The maturity analysis of financial instruments is as follows:-

	31 March 2014	31 March 2015
	£'000	£'000
Less than one year	2,665	2,677
Between one and two years	0	3,500
Between two and five years	2,009	8,123
More than five years	0	0
	<u>4,674</u>	<u>14,300</u>

35.4 Interest rate risk

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

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

A fall in interest rates will have the opposite effect.

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

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

As at 31st March 2015, the Council's investments held £8.315m of fixed rate investments, and £14.57m of variable rate investments.

35.5 Price risk

The Council's approved treasury management strategy permits investment in pooled instruments such as commercial property funds, equity funds, corporate bond funds and other multi asset funds. Such funds offer enhanced returns over the longer term but are potentially more volatile in the shorter term, exposing the Council to changes in share prices. However such funds hold investments on behalf of many investors, and therefore are able to spread risk.

The Council monitors the performance and suitability of its investments in such funds to ensure that its investment objectives are met. Investments in new funds are only considered after taking independent financial advice from the Council's treasury management advisors.

Changes in the prices of fixed interest investments are managed as part of the Council's interest rate risk management strategy.

35.6 Foreign exchange risk

Due to currency controls in Iceland the Council holds ISK 137,424,784 in escrow in Iceland. This has been converted at the official interest rate as at the 31st March 2015 of ISK 203.057 to the £ with any exchange gains and losses being taken to the income and expenditure account. As the Icelandic Kronor is not convertible at this time the Council is exposed to exchange risks arising from movements in currency values.

35.7 Borrowing

As at 31st March 2015, the Council does not have any external borrowing, but £1.567m of internal borrowing had been undertaken to finance the 2014/15 capital programme.

Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and went into administration. On 28th October 2011 the Icelandic Supreme Court ruled that UK local authorities' claims qualified as priority claims under Icelandic bankruptcy legislation. These have now been settled as follows:

Landsbanki

Landsbanki's winding up Board has made 5 distributions since the Supreme Court ruling, amounting to 55% of the outstanding balance. During 2013/14 the Council sold its remaining Landsbanki debt together with Icelandic currency held in escrow to Deutsche Bank for £0.411m. This realised a gain on sale of £0.030m.

Glitnir

Glitnir's winding up board made full and final distribution on the 16th March 2012. The distribution was made in a basket of currencies, which, with the exception of the amount paid in Icelandic Kronor (ISK) were converted into sterling on the day of receipt. The ISK amount is still subject to exchange restrictions imposed by the Icelandic government and is being held in an Escrow account earning interest over the year at 4.2%. For accounts purposes at the 31st March 2015 the ISK was converted into £ sterling using a prevailing exchange rate giving an exchange loss £47k. The total balance of £0.677m is recorded on the balance sheet as a short term investment. The final repayment of this amount will depend on the lifting of exchange controls and the prevailing exchange rate and may therefore be lower than value recorded in sterling on the balance sheet as at 31st March 2015.

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.

2014/15	Business Rates £'000	Council Tax £'000	Total £'000
INCOME			
Council Tax Receivable		59,854	59,854
Business Rates Receivable	33,956		33,956
	33,956	59,854	93,810
EXPENDITURE			
Apportionment of Previous Year Surplus			
Central Government	(33)		(33)
Surrey Heath Borough Council	(26)	169	143
Surrey County Council	(7)	1,046	1,039
Surrey Police Commissioner		185	185
	(66)	1,400	1,334
Precepts, Demands and Shares			
Central Government	16,462		16,462
Surrey Heath Borough Council	13,169	7,648	20,817
Surrey County Council	3,292	43,333	46,625
Surrey Police Commissioner		7,671	7,671
	32,923	58,652	91,575
Charges to the Collection Fund			
Less: Write off for uncollectible amounts	349	166	515
Less: Increase/Decrease in Bad Debt Provision	11	13	24
Lees: Increase/Decrease in Provision for Appeals	1,800		1,800
Lees: Cost of Collection	122		122
Interest Payable	0		0
	2,282	179	2,461
Total Expenditure	35,139	60,231	95,370
Surplus/(Deficit) arising during the year	(1,183)	(377)	(1,560)
Surplus/(Deficit) b/fwd 1st April 2014 Restated	(1,809)	2,112	303
Surplus/(Deficit) c/fwd 31st March 2015	(2,992)	1,735	(1,257)

Collection Fund 2013/14 Restated

	Business Rates £'000	Council Tax £'000	Total £'000
INCOME			
Council Tax Receivable		59,248	59,248
Business Rates Receivable	34,480		34,480
	34,480	59,248	93,728
EXPENDITURE			
Apportionment of Previous Year Surplus			
Central Government	0		0
Surrey Heath Borough Council	0	143	143
Surrey County Council	0	813	813
Surrey Police Commissioner	0	144	144
	0	1,100	1,100
Precepts, Demands and Shares			
Central Government	17,130		17,130
Surrey Heath Borough Council	13,704	7,424	21,128
Surrey County Council	3,426	42,023	45,449
Surrey Police Commissioner		7,439	7,439
	34,260	56,886	91,146
Charges to the Collection Fund			
Less: Write off for uncollectible amounts	204	172	376
Less: Increase/Decrease in Bad Debt Provision	302	204	506
Less: Increase/Decrease in Provision for Appeals	1,400		1,400
Less: Cost of Collection	123		123
Interest Payable	0		0
	2,029	376	2,405
Total Expenditure	36,289	58,362	94,651
Surplus/(Deficit) arising during the year	(1,809)	886	(923)
Surplus/(Deficit) b/fwd 1st April 2013	0	1,226	1,226
Surplus/(Deficit) c/fwd 31st March 2014	(1,809)	2,112	303

Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies the rate poundage, and subject to the effects of transitional arrangements, the rates payable are calculated by multiplying the rateable values by the rate poundage. As at 31st March 2015, the total non-domestic rateable value of properties owned by the Council was £1.341m. The 2014/15 national non-domestic rate multiplier was 47.1p for small businesses and 48.2p 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 2014/15 tax base is shown below.

Band	2014/15		
	Number of chargeable homes less exemptions and discounts	Factor	Band D equivalents
A*	1.00	5/9	1
A	444	6/9	296
B	1,720	7/9	1,337
C	4,912	8/9	4,367
D	8,562	9/9	8,563
E	5,999	11/9	7,332
F	5,335	13/9	7,706
G	4,651	15/9	7,754
H	431	18/9	863
Total	32,055		38,219
New properties Band D equivalent			184
MOD properties			484
Reduction in taxbase due to Council Tax Support			(2,106)
Less: allowance for non-collection			(544)
Council tax base			36,237
Collection rate assumed			98.5%

Accounting Policies

Accounting Policies

1. Accruals of income and expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

2. 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.

3. Prior period adjustments, changes in accounting policies and estimates and errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening

balances and comparative amounts for the prior period as if the new policy had always been applied.

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

4. Charges to Revenue for Non-current Assets

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

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

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

5. Employee benefits

Benefits payable during employment

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

Termination benefits

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

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

Accounting Policies

Post employment benefits

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

Local Government Pension scheme

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

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

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

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

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

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

Current service cost

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

Past service cost

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

Interest cost

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

Expected return on assets

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

Gains/losses on settlements and curtailments

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

Actuarial gains and losses

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

Contributions paid to Surrey County Council's pension fund

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

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

Discretionary benefits

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

6. Events after the balance sheet date

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

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

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

7. Financial instruments

Financial liabilities

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

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

Accounting Policies

Financial assets

Financial assets are classified into two types:

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

Loans and receivables

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

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

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

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

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

Available-for-sale assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. Where there

are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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

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

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

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

8. Foreign Currency Transactions

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

9. Government grants and other contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution

Accounting Policies

is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

10. 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.

11. Heritage Assets

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

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

The carrying amount of Heritage Assets is reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage, or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 4 in this summary of significant accounting policies.

Any disposals of Heritage Assets are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant, and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see note 16 in this summary of significant accounting policies).

12. Intangible Assets

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

Internally generated assets are capitalised when it is demonstrable that the project is technically feasible and intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as

attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

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

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

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

13. Investment property

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

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

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

14. Leases

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

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

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

The Council as Lessee

Finance leases

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

Accounting Policies

Operating leases

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

The Council as Lessor

Finance leases

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

Operating leases

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

15. Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2014/15* - (SeRCoP).

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

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

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

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

16. Property, plant and equipment

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

Recognition

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

Measurement

Assets are initially measured at cost comprising:

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

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

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

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

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

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

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

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

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

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

Impairment

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

Accounting Policies

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- buildings – straight-line method over the useful life of the property as estimated by the valuer
- plant and equipment, other than vehicles – straight-line method over the useful life of the item
- vehicles – reducing balance method over the useful life of the asset
- officer's cars – straight line method
- infrastructure –straight line method over useful life of the item
- intangibles – 100% in year of purchase

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

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

Component Accounting

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

As at the 31st March 2015 there have been no material components recognised that have a significantly different useful life from that of the asset.

Disposals and Non-current assets held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continued use, it is classified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up

to the amount of any losses previously recognised in the surplus or deficit on provision of services. Depreciation is not charged on assets held for sale.

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

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

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

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

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

17. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Assets

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

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

Contingent Liabilities

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

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

18. Reserves

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

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

19. 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.

20. Inventories and long-term contracts

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

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

Accounting Policies

21. Value Added Tax (VAT)

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

General Glossary

Carrying amount

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

Cash

Comprises cash in hand and demand deposits.

Cash equivalents

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

Class of property, plant and equipment

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

Cost

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

Costs to sell

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

Creditor

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

Current asset

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

Debtors

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

Depreciable amount

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

Glossary of Terms

Depreciation

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

Employee benefits

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

Fair Value

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

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

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

Fair value less costs to sell

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

Finance lease

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

Financing activities

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

Heritage Assets

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

Historical cost

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

Impairment loss

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

Investment property

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

Investing activities

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

Lease

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

Non-current asset

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

Operating activities

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

Operating lease

A lease other than a finance lease.

Other comprehensive income and expenditure

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

Other long-term employee benefits

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

Property, plant and equipment

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

Glossary of Terms

Reclassification adjustments

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

Recoverable amount

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

Residual value

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

Short term employee benefits

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

Termination benefits

Employee benefits payable as a result of either:

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

Useful life

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

Value in use

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

Pension Glossary

Actuarial gains and losses

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

Assets held by a long-term employee benefit fund

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

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

Current service cost

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

Defined benefit plan

Post-employment benefit plans other than defined contribution plans.

Defined contribution plans

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

Interest cost

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

Past service cost

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

Glossary of Terms

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.

Draft Annual Governance Statement

Scope of Responsibility

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

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

Surrey Heath Borough Council has developed, approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/ SOLACE Framework "Delivering Good Governance in Local Government". A copy of this code is on the Council's website at www.surreyheath.gov.uk or can be obtained from the Council Offices, Surrey Heath House, Knoll Road, Camberley, Surrey. This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3) which requires all relevant bodies to prepare an Annual Governance Statement.

The Purpose of the Governance Framework

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

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

The governance framework has been in place at Surrey Heath Borough Council for the year ended 31st March 2015 and up to the date of approval of the Statement of Accounts.

The Governance Framework

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

Annual Governance Statement

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

- The Council's key priorities and objectives are included in the Council's "2020 strategy" which covers the 10 years to 2020. This is the Corporate Plan.
- The Corporate Plan and Key Priorities feed into the Annual Plan which sets out the financial and performance objectives of each service. These are monitored on a six monthly basis and reviewed by the Performance and Audit Scrutiny Committee in a publically available document.
- The Council's Constitution, decision making structure and arrangements; schedule of meetings and associated agendas and minutes are publically available in accordance with regulations to encourage public attendance and involvement as appropriate.

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

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

Translating the vision into objectives for the authority and its partnerships

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

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

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

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

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

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

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

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

- The Constitution is regularly reviewed and updated by the Governance working group. The Constitution is available on the Council's website.
- The Council has established policies and procedures to govern its operations. Key within these are the Financial Regulations, Procurement Strategy and Contract Standing Orders, Risk Management Strategy, Codes of Conduct for Members and Officers, Anti-Fraud and Corruption Policy, Bribery Policy and Procedure, Whistleblowing Policy and Procedure and Human Resources policies. Ensuring compliance with these policies is the responsibility of everyone throughout the Council. These key controls are subject to periodic review, including that by Internal Audit, and are updated to ensure that they are relevant to the needs of the organisation. The Council's Financial Regulations have been reviewed and updated in 14/15, and a revised set of regulations are due to be published.
- Contract Standing Orders set out the rules governing the procurement process to ensure that value for money is achieved whilst meeting all legal and statutory requirements and minimising the risk of fraud or corruption. The Council's Procurement Strategy is a high level view of how to promote effective procurement across the whole organisation.

Annual Governance Statement

- A risk management framework has been in place across the Council for some years with the objective of embedding effective risk management practices at both strategic and operational levels. The Corporate Risk Management Register is reviewed on an annual basis and approved by the Performance and Audit Committee. A risk section is included in all Executive reports to ensure that it has been properly considered.

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

- A risk workshop was held with the Council's Management Team last year to assist in identifying Corporate Risks. The risk group meets to update the corporate risk register and to ensure that identified risks have mitigation processes in place and clear lines of responsibility.

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

- The Council has in place an Anti-fraud and Corruption Policy and this has been communicated to all staff. It also forms part of the induction process for new staff.

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

Ensuring effective management of change and transformation

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

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

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

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

- The internal audit function is an independent appraisal process, the manager of which has direct access to the Chief Executive, members through the Performance and Audit Scrutiny Committee and External Audit. It undertakes reviews which provide management with a level of assurance on the adequacy of internal controls and of risks to the Council's functions / systems. Throughout the year, the internal auditors have performed a wide range of reviews covering both financial areas as well as service/business functions. The conclusion is a report that is produced for management, which includes an assessment of the level of assurance that can be derived from the system of internal controls related to the service that is reviewed. A new set of public sector wide internal audit standards for the UK and Ireland have also recently been published, based on a series of mandatory elements of the IIA's International Professional Practices Framework. The Council's internal audit team have been working to these standards since their adoption.

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

- The Council has appointed its Head of Legal Services as Monitoring Officer. The Monitoring Officer is a member of the Council's Management Board and the Governance working group. The Monitoring Officer can also call upon the resources of the Council's legal team, internal audit and Investigations teams as required.
- The Monitoring Officer is responsible for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer may report to the full Council if she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. No reports have been necessary in recent years.

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

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

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

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

Annual Governance Statement

- The terms of reference for the Performance and Audit Committee are reviewed annually.

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

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

Whistle-blowing and receiving and investigating complaints from the public

- The Council has in place a Whistleblowing Policy and Procedure whereby staff and others can report concerns about various sorts of wrongdoing or alleged impropriety. The Policy is available on the website and is also proactively communicated to those contracting with the council. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous.
- Surrey Heath Borough Council wants to provide the best service it can to the community and has a Customer Feedback process in place, which includes complaints, compliments, service requests, member contact and comments. All complaints are thoroughly investigated in line with the Council's complaints procedure. A complaints report is provided annually to the Performance and Audit committee.

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

- The Council is committed to developing the skills of both Members and officers in order to enable a continuous improvement in the services provided. The Council continues to hold the Investor's in People Silver standard which has been awarded.
- Officers are covered by the appraisal development scheme which is the mechanism used to help ensure that performance and development needs are reviewed on an annual basis.
- There is a full induction process for Members and specific officers have been designated with training responsibilities for Members. Members have training provided to reflect their specific statutory responsibilities as appropriate.

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

- The Council ensures that there is community input in its decision making processes. This is done by focus groups, workshops, questionnaires, business breakfasts and members interaction with the community. During the year 2 community consultation events were held in different parts of the borough. Greater use has been made of social media recently.
- The Council has a well-established and effective consultation function which includes a wide range of consultation methods to ensure that as many groups and individuals as possible are able to participate. Before undertaking any consultation or communication, action plans are completed by the Corporate Communications Officers to detail exactly how key groups will be targeted. The Council delivers an extensive programme of consultations throughout the year.
- The Council also regularly communicates and consults with residents online via the council website, through social media such as Twitter and Facebook, through local press, through blogs, through local forums and organisations and also through the Council's own magazine "Heathscene" which is published 3 times a year.

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

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

Internal Audit Statement

In the financial year 2014/15 Internal Audit carried out a number of internal audit reviews based on the Annual Plan agreed by the Performance and Audit Committee in January 2014. 23 audits have been completed, 18 from the Plan and 5 unscheduled pieces of work.

The majority of internal audits result in an action plan being agreed with management to address areas of weakness and improve overall controls. These action plans include a number of recommendations for management. In 2014/15 79 recommendations have been agreed with management. As at the end of March 2015, all medium and high level recommendations were fully implemented where they fell due. The outcomes of these internal audit reviews are reported to Management Board. Overdue recommendations are also reported twice yearly to Management Board and to Performance and Audit Scrutiny Committee by way of an escalation process.

The Council has very high levels of assurance in respect of all of its main financial systems and the majority of its governance arrangements. All of the main financial systems completed in 14/15, which feed into the production of the Council's Financial Statements, have achieved a substantial assurance level following the audit review. The Council can therefore be assured in these areas.

However, the introduction of a new financial system has brought with it a number of issues, in particular relating to bank reconciliations and budget monitoring during the year, compounded by structural and capacity difficulties within the finance team. These matters have resulted in a qualified "except for" opinion being given by external auditors KPMG on the Value for Money conclusion in 2014/15. These matters have now been addressed for 2015/16.

Annual Governance Statement

A number of internal audits and investigations however resulted in limited assurance in 2014/15, including:

- Human Resources
- Parks Income
- Camberley Theatre
- Community Services
- Travellers Sites/Gypsies
- Windle Valley Centre

Senior Information Risk Owner (SIRO) Statement

The Local Government Data Handling Guidelines requires that all Local Authorities have a board member who acts as a SIRO. Within Surrey Heath, the Executive Head of Finance acts as SIRO with the assistance of the Information Governance Manager.

During 2014-15, the Data Security Breach Management Policy and Procedure was approved. It now forms part of the Terms and Conditions for staff. A Lead Investigation Officer is appointed, if necessary, to investigate any breaches. A log is kept of all data breaches. 12 minor internal breaches were recorded and dealt with. There were no data breaches during the year that required reporting to the Information Commissioner's Office.

To ensure all staff understand their responsibility for Data Protection, an Information Governance e-learning package has been produced. It is mandatory for all staff.

The Council achieved certification for the Public Sector Network (PSN) on 26 January 2015. All end-points connecting to the Surrey Heath Public Sector Network are now managed in line with PSN Code of Connection requirements. All staff are recruited in line with HMG Baseline Personnel Security Standard as part of Public Sector Network certification. A new recruitment policy, which includes this procedure, is now in place.

The Information Security Policy was updated to reflect changes in legislation and practices to ensure adequate protection of Council held information.

The Information Commissioner's Office has recommended that Privacy Impact Assessments (PIA), where personal data is involved, are carried out for all new projects and policies. A template has been produced to assist in the production of PIA's. One was carried out in 2014 for the use of Automatic Number Plate Recognition in car parks.

The Information Governance Manager attended two courses, one on Privacy Impact Assessments and an update on CCTV.

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

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the

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

For 2014/15, this review has been undertaken by the Head of Legal Services, together with the Executive Head of Finance and Internal Audit. The group has reviewed how the Council has operated in accordance with the Governance Framework and considered its effectiveness.

Improvements during the Year

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

Risk Management Strategy and Process

The Council continued to work with its insurers on identifying Corporate Risks. These were then reflected in the corporate risk register if appropriate.

Data Protection

Surrey Heath Borough Council must ensure all personal information is processed in accordance with the Data Protection Act 1998. The Information Security policy explains how members and officers are expected to comply with the Act. The Council must comply with this policy to ensure the Data Protection Act is not breached. Any breach of the Act has serious consequences for the organisation and its customers.

Constitution

The Council has agreed a number of changes to the Scheme of Delegation and to the committee structure which will take effect in the new municipal year. These will lead to more efficient decision-making.

Emergency Planning

Members of staff continued to receive training related to the operation of the Borough Emergency Centre.

HR Policies

HR Policies relating to the Pay Settlement Procedure, Drugs and Alcohol, House Rules, Flexible Working, Offsite Working, Family Friendly Policies, Recruitment and Social Media were all reviewed and approved during the year.

New Financial System

A new financial system was implemented on the 1st April 2014. The new computer system removes a number of existing paper controls in areas such as purchasing and instead relies on in built electronic authorisations. The new system has controls in place to prevent ordering where there is no budget or authorisation in place.

Governance Issues Reported Last Year

Annual Governance Statement

A number of issues were identified in the 2013/14 financial year and the following action has been taken:

Parking: significant investment has been made by the Council in modernising its parking equipment and machinery over the last 18 months, making the parking system more reliable, stable and efficient. The Council is rolling out e-wallets, as well as the ability for customers to pay for parking by phone and by debit/credit card.

Performance Management: the new Annual Plan now links KPIs to key priorities. Performance data is scrutinised before publication, and changes have been made to the way the Council's performance is managed and reported.

Corporate Asset Management: condition surveys are being undertaken and surveys where necessary. The assets team is working more closely with colleagues in planning, and business to improve leisure leases.

Disabled Facilities Grants: subject to a detailed internal audit in 2015, and a number of minor improvements made to the system to make it more effective.

Camberley Theatre café/venue: the café's trading has been analysed on a monthly basis and the cafés performance in 14/15 has been discussed in detail at Management Board. A number of areas were asked to be considered. A number of changes have since been made including streamlining the hours of operation, reducing operating costs by cutting staffing levels, whilst focusing on pre-show dining, hospitality and room hires.

Financial and non-financial interests: Senior officers and members have been asked to declare any interests they have. They are also required to state that they have no interests if this is the case.

Significant Governance Issues

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

The areas below have arisen from various assessments into the Council's governance arrangements for 2014/15, many actions have already been addressed, and residual issues will be addressed in the forthcoming year.

Corporate Processes

Issues arising out of internal audit reviews and action taken to date:

Human Resources – travel and expenses claims. Revisions to the computer system have been made, as well as new guidance being issued. Spot checks of claims will also be undertaken.

Parks Income – a number of recommendations were made with the café contractor to improve controls and cash security. The Council is currently working with the new staff in place at the café to action all these areas.

Camberley Theatre – a number of improvements to cash security, and building security were made, and the majority of recommendations have since been actioned, including staff changes.

Travellers Sites /Gypsies – a range of changes were agreed with management to improve rent controls and deposits as well as financial reporting, the majority of these have been actioned.

Windle Valley – efforts have been made to improve cash controls, finance reporting, banking, and the way the voluntary fund is managed, and all recommendations to date have been actioned.

Major Projects

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

The introduction of a new financial system brought with it a number of issues, in particular relating to bank reconciliations and budget monitoring during the year, which highlighted that there were structural and capacity difficulties within the finance service. This will be addressed in 2015/16.

Assurance Summary

Good governance is about running things properly. It is the means by which the Council shows it is taking decisions for the good of the people of the area, in a fair, equitable and open way. It also requires standards of behaviour that support good decision making – collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services that meet all local people’s needs. It is fundamental to showing that public money is well spent. Without good governance, councils will struggle to improve services.

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

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

Karen Whelan
Chief Executive.....

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

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

To be inserted after completion of audit.