GUILDFORD BOROUGH

Guildford Borough Council

Statement of Accounts 2013-14

Contents

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUILDFORD BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Guildford Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Guildford Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Guildford Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Guildford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Christian Heeger, Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Fleming Way
Manor Royal
Crawley
RH10 9GT

26 September 2014

STATEMENT OF RESPONSIBILITIES

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 those affairs. In this authority, that officer is the Chief Financial Officer.

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The chief financial officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently

- made judgements and estimates that were reasonable and prudent

- complied with the local authority Code.

The Chief Financial Officer has also:

- kept proper accounting records which were up to date

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents a true and fair view of the financial position of Guildford Borough Council at 31st March 2014 and of its income and expenditure for the year ended 31 March 2014.

Sue Sturgeon, CPFA
Chief Financial Officer
25 September 2014

CHIEF FINANCIAL OFFICER'S EXPLANATORY FOREWORD TO THE STATEMENT OF ACCOUNTS

Financial Performance during the year – General Fund Revenue

I have pleasure in presenting the Council's Statement of Accounts for the financial year 2013-14.

The overall financial climate continues to be difficult and is expected to remain so for a number of years. Local Government will continue to play its part in helping to address the national funding deficit, and each Council will be required to contribute accordingly by continuing to deliver services with fewer resources. Guildford Borough Council has continued to maintain its focus on robust planning and monitoring of the budget and identification of efficiency savings for the future.

In 2013-14, the Government provided us with a two-year finance settlement. It represented a significant change in local government funding arrangements. In addition to a reduction in government grants, the Council took on significant responsibilities in relation to council tax benefits and business rates. Both these changes placed more resource demands on the Council and increased risks. 2013-14 was also the third year in the Government's 2010 Comprehensive Spending Review (CSR), the reduction in grant funding from the Government was 6.6% (£472,000). This followed grant reductions of 15.2% in 2011-12 and 12.6% in 2012-13.

The budget for 2013-14 included investment in services of £742,610 covering key corporate priority areas such as:-

- implementation of the local council tax support scheme
- support for troubled families
- funding for transport infrastructure studies for Guildford Town Centre and the A3
- sponsorship of an apprenticeship scheme
- investment in our fleet and property assets.

Given the cuts in central government funding, we identified over £900,000 savings through our service challenge process in order to finance the service improvements and achieve a balanced budget.

We also approved further acquisitions from a £15 million capital scheme for asset investment. The acquisitions resulted in additional rent income to the general fund.

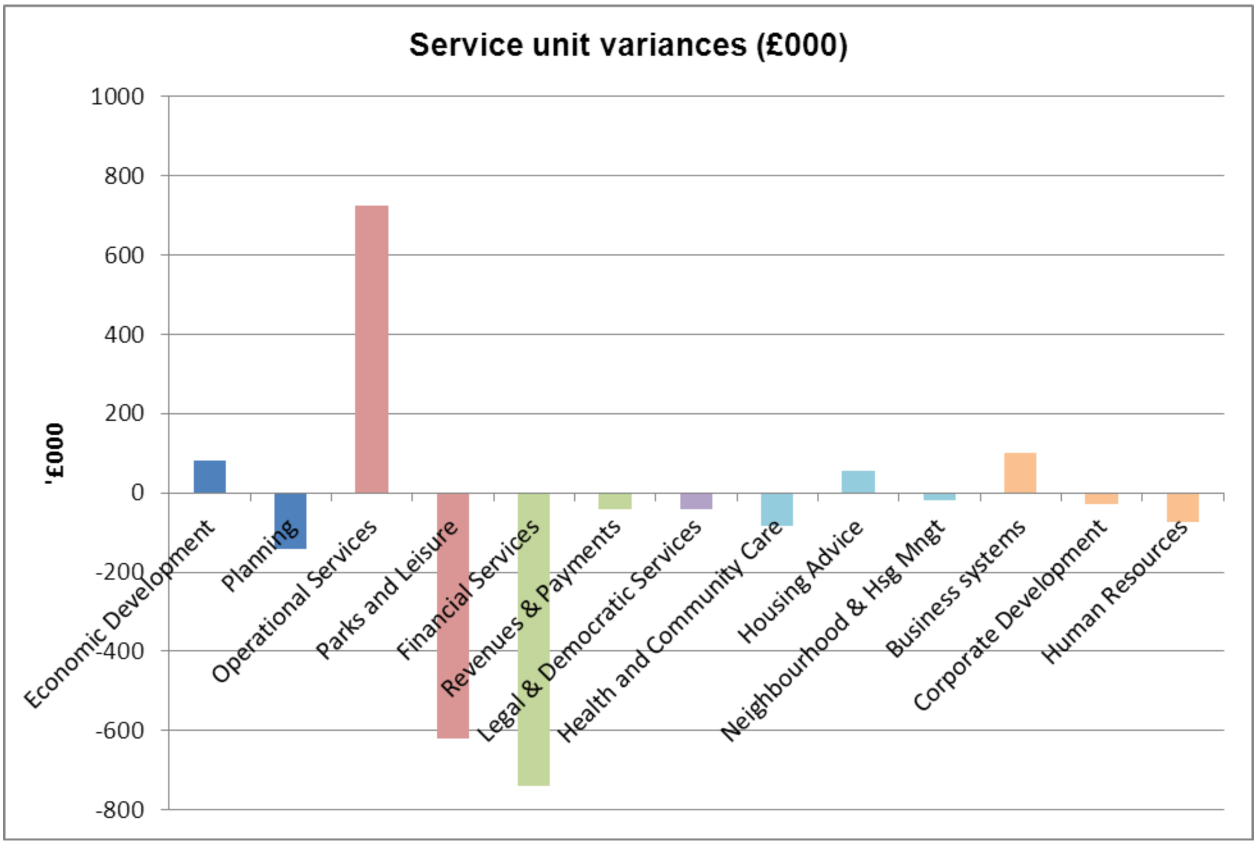
The net council tax requirement for the year 2013-14 was set in February 2013 at £41,868,222. Due to the changes in local government funding and the implementation of the Business Rates Retention Scheme, it is not possible to compare the net budget requirement between years. The net budget requirement is the amount the Council expects to spend after allowing for income from sources such as direct grants, fees, charges and rents but excludes income from Government formula grant and adjustments relating to the collection fund balance.

The net budget figure above excludes the precept requirements of the Parish Councils, which was £1,224,407 (a reduction of 4%).

The Borough Council's band D council tax was set at £146.79, an increase of 1.9% from 2012-13. The report to Council on 14 February 2013, (item 11) available on the Council's website, www.guildford.gov.uk provides further details about the Council's budget for 2013-14.

We monitored performance against the budget closely through the year with particular attention paid to our key services (Development Control, Industrial Estates, Investment Property, Leisure Management, Off Street Parking, Parks and Countryside and Refuse and Recycling), control of salaries and achievement of the efficiency savings included in the budget. Because of this strong financial management net expenditure at service unit level was £835,000 lower than originally budgeted, after allowing for accounting adjustments and other items that do not impact on the level of council tax. This is around 0.91% of the total relevant gross expenditure budgets.

The Final Accounts report to the Executive on 26 June 2014 gives a detailed analysis of the variances in service expenditure. The report is available on the Council's web site, www.guildford.gov.uk at item 9. The chart below gives a summary of the main variances:



The major items include:

- £100,000 additional cost for management support at the Electric Theatre
- £177,000 additional vehicle hire costs during the restructure of the refuse and recycling service
- £433,000 lower than expected salary related costs, after taking into account expenditure on agency staff to provide essential cover for vacant posts
- overall expenditure on the building repair and maintenance projects controlled by Asset Development was £117,000 less than budgeted
- in the 2012-13 accounts, we made provision for possible costs because of the auditor's qualification of the 2011-12 housing benefit subsidy claim. We settled this issue in the year and returned £110,000 of the provision to the revenue account
- income from Planning applications was £481,000 more than estimated, mainly as a result of some large one-off fees
- we had additional rental income of £391,000 as a result of the purchase of investment property
- £473,000 reduced income from the refuse and recycling service as a result of the changes to the service and fact that recycled material is now co-mingled

- £213,000 reduced income from car parks

The Council receives investment income from our cash backed reserves. On average, we had around £90 million invested. Overall, net interest returns in the year were approximately £266,000 more than anticipated.

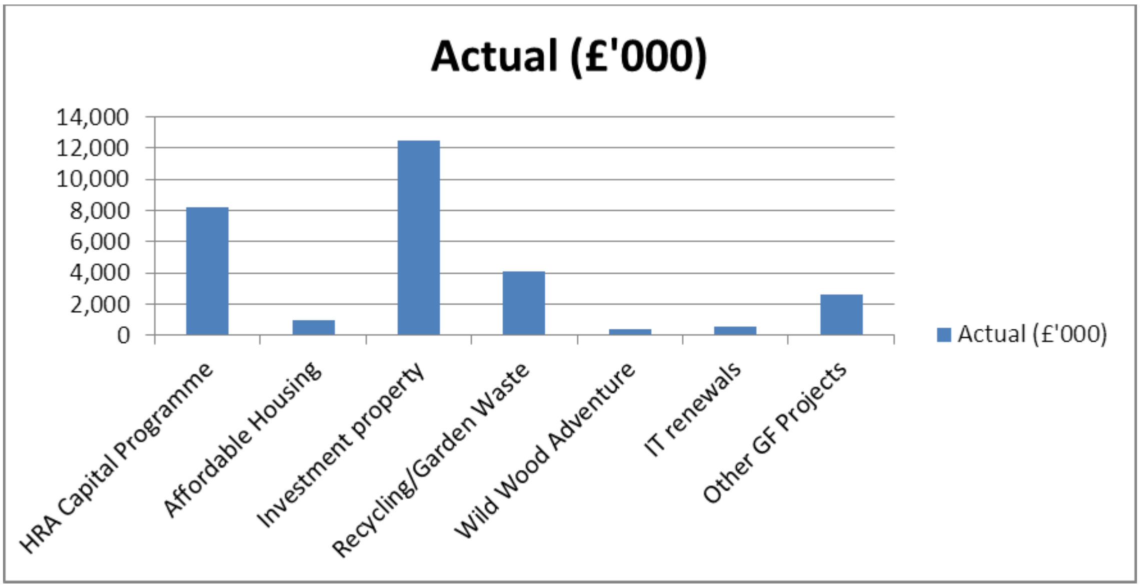
In setting the 2013-14 budget, a minimum revenue provision of £493,260 was assumed, based on the expected General Fund Capital Financing Requirement (CFR) at 31 March 2013 of £11.4 million. The actual General Fund CFR at March 2013 was £7.718 million, generating a minimum revenue provision of £174,790, which is £318,470 less than budgeted.

Overall the net expenditure on the General Fund was lower than the original estimate to the value of £1.419 million. This has been utilised by the following contributions to reserve:

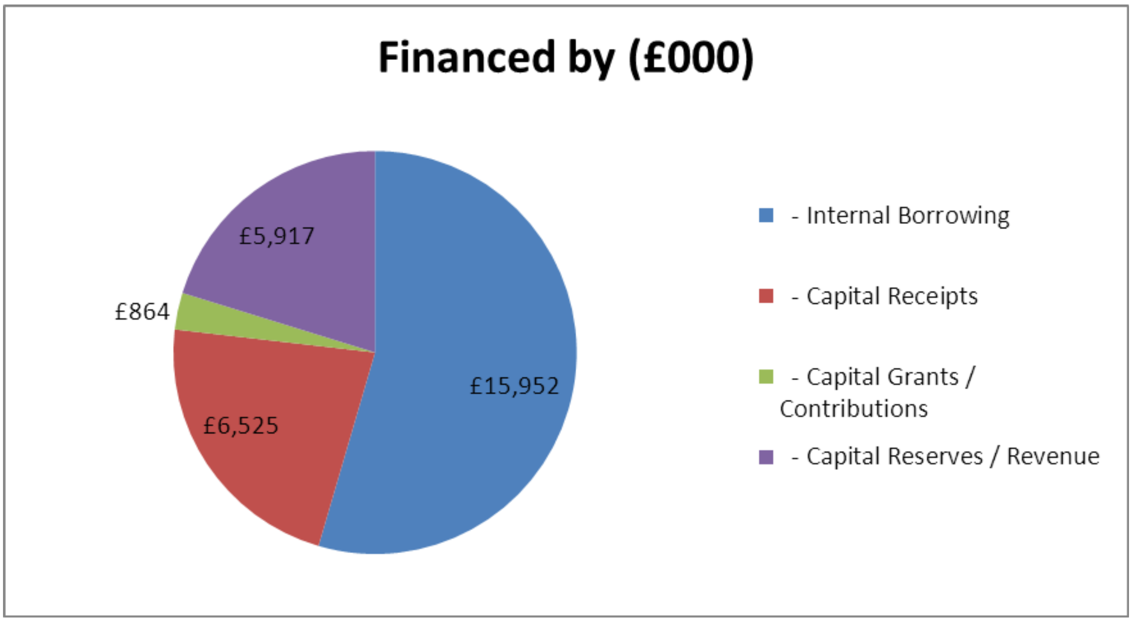
Item	Description	£000
1.	A contribution to an earmarked reserve to accommodate some salary changes in 2014-15 should the Council choose to implement changes because of the Job Evaluation exercise, plus the evaluation of Executive Head of Service and Head of Service posts following the senior management restructure.	300
2.	A contribution to an earmarked reserve to contribute towards the estimated costs of bidding for Armed Forces day during 2014-15 and holding the event in 2015. This was the subject of a report to the Executive on 29 May 2014.	150
3.	Contributions to an earmarked reserve to fund communications support and a campaign manager for our work on the Local Plan during 2014-15 and to make a contribution to Surrey University for the International Music Festival.	90
4.	The unallocated balance on the Invest to Save reserve is approximately £635,000. We have made a contribution of £365,000 to maintain the unallocated balance at around £1 million.	365
5.	It is likely that we will start to prepare a Masterplan for the borough during 2014-15, for which there is no budget. We have therefore made a contribution of £350,000 to an earmarked reserve to provide the financing, subject to further reports to the Executive.	350
6.	We are still identifying the detailed impact of the new Business Rates Retention Scheme. In addition, our income from the scheme will be reduced once the North Street regeneration project starts. A contribution to the Business Rates equalisation reserve will help us to manage variances as a result of the scheme and the regeneration project.	164
		1,419

Note 9 to the financial statements includes other transfers to/from reserves as set out in the Council's general fund budget book 2013-14.

Financial Performance during the year - Capital Expenditure
Capital expenditure in the year totalled £29.258 million. The major areas of capital spend are shown in the graph below:



The capital expenditure was financed by utilising the following resources:



We only financed £13.481 million of our capital expenditure from existing resources, resulting in an increase to our Capital Financing Requirement, funded by internal borrowing, of £15.8 million.

We acquired the freehold of an investment property for £13 million. The acquisition was part of a programme to increase our portfolio of investment property to increase rental income and therefore benefit the General Fund revenue account.

Internal sources of funds available at 31 March 2014 to meet future capital expenditure were:

- General Fund usable capital receipts £5.8 million
- General Fund capital programme reserve £1.5 million
- HRA usable capital receipts £23.7 million
- HRA future capital expenditure reserve £20.8 million
- HRA new build reserve £15.6 million
- HRA Major Repairs Reserve £1.6 million

Financial Performance during the year - Treasury Management
Our treasury management annual report was presented to Executive on 26th June 2014, item 7, and is available on our website, www.guildford.gov.uk. Investments at 31 March 2014 totalled £85.47 million made up as follows:

Investment details	Balance at 31-03-14 £m
Internally Managed Investments	
Fixed Investments < 1 year to cover cash flow	20.50
Certificates of deposit	12.00
Notice Accounts	19.04
Call Accounts	4.75
Money Market Funds	13.65
Externally Managed Funds	
Payden & Rygel	4.99
CCLA	5.52
SWIP	1.99
M&G	2.08
Schroders	0.95
Total Investments	**85.47**

Gross interest received in the year from investments was £890,000 against a budget of £651,000.

The Council internally borrowed £12.4 million for a property purchase but we did not take out any external loans in the year. The balance outstanding on our external loans at 31 March 2014 was £194 million.

The investment markets remained extremely challenging; the Bank of England held the base rate at 0.50% and the Council continued its focus on preserving capital whilst optimising interest earnings.

<u>Explanation of Key Information contained in the Financial Statements</u>

Local Authorities are required to prepare their accounts in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). International Financial Reporting Standards (IFRS) form the basis for the Code, which has been developed by the Local Authority Accounting Code Board comprising members from the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority of Scotland Accounts Advisory Committee (LASAAC), under the oversight of the Financial Reporting Advisory Board (FRAB). The Code constitutes a proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

The complete set of financial statements is set out on the following pages. The Code prescribes the order of presentation of the financial statements and the Statement of Accounting Policies (note 1 to the accounts) supports the accounts by explaining the policies used in their preparation. In summary, the financial statements comprise the:

- Movement in Reserves statement (MIRS): showing the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that we can use to finance expenditure or reduce local taxation) and other reserves. This statement starts with the surplus or deficit on provision of services calculated in accordance with generally accepted accounting practice and shows the adjustments to the accounts made under statutory regulations and also the transfers we choose to make to or from earmarked reserves
- Comprehensive Income and Expenditure Statement (CIES): showing the accounting cost in the year of providing services in accordance with generally accepted accounting practices. This statement provides the detail behind the surplus or deficit on provision of services figure included in the Movement in Reserves statement. The statement shows the total expenditure and income in the year for all services.
- Balance Sheet: showing the value of the Council's assets and liabilities at 31 March 2014. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council
- Cash Flow Statement: showing the changes in the amount of cash and cash equivalents during the financial year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities
- notes to the above statements: giving a summary of significant accounting policies and other explanatory information
- Housing Revenue Account Income and Expenditure statement: covering income and expenditure relating to the provision of council housing in accordance with Part 6 of the Local Government and Housing Act 1989. The Housing Revenue Account is ringfenced from the rest of the General Fund. Its primary purpose is to ensure that the expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants so that rents cannot be subsidised from council tax, or vice versa
- notes to the Housing Revenue Account: giving explanatory information to the HRA Income and Expenditure statement
- Collection Fund revenue account: showing the transactions of the Council as a billing authority in relation to non-domestic rates and council tax. The Fund shows the way in which these have been distributed to local authorities and the Government on whose behalf Guildford Borough Council collects the amounts due
- notes to the Collection Fund: giving explanatory information to the Collection Fund revenue account

Comprehensive Income and Expenditure Statement (CIES)

The Bellerby Theatre site was sold during the year for £14 million, generating a gain on disposal of £10.4 million. This is included in the gain on disposal of non-current assets, which forms part of other operating expenditure in the CIES.

The gross expenditure on local authority housing (HRA) in the CIES includes a net £8.7 million revaluation gain, which partly reverses a revaluation loss of £60 million charged to the HRA in 2010-11 as a result of the reduction in the vacant possession adjustment factor[1] from 45% to 32%. Revaluation gains and losses do not affect the HRA balance and the net revaluation gain is therefore reversed out in the MIRS.

[1] The vacant possession adjustment factor is the percentage of the market value included in the accounts to reflect the fact that secure tenants occupy the properties.

The Surplus on Provision of Services was £25.4 million, of which £21 million related to the HRA, and £4.4 million to the General Fund.

The prior year comparative figures have been restated to reflect the change in policy due to the adoption of the amendments to IAS19 Employee Benefits, which introduced new classes of components of defined benefit cost that the Council must recognise in the financial statements. This had the effect of increasing financing and investment income and expenditure by £974,000, and reducing other comprehensive income and expenditure by the same amount.

Movement in Reserves Statement (MIRS)

The MIRS shows that the surpluses of £21 million and £4.4 million are added to the General Fund and HRA balances respectively, but that £12.3 million (£10.6 million HRA and £1.8 million General Fund) is reversed back out and transferred to useable and unusable reserves as a result of adjustments made under statutory regulations.

£2.6 million is then transferred to General Fund earmarked reserves, and £10.4 million to HRA earmarked reserves, to leave the General Fund and HRA revenue balances at £3.7 and £2.5 million respectively.

Balance Sheet

The Balance Sheet shows that our long term assets have increased in value during the year by 4.4% from £624.5 million to £651.5 million. This is primarily due to the increase in value of our stock of council houses, and the purchase of additional investment property.

Current assets have increased by 16.8% from £79.1 million to £92.4 million, mainly due to an increase in investments from £48.2 million to £67.1 million. After our liabilities are taken into account, our net assets have increased by 6.3% from £428 million to £455 million.

This is matched by an increase in our earmarked reserves of £13.0 million and our unapplied capital receipts and Major Repairs Reserves of £12.4 million. Our unusable reserves also increased by £1.2 million.

Pension liability

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. The Council participates in the Local Government Pension Scheme administered by Surrey County Council – this is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

During 2010 the pension fund actuaries, Hymans Robertson, concluded a triennial review of the fund at 31 March 2010 and 2013-14 was the final year of implementation. The actuary recommended that a stabilisation model be implemented that maintained the Council’s contribution rates and the same level over the three year period of 2011-12 to 2013-14.

The Council accounts for pension costs based on International Accounting Standard (IAS) 19; Employee Benefits. This standard requires that the cost of retirement benefits are reported when they are earned by employees rather than when the benefits are paid as pension. Legislation prevents this cost affecting council tax and housing rent levels, which are based on the cash payable in the year. The accounts include an adjustment for the difference in the form of a transfer to or from a statutory pensions reserve.

The accounts, based on IAS 19, show a total pension fund liability of £70.6 million (£63.2 million in 2012-13) which has a substantial impact on the net worth of the authority 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 will be made good by increased contributions over the remaining working life of employees as assessed by the scheme actuary. It is important to remember that pensions are long term assets and liabilities and the IAS 19 figures disclose the position at a point in time based on the actuary's financial assumptions.

The Government commissioned a review of public sector pensions by Lord Hutton of Furness which recommended significant changes to public pensions that are due to be implemented from April 2014. The actuaries completed another triennial valuation based on information at 31 March 2013, the results of which, will be implemented from April 2014. The 2013 triennial valuation showed an increase in the pension fund deficit overall and a 1% reduction in its funding level despite good performance on its investments. The main reason for the increased deficit is that the discount rate used to value the future liabilities in the scheme is based on government bonds (gilts). Gilt yields have reduced during the valuation period and remain depressed due to the Bank of England's quantitative easing programme. In addition the outsourcing of leisure services to Freedom Leisure in 2012 resulted in an increasing maturity profile of scheme members at the Council. The actuaries did not propose an increase in the Council's on-going contribution rate to the scheme due to implementing the stabilisation model.

Reserves, Balances and Provisions

We are not required to include a full list of reserves and balances in the Statement of Accounts, however we included one in the Final Accounts report to the Executive on 26 June 2014. Transfers to and from the reserves have been made during the year as appropriate and can be seen at Note 9 to the accounts.
We have set up new reserves for:

- Business Rates – due to uncertainty surrounding the implementation of the business rates retention scheme we set up a reserve to smooth the impact of major variances in business rate income on the general fund and therefore Council Tax payers. We will use this reserve, in particular, to smooth the impact of the redevelopment of North Street on our business rate income.
- Job Evaluation – should the Council choose to implement changes as a result of the Job Evaluation exercise
- Armed Forces Day – to allow us to bid for and hold the national Armed Forces Day event in 2015
- Communications support for our Local Plan
- Investment property rent top up – a transfer from our capital schemes reserve to reflect the correct accounting treatment of our investment asset purchase
- Family Support programme – to allow us to carry over grant we have received from Surrey County Council towards financing of our family support programme
- Civil Parking enforcement – required by the terms of an agency agreement between us and Surrey County Council.

We set up a new provision of £1.6 million in respect of the Council's share of the estimated reduction in business rates collectable due to rating appeals.

We maintain a bad debt provision at a suitable level including sufficient provision to meet all likely non-collectable local taxation.

Collection Fund

We maintained a high level of collection performance for both Council Tax and Business Rates in the year. The council tax collectable debit for 2013-14 was approximately £84.485 million and 99.01% had been collected by 31 March 2014. At the same time, 99.2% of the collectable debit for non domestic rates (£78.649 million) had been collected.
We had anticipated a reduction in collection rates following the introduction of the Local Council Tax Support Scheme (LCTSS) however, this has not been as great as anticipated and collection rates have remained high.

Business Rates Retention Scheme

2013-14 involved significant change in relation to the way Local Government is financed from Central Government. The formula grant system, which included a share of the National Non Domestic Rates Pool, has been replaced with a system based on local retention of part of the business rates (also known as non-domestic rates) payable within the borough; it is known as the Business Rates Retention Scheme. The new system allows the Council to benefit financially from any above inflation growth achieved in the level of business rates in our area, but the Government have also transferred the risk of a fall in business rates to us and the rate in the pound levied is still controlled by the Government.

The new scheme starts with the Government's assumption of the level of Business Rates nationally. Half of this figure is retained by the Government and half is distributed to local authorities. Each authority has a specific proportionate share, calculated by the Government and based on each council's business rates for 2010-11 and 2011-12 as a proportion of the national total. For Guildford this was £29.566 million. However, as the Government assessed our baseline funding level at £2.558 million, the difference (£27.008 million) was paid to the Government as a tariff.

Under the previous system, the amount of formula grant notified by the Government was fixed for the year. In the new system, the Council's projected and actual business rates for the year also need to be taken into account. When we set our 2013-14 budget, we projected the business rate income we would receive and provided this estimate to the government in our NNDR 1 return. At the end of the year, we update the data based on actual income and informed the government in our NNDR 3 return.

The amount we recognise in the Income and Expenditure Statement for business rate income for 2013-14 is the amount we projected on the NNDR1 return; however, the amount we actually received (and reported on our NNDR3 return) is recognised in the Collection Fund. The government, in consultation with CIPFA, developed legislation that allows local authorities to reverse the impact on the general fund of any difference in business rate income through the surplus/deficit on the Collection Fund and an adjustment to the Collection Fund Adjustment Account on the Movement in Reserves Statement. The difference between what we estimated and received therefore forms part of the surplus or deficit on the Collection Fund and will be taken into account in setting the budget for 2015-16.

Our estimated pre levy business rate income for 2013-14, based on our NNDR1 return and after payment of the tariff, was £587,000 higher than our baseline funding level, so we anticipated paying a levy to the Government. Our levy rate is 50% so we anticipated paying approximately £294,000 and keep the remaining 50%. However, our actual business rate income, based on our NNDR 3 return was just over £1 million higher than our baseline therefore we have calculated we will need to pay a levy of £531,453 to central government. We have accrued for the levy payment in our Income and Expenditure Statement for 2013-14.

The NNDR3 return included an allowance for reductions in business rates payable because of appeals made by the rate payer to the Valuation Office (VO) both in 2013-14 and previous years. We have no control over these appeals or the timescale within which they are heard. The Council has recognised a provision of £1.1 million for appeals in 2013-14 and £2.8 million in relation to previous years. We have chosen to spread the impact of the backdated appeals provision over 5 years. The inclusion of the appeals provision in our Collection Fund has resulted in a deficit on the Collection Fund in relation to Business Rates of £1.8 million.

Housing Revenue Account (HRA)

The Statement of Accounts contains details of the HRA income and expenditure, which is ringfenced from the General Fund. We reported the HRA outturn to the Executive on 26 June 2014 and the report is available on the Council's web site, www.guildford.gov.uk at item 10.

The table below shows the main variances between the budgeted and actual operating surplus for 2013-14 under the key headings.

Housing Revenue Account	2013/14 Budget	2013/14 Actual	Variance
	£000	**£000**	**£000**
Rental Income	(29,308)	(29,469)	(161)
Other Income	(1,657)	(1,646)	11
Total income	**(30,965)**	**(31,115)**	**(150)**
Expenditure on Housing Services	9,701	9,543	(158)
Depreciation	5,294	5,678	384
Revaluation	0	(8,698)	(8,698)
Other expenditure	775	490	(285)
Interest payable and receivable	4,996	4,888	(108)
(Surplus) / Deficit for the year	**(10,199)**	**(19,214)**	**(9,015)**
HRA balance brought forward	(2,500)	(2,500)	0
(Surplus) / Deficit for the year	(10,199)	(19,214)	(9,015)
Transfers to other reserves	10,199	19,214	**9,015**
HRA balance carried forward	**(2,500)**	**(2,500)**	**0**

At year end we transferred £2.5 million to the reserve for future capital programmes and £7.9 million to the new build reserve. The surplus on revaluation was transferred to the capital adjustment account in line with the CIPFA code of practice. The HRA working balance at year-end remains at £2.5 million.

The income budget was prepared using the Government's guidance on rent increases of RPI plus 0.5 per cent. This resulted in an average rent increase of 3.91% and an average actual rent of £105.20 per week.

Rental income was £161,000 (0.6%) higher than estimated. A cautious estimate of rental income, reflecting the impact of the Government initiative to reinvigorate Right to Buy (RTB) contributed to this position, along with a prudent assessment of the number of properties held vacant. During 2013-14, we re-let a number of tenancies at formula rent increasing the amount of rental income generated against the budgeted position.

Expenditure on employees and utility charged was lower than estimated contributing to the overall reduced expenditure on Housing Services.

Lower than budgeted interest rates have resulted in a reduced interest payable charge on the variable rate loan element of the loan portfolio financing the HRA. The saving of £135,000 in the interest payable charge is in part offset by lower than budgeted investment income returns reducing the overall impact of lower interest rates to £108,000.

The Council has clearly stated its ambition to increase the number of affordable homes in the borough and work is underway to bring forward a number of development opportunities. We awarded one new build contract during 2013-14 and intend to award other contracts during 2014-15 and with this in mind, we transferred £7.9 million to a new build reserve. We also transferred £2.5 million to the HRA reserve for future capital to supplement the depreciation charge, which we do not think is sufficient to finance the major investment programme on our existing stock as envisaged in the business plan.

Other Performance during the year

Performance management is a key part of delivering successful services and performance indicators help the Council define and measure progress towards our strategic priorities. In 2013-14 we reviewed our reporting and monitoring arrangements for performance management. There is now a more robust system in place with individual service managers attending the Corporate Improvement Scrutiny Committee to present their performance indicators for discussion and comment.

In 2013-14 the Council approved a new Corporate Plan for the period 2013-2016, available on our website, http://www.guildford.gov.uk/corporateplan. This is an essential part of our strategic framework and sets out the vision for the borough for the next three years. The new Corporate Plan has five themes, which have informed the more detailed service plans. The priorities set out in the plan are the basis and drivers for our performance indicators.

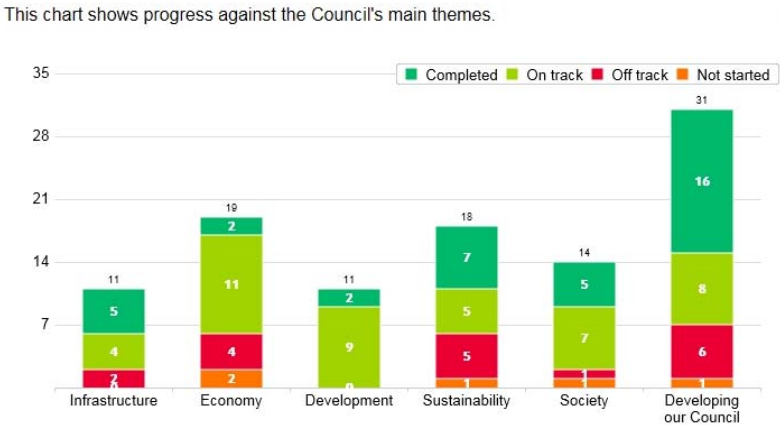
The five themes provide a focus for Council activities and there is a clear link between service delivery and the Council's corporate objectives. We monitor progress against the objectives in the service plans through regular performance monitoring meetings and reports to the Corporate Management Team and Corporate Improvement Scrutiny Committee.

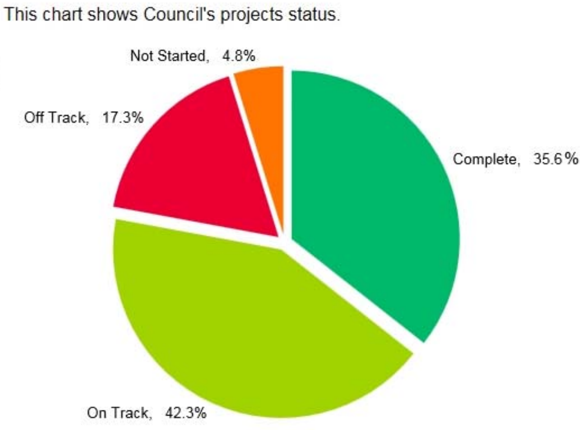
The results show that at 31 March 2014;

- 78.8% of our performance targets have either been completed or are on track
- 18.3% of our performance targets were off track
- 2.9% of our performance targets had not yet started

The corporate dashboard showing the outturn for 2013-14 across the five themes is shown below.

Corporate Plan Dashboard





Our significant achievements against the corporate plan were:

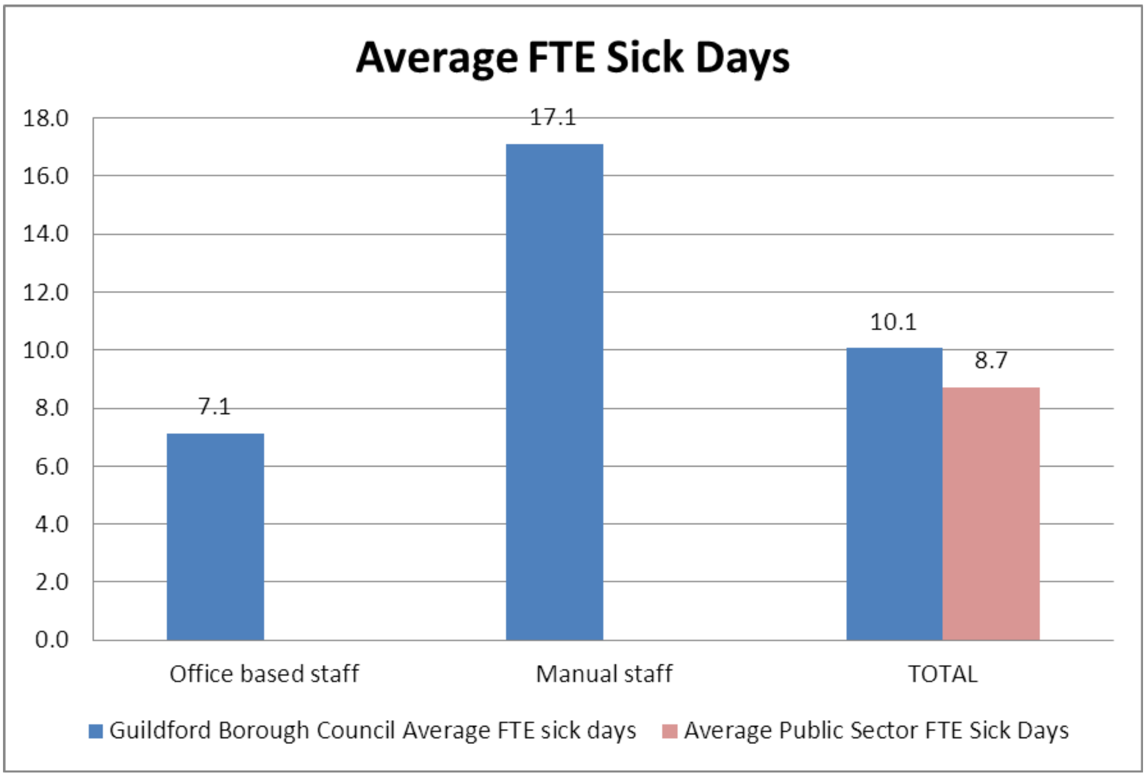
- implemented Recycling More, achieving increased recycling and composting rates with wheeled bins, reducing future capital requirements and generated annual savings
- completed the Guildford Town and Approaches Movement Study which included appraisal of interventions to reduce congestion
- completed a strategic review of parking and completed the development of a new park and ride facility
- selected a development partner and agreed the heads of terms for the redevelopment of North Street
- revised our economic strategy
- consulted on the issues and options for our new draft local plan, including key evidence documents such as strategic housing market assessment, strategic land assessment and traveller accommodation assessment
- completed the Traveller Accommodation Assessment (TAA) and secured planning permission to extend the existing social rented site at Ash Bridge Road.
- developed a new homelessness strategy
- agreed contracts for new build on three HRA sites, totalling approximately £10 million to deliver 65 homes. These will be the first HRA properties built by the Council in over 20 years.
- expanded our social enterprise programme in Westborough and Stoke and commenced a pilot gardening service.

- launched Guildford Philanthropy; a community fund to support vulnerable and disadvantaged groups and individuals, particularly focussing on improving access to education, training and skills
- reviewed and revised the local council tax support scheme ready for 2014–15
- completed a detailed review of our investment assets and implemented the outcomes of the asset review; including further acquisition of investment property assets to increase rental income
- completed an initial review of the Council's office accommodation and developed a business case for refurbishment and development of the Millmead site
- adopted and delivered the Customer Service Improvement Strategy and achieved the customer service excellence award
- completed a full review of all processes relating to the allocation, assessment and award of Council grants
- reviewed and revised the planning committee
- developed a Legal service that delivers an enhanced legal function that operates horizontally across all Council services
- successfully achieved the South East Employers Charter for elected member's development
- reviewed the senior management structure
- achieved Bronze level Investors in People award
- maintained our AA+ credit rating
- developed a surrey rail strategy in partnership with Surrey County Council

Over recent years, the Council has undertaken a programme of service challenges and senior management restructures. This has reduced our staffing levels as shown in the table below.

	Full time equivalent staff		
	2012	**2013**	**2014**
Office based staff	502.7	480.4	530.7
Manual staff	232.2	240.0	182.6
	734.98	**720.35**	**713.37**

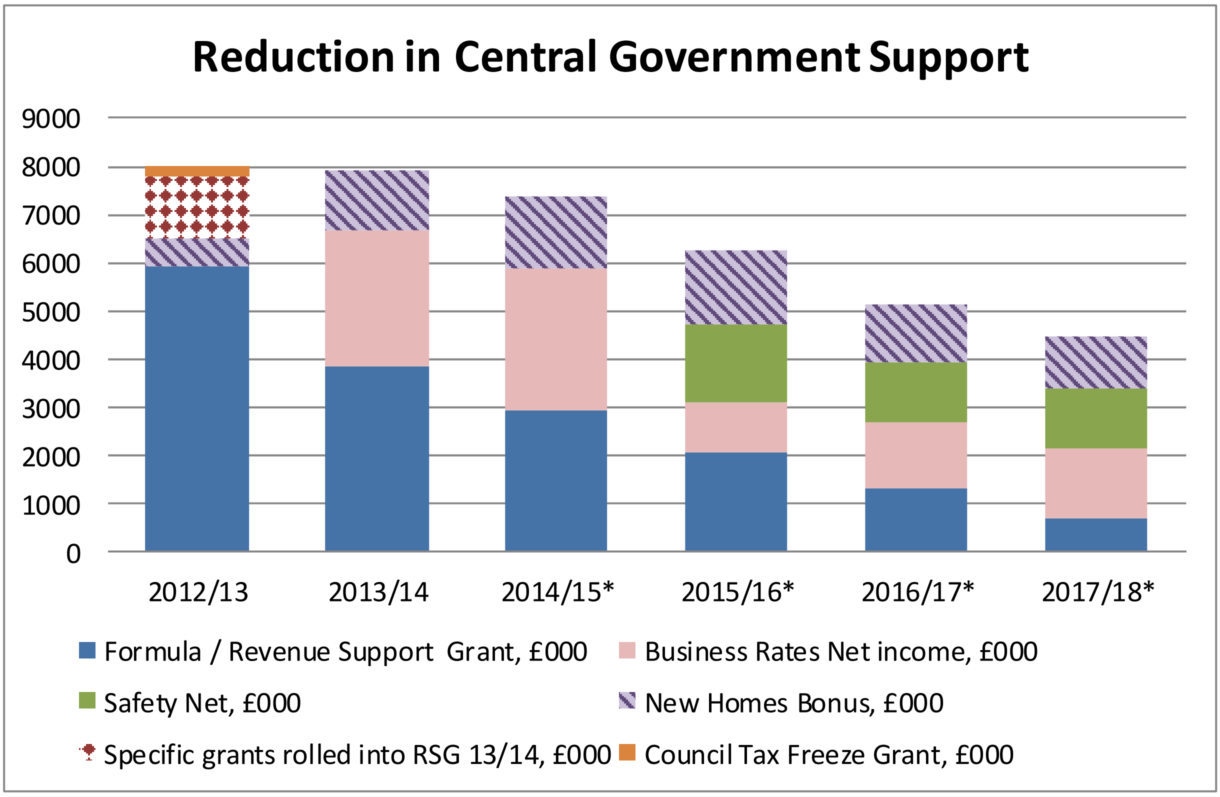
The Council collects performance information in relation to staff sickness absence and monitors the data. Due to the high level of manual staff compared to neighbouring authorities, the Council's sickness absence rates are higher than average, an issue which the Council is tackling. The graph below shows the sickness absence performance of the Council during 2013-14.



Issues affecting the Council's Future

My Chief Finance Officer's report on the 2014-15 Budget, presented to Council on 13 February 2014, is on our website (www.guildford.gov.uk), agenda item 10. This report contains an overview of local government funding, the economic outlook and their impact on Guildford Borough Council.

The economic situation continues to pose a significant risk. The level of Central Government support to Guildford Borough Council has been reducing as the Government addresses the national deficit. The following chart shows the change in Central Government funding since 2012-13:



Interest earnings, whilst no longer form a significant source of income, are still estimated to be approximately £0.5 million (net) and the preservation of our capital whilst maximising our income is of paramount importance.

Our medium term projections show a continuing reduction in Central Government support to 2017-18 and possibly into 2018-19. This is part of the government's move away from needs based grant (that is revenue support grant) to performance-based grants such as New Homes Bonus (dependent on building new homes) and the Business Rates Retention scheme (dependent on real growth in business rates). The 2013 Autumn Statement projected further cuts to departmental expenditure limits beyond 2015-16. Analysis shows that this is likely to be cumulative 10.6% between April 2016 and March 2019. The Chancellor's statement that a further £25 billion of public sector spending cuts will be required by 2018-19 reinforces the analysis.

Many of the priorities within the corporate plan involve significant investment in services, infrastructure and housing to deliver the outcomes.

We are developing a capital strategy with the aim of realising the Council's Corporate Plan, raising the quality of life for residents and improving the long-term financial planning process. The first five years of the capital strategy are effectively the capital programme. To finance the capital strategy, a variety of funding sources, such as capital receipts, capital reserves, revenue contributions, S106 contributions and borrowing will be required. Unless the Council is able to generate capital receipts it will need to borrow from its own internal resources or the market in the future.

Growth included within the revenue budget for 2014-15 supports the delivery of the Corporate Plan. The growth arising from investment in services to meet the Corporate Plan for 2015-16 has been included in the medium term financial plan.

We estimate that there is a funding gap of approximately £6.5 million over the period (2015-16 to 2018-19), of which approximately £2.5 million relates to 2015-16. The exact gap is hard to identify due to the next Comprehensive Spending Review, which will impact from 2015.

As part of our Corporate Plan, we will undertake the redevelopment of North Street in the next 3-5 years. During the redevelopment scheme, we expect that our income from business rates will fall, as a result, we have transferred our share of the business rates levy for 2013-14 to a new business rate equalisation reserve and anticipate continuing to do so to offset future reductions. During the development phase of the project, we will transfer funds from the reserve to support the revenue budget.

We currently do not anticipate any new funding from the New Homes Bonus (NHB) in the medium term. The government awards NHB for six years after which, the funding falls out of the Council's budget. Unless new homes are built or empty properties are brought back in to use, the Council will see its NHB income fall however, the Council is currently developing a new Local Plan and is committed to generating new housing within the borough. We anticipate that once the Local Plan is agreed, we will be able to change our assumptions around NHB.

The Council is pursuing a programme of transformation to address the reduction in central government support and ensure a financially sustainable future. The transformation programme has three strands:

i. Commercial / traded services

ii. Asset investment

iii. Fundamental service reviews.

<u>Financial Risks</u>

The Council faces many financial risks, the major ones are explained below.

1. The national economic situation continues to affect the Council, in particular,
    - Loss of interest from investments arising from the fall in bank base rates
    - Loss of income related to development and housing market such as planning fees and searches
    - Fees and developer contributions for infrastructure
    - Increase in benefit claimants and bad debts
    - Reduced capital receipts realised on planned asset disposals
    - Potential increase in homelessness
    - Loss of income from Fees and Charges
    - Rental income on investment properties

2. Delivery of savings and income. The Council has embarked on transformation programme to deliver savings and income generation; there is a risk that the programme will not be delivered on target.

3. Universal credit is still to come into effect. Key staff may decide to look for other jobs and leave whilst the Council is managing the run down to 2017 (when housing welfare costs are earmarked for removal from Council business). It is possible that new burdens grant funding will not cover all of the Council's run-down expenses (for example communications strategy and redundancy costs). The welfare changes will also affect the Council through their effects on vulnerable people where there is likely to be an increase in demand for services such as homelessness and housing advice.

4. Businesses and Council Tax payers now have the right to request payment of their bill by 12 instalments instead of 10. If large numbers of payers take this option it will adversely affect cash flow and therefore interest receipts.

5. Business rates retention scheme. There continues to be volatility in our business rate income due to voids, appeals, revaluations and bad debts. In addition, we know that our business rate income during the redevelopment of North Street will reduce significantly; however, the exact number of voids and discounts that relate to the scheme is difficult to predict. This uncertainty makes it difficult to accurately budget for business rate income and close monitoring through the year is crucial to identify any shortfalls at an early stage.
6. CSR 2015. It is clear from the continued economic difficulties experienced in the UK, Europe and the USA and the statements made by the Chancellor of the Exchequer in the 2013 Autumn Statement that the 2015 CSR will bring further government funding reductions for local authorities.

Auditors remuneration

Details relating to the remuneration of Auditors of the Council are shown in note 31 to the Statement of Accounts. The auditors did not undertake any other work outside of their core audit for the Council.

Conclusion

The Council has been able to maintain a high level of performance in the delivery of its services during 2013-14, and at the same time maintain its reserves and provisions to a level adequate to meet all known liabilities and invest in transformational change.

There are significant challenges for us in the future. The Government continues to reduce local authority funding as part of its austerity programme and we are starting to prepare for the inevitable changes to our revenue support grant. The broader welfare reform agenda is also likely to put pressure on Council services, particularly in the area of housing and homelessness.

The Council is well placed to meet these challenges and has a programme of transformational changes and fundamental service reviews in place to deliver savings for future years.

Sue Sturgeon, CPFA
Chief Financial Officer
25 September 2014

MOVEMENT IN RESERVES STATEMENT (MIRS)

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (that is those that can be applied to finance expenditure or reduce local taxation) and other reserves. The surplus / (deficit) on the provision of services line shows the true economic cost of providing the Council's services, 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 and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The net increase /decrease before transfers to earmarked reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2012 - 13 Restated

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Contributions Unapplied £000	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2012 carried forward	3,748	18,401	2,500	17,257	18,802	-	30	60,738	365,128	425,866
Movement in Reserves during 2012-13										
Surplus/(deficit) on the provision of services	(5,504)	-	11,965	-	-	-	-	6,461	-	6,461
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	(3,883)	(3,883)
Total Comprehensive Income and Expenditure	**(5,504)**	-	**11,965**	-	-	-	-	**6,461**	**(3,883)**	**2,578**
Adjustments between accounting basis & funding basis under regulations (Note 8)	4,813	-	(3,223)	-	(59)	-	75	1,606	(1,606)	-
Net increase/(decrease) before transfers to earmarked reserves	**(691)**	-	**8,742**	-	**(59)**	-	**75**	**8,067**	**(5,489)**	**2,578**
Transfers to/from earmarked reserves (Note 9)	691	(691)	(8,742)	8,742	-	-	-	-	-	-
Increase /(decrease) in 2012-13	-	(691)	-	8,742	(59)	-	75	8,067	(5,489)	2,578
Balance at 31 March 2013 carried forward	**3,748**	**17,710**	**2,500**	**25,999**	**18,743**	**-**	**105**	**68,805**	**359,639**	**428,444**

The restatements are due to the change in accounting policy for the movements in pension fund liability; see note 2.

2013 - 14

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Contributions Unapplied £000	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2013 carried forward	**3,748**	**17,710**	**2,500**	**25,999**	**18,743**	**-**	**105**	**68,805**	**359,639**	**428,444**
Movement in Reserves during 2013-14										
Surplus on the provision of services	4,396	-	21,010	-	-	-	-	25,406	-	25,406
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	1,165	1,165
Total Comprehensive Income and Expenditure	**4,396**	-	**21,010**	-	-	-	-	**25,406**	**1,165**	**26,571**
Adjustments between accounting basis & funding basis under regulations (Note 8)	(1,828)	-	(10,587)	-	10,811	1,607	(10)	(7)	7	-
Net increase/(decrease) before transfers to earmarked reserves	**2,568**	-	**10,423**	-	**10,811**	**1,607**	**(10)**	**25,399**	**1,172**	**26,571**
Transfers to/from earmarked reserves (Note 9)	(2,568)	2,568	(10,423)	10,423	-	-	-	-	-	-
Increase /(decrease) in 2013-14	-	2,568	-	10,423	10,811	1,607	(10)	25,399	1,172	26,571
Balance at 31 March 2014 carried forward	**3,748**	**20,278**	**2,500**	**36,422**	**29,554**	**1,607**	**95**	**94,204**	**360,811**	**455,015**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)

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. Authorities 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.

2012-13 Restated					2013-14		
Gross Expenditure £000	**Gross Income £000**	**Net Expenditure £000**		**Notes**	**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure £000**
2,040	867	1,173	Central services to the public		1,989	1,083	906
12,911	4,135	8,776	Cultural and Related Services		11,884	4,258	7,626
14,186	6,883	7,303	Environmental and Regulatory Services		14,280	6,597	7,683
5,488	1,836	3,652	Planning Services		6,555	2,318	4,237
6,819	11,097	(4,278)	Highways and transport services		6,909	11,344	(4,435)
13,557	30,099	(16,542)	Local authority housing (HRA)		6,769	31,114	(24,345)
47,747	45,394	2,353	Other housing services		42,074	39,097	2,977
2,400	1,129	1,271	Adult social care		2,421	1,716	705
4,236	785	3,451	Corporate and democratic core		4,716	769	3,947
194	-	194	Non distributed costs		106		106
109,578	**102,225**	**7,353**	**Cost of Services**		**97,703**	**98,296**	**(593)**
		1,299	Other operating expenditure	10			(9,602)
		2,724	Financing and investment income and expenditure	2,11			2,093
		(17,837)	Taxation and non-specific grant income	12			(17,304)
		(6,461)	**Surplus on Provision of Services**				**(25,406)**
			Items that will not be reclassified to the surplus on provision of services				
		(167)	Surplus on revaluation of Property, Plant and Equipment assets	23			(5,488)
		4,276	Remeasurements of the net defined benefit liability	2,23			4,730
			Items that may be reclassified to the surplus on provision of services				
		(226)	Surplus on revaluation of available for sale financial assets	23			(407)
		3,883	**Other Comprehensive Income and Expenditure**				**(1,165)**
		(2,578)	**Total Comprehensive Income and Expenditure**				**(26,571)**

Material items of income and expenditure are described at note 6.

The 2012-13 restatements are due to the change in accounting policy for the movements in pension fund liability; see note 2.

BALANCE SHEET

The Balance Sheet shows the value as at 31 March of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) match the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, that is 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 is those that the Council is not able to use to provide services. This category 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 in the line called *Adjustments between accounting basis and funding basis under regulations*.

31 March 2013 £000		Notes	31 March 2014 £000
536,113	Property, Plant & Equipment	13	551,053
3,348	Heritage Assets	14	3,362
84,380	Investment Property	15	96,187
555	Intangible Assets		822
85	Long Term Debtors	16	64
624,481	**Long Term Assets**		**651,488**
48,184	Short Term Investments	16	67,121
3,009	Assets Held for Sale	19	520
195	Inventories		358
7,420	Short Term Debtors	17	5,088
20,306	Cash and Cash Equivalents	18	19,294
79,114	**Current Assets**		**92,381**
(354)	Short Term Borrowing	16	(319)
(16,460)	Short Term Creditors	20	(22,065)
(1,054)	Provisions	21	(2,072)
(17,868)	**Current Liabilities**		**(24,456)**
(194,045)	Long Term Borrowing	16	(193,815)
(63,238)	Other Long Term Liabilities	36	(70,583)
(257,283)	**Long Term Liabilities**		**(264,398)**
428,444	**Net Assets**		**455,015**
68,805	Usable Reserves	22	94,204
359,639	Unusable Reserves	23	360,811
428,444	**Total Reserves**		**455,015**

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 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 that 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 (that is borrowing) to the Council.

2012-13 Restated £000		**2013-14 £000**
6,461	Net surplus on the provision of services	25,406
15,920	Adjustments for non-cash movements (Note 24)	14,543
(3,210)	Adjustments for items included in the net surplus that are investing and financing activities (Note 24)	(18,750)
19,171	Net cash flows from Operating Activities	21,199
(38,506)	Investing Activities (Note 25)	(25,681)
(569)	Financing Activities (Note 26)	3,470
(19,904)	Net decrease in cash and cash equivalents	(1,012)
40,210	Cash and cash equivalents at the beginning of the reporting period	20,306
20,306	**Cash and cash equivalents at the end of the reporting period (Note 18)**	**19,294**

The 2012-13 restatements are due to the change in accounting policy for the movements in pension fund liability; see note 2.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2013-14 financial year and its position at the year-end of 31 March 2014. The Accounts and Audit (England) Regulations 2011 require the Council to prepare its annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and the Service Reporting Code of Practice 2013-14, 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.

ii. Accruals of Income and Expenditure (debtors and creditors)

Activity is accounted for in the year that it takes place, not simply when 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 payable on borrowings and receivable on investments is accounted for respectively as expenditure and income to the CIES 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 revenue and expenditure have 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Accounting practice for Council Tax and Business Rates

Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions. Revenue is recognised when it is probable that the economic benefits of the transaction will flow to the Council and the amount of revenue can be measured reliably.

The council tax and business rate income included in the CIES is the accrued income for the year, which consists of :

- The Council's council tax precept and business rate share from the Collection Fund i.e. the amount billed for the year; and
- The Council's share of the actual council tax and business rate surplus or deficit on the Collection Fund at the end of the current year, adjusted for the Council's share of the surplus or deficit on the fund at the preceding year end that has not been distributed or recovered in the current year.

The latter is not required by regulation to be credited to the General Fund and so is taken to the Collection Fund Adjustment Account and included as a reconciling item in the MIRS on the General Fund balance.

The Council as billing authority recognises a creditor in its balance sheet for cash collected from taxpayers and businesses on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors in advance of receiving the cash from council tax payers and business rate payers.

iv. Cash and Cash Equivalents

Cash represents cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours; for example call accounts. Cash equivalents are highly-liquid investments that are convertible to known amounts of cash within 24 hours and with insignificant risk of change in value, and include money market funds.

The Cash Flow Statement shows cash and cash equivalents net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

v. Material Items

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

vi. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are charged with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant 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 assets attributable to the service.

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

vii. 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 (for example 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 earned by employees but not taken before the year-end and 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. They are charged on an accruals basis to the appropriate service in the CIES at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

Post-employment Benefits

Most of the Council's employees are members of the Local Government Pension Scheme administered by Surrey County Council. The scheme provides defined benefits earned as Council employees (retirement lump sums and pensions) to members and is accounted for as a defined benefits scheme where:

- the liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is 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 of 4.3 % (based on the indicative rate of return on high quality corporate bond over a range of periods)
- the assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value using the following bases:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value

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

- Service cost comprising:
    - current service cost - the increase in liabilities as result of years of service earned this year – allocated in the CIES to the services for which the employees worked
    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs
    - net interest on the net defined benefit liability, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments

- Re-measurements comprising:
    - the return on plan assets (excluding amounts included in the net interest on the net defined benefit liability) – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Other Comprehensive Income and Expenditure
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Surrey County Council 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 Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise because 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.

The June 2011 amendments to IAS19 Employee Benefits introduced new classes of components of defined benefit cost to be recognised in the financial statements. Note 2 shows the impact on disclosure within the CIES, and note 36 sets out the basis more clearly.

viii. Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and 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 events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments

A Financial Instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council. It can be a contractual obligation to deliver cash or financial assets to another entity and are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions.

They are initially measured at fair value and are carried at their amortised cost.

Annual charges to the Financing and Investment Income and Expenditure line in the CIES 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.

For the Council's loans, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

The Council uses two types of financial asset:

- 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.

<u>Loans and Receivables</u>

Loans and receivables are recognised on the Balance Sheet when the Council enters a contractual provision of a financial instrument. They are initially measured at fair value, and subsequently measured at amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

The Council's investments are presented in the Balance Sheet as the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the investment agreement.

Where assets are identified as impaired because of a likelihood 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 CIES. 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.

Any gains and losses that arise on the de-recognition of an asset are taken to the Financing and Investment Income and Expenditure line in the CIES.

<u>Available-for-Sale Assets</u>
Available-for-sale assets are recognised on the Balance Sheet when the Council enters a contractual provision 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 CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (for example dividends) is credited to the CIES when it becomes receivable by the Council.

Assets are shown on the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain or loss is recognised in the Surplus or Deficit on revaluation of Available-for-Sale Financial Assets. The exception is where we have incurred impairment losses – these are charged to the Financing and Investment Income and Expenditure line in the CIES, along with any net gain or loss accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood that payments 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 line of the CIES.

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 de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES, along with any accumulated gains or 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).

x. Government Grants and 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 it is reasonable to conclude that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the CIES until conditions attaching 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 in the form of 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, attributable revenue grants and contributions are credited to the relevant service line and non-ring-fenced revenue grants and all capital grants are credited to Taxation and Non-Specific Grant Income in the CIES.

Where capital grants or contributions are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where a contribution has yet to be used to finance capital expenditure, it is posted to the Capital Contributions Unapplied reserve. Where a grant or contribution has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Contributions Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where it is uncertain whether a grant or contribution will be used for capital or revenue purposes, the grant will be credited to an earmarked reserve.

xi. Heritage Assets

The Council holds various heritage assets, which are held and maintained principally for their contribution to knowledge and culture. Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets. The Council's heritage assets are accounted for as follows:

- Monuments, including Guildford Castle and Chilworth Gunpowder Mills

These assets are ruins for which it is not possible to obtain a current valuation. They are held on the balance sheet at historical cost, i.e. the cost of capitalised works carried out to preserve the buildings, and are not subject to depreciation as they have indefinite lives.

- the art collection held at Guildford House Gallery, and civic regalia held at the Guildhall

Insurance values have been used as a proxy for fair value. The assets are not depreciated because they have indeterminable lives.

- various sculptures and pieces of artwork around the Borough

These assets are held on the balance sheet at historical cost and are not subject to depreciation as they have indeterminable lives.

- the museum collection held at Guildford Museum

The Council does not consider that reliable cost or valuation information can be obtained for the museum collection because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, for example when 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 xvi in this summary of significant accounting policies.

xii. 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.

The value of an investment property is initially measured at cost. Thereafter, it is measured at fair value which is based on the amount at which the asset could be exchanged between two separate and knowledgeable parties. Investment properties are not depreciated but are revalued annually according to market conditions at year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES as are any gains or losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income 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. Accordingly, any gains or losses are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account (revaluations and value of assets disposed of) and the Capital Receipts Reserve (proceeds of disposals greater than £10,000).

xiii. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the CIES with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xiv. 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 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.

<u>The Council as Lessee</u>

Finance Leases
Property, Plant and Equipment (PPE) held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. There are no further liabilities on any of the leased assets because premia were paid at the inception of the leases.

PPE recognised under a finance lease is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore replaced by revenue provision 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.

Operating Leases
Rentals paid under operating leases are charged to the CIES as an expense to the services benefitting from use of the leased property, plant or 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 (for example there is a rent-free period at the commencement of the lease).

<u>The Council as Lessor</u>

Finance Leases
Where the Council grants a finance lease for an item of PPE, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether PPE or Assets Held for Sale) is written off to the CIES, and any premium received is credited to the CIES, as part of the gain or loss on disposal.

The accounting treatment is the same as for PPE disposals described in policy xviii. Property, Plant and Equipment: Disposals and Non-current Assets Held for Sale.

Operating Leases
Where the Council grants an operating lease for an item of PPE or an investment property, the asset is retained in the Balance Sheet. Rental income is credited to the CIES on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (for example, there is a premium paid at the commencement of the lease).

xv. Overheads and Support Services

The costs of overheads and support services are allocated in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013-14 (SeRCOP). The total absorption costing principle is used where the full cost of overheads and support services are allocated, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the CIES, as part of Net Expenditure on Continuing Services.

xvi. Property, Plant and Equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment (PPE).

Recognition

Expenditure (including any amounts owed to third parties) on the acquisition, creation or enhancement of PPE is capitalised if it is probable that the item of PPE will generate future economic benefits and/or service potential and the cost of the item can be measured reliably. Expenditure that does not enhance an asset such as repairs and maintenance expenditure is not capitalised and is charged to the CIES as an expense when it is incurred.

Measurement

PPE assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of any future decommissioning costs that will be necessary such as dismantling an item or restoring a site upon which the asset it is located.

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

- infrastructure, community assets and assets under construction are valued at historical cost (depreciated as appropriate)
- dwellings are valued at fair value which is determined by estimating the value of the dwelling for its existing use as a social housing dwelling
- all other assets are valued at "fair value" which is the estimated amount that would be paid for the asset in its existing use.

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are credited to the Revaluation Reserve unless there has been a previous reduction in valuation that has been charged to the CIES in which case it is credited to the CIES.

Where decreases in value are identified, they are accounted for by:

- 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 the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains and losses that arose prior to 1 April 2007 have been transferred to the Capital Adjustment Account.

Impairment

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

Where impairment losses are identified, they are accounted for by:

- 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 the asset is written down against the relevant service line(s) in the CIES.

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

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 continuing use, it is reclassified 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, and is no longer subject to depreciation. Gains in fair value are recognised only up to the amount of any previously recognised losses. 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 and 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 not

been classified as held for sale, and
- their recoverable amount at the date of the decision not to sell.

When an asset is disposed of (or decommissioned), the carrying amount of the asset in the Balance Sheet (whether PPE or Assets Held for Sale) is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the CIES also as part of the gain or loss on disposal (that is 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.

Disposal proceeds in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals, net of statutory deductions and allowances, is payable to the Government. 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 non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

<u>Depreciation</u>

Depreciation is provided for on PPE assets that are available for use by the systematic allocation of their depreciable amounts over their useful lives. However, assets that do not have a determinable finite useful life such as freehold land are not depreciated. In addition, assets that are in the course of construction and therefore not yet available for use are also not depreciated.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property, as estimated by the valuer
- vehicles, plant and equipment – straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 10 years.

Where an item of PPE has major components where the cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council's policy is to componentise assets (excluding land) with a value greater than £1 million and where the component(s) comprise more than 20 % of the value of the asset.

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.

xvii. Provisions, Contingent Liabilities and Contingent Assets

<u>Provisions</u>

Provisions are created when the Council has an obligation such as a legal claim against it that has arisen from a past event and it is probable that the Council will need to settle that obligation. In addition, it is necessary that the obligation can be reliably estimated.

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation. They are estimated at the balance sheet date, taking into account relevant risks and uncertainties. When payments are made to clear the obligation, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where necessary revised. If there is a need to increase the provision, the additional amount is charged to the relevant service in the CIES. If, however, the obligation is estimated or ultimately proves to be less than the value of the provision, the excess amount is credited to the relevant service in the CIES.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example 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 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 as a note to the accounts.

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 in the Balance Sheet but disclosed as a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xviii. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net 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 do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xix. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES 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 the 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.

xx. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

2. PRIOR YEAR ADJUSTMENTS

The June 2011 amendments to IAS 19 Employee Benefits, which were adopted by the Code from 1 April 2013, introduced new classes of components of defined benefit cost that the Council must recognise in the financial statements. Some of the definitions and terminology have changed, and additional disclosure is required in the statements as a result. The prior year comparative figures have been restated to reflect this change in policy, and the effects of the restatement are as follows:

	2012-13 Statements £000	Amendments made £000	Revised figures £000
CIES			
Financing and investment income and expenditure	1,750	974	2,724
Surplus on Provision of Services	**(7,435)**	**974**	**(6,461)**
Actuarial losses on pension assets / liabilities	5,250	(5,250)	-
Remeasurements of the net defined benefit liability	-	4,276	4,276
Other Comprehensive Income and Expenditure	**4,857**	**(974)**	**3,883**
MIRS			
Surplus on Provision of Services	**(7,435)**	**974**	**(6,461)**
Other Comprehensive Income and Expenditure	**4,857**	**(974)**	**3,883**
Cash Flow Statement			
Net Surplus on Provision of Services	7,435	(974)	6,461
Adjustments for non-cash movements	14,946	974	15,920

In the MIRS the changes above are within the General Fund Balance. There are changes within the Adjustments between accounting basis & funding basis under regulations line but these have no effect on the Total Authority Reserves.

Additional explanation of the changes is provided in note 36 Defined Benefit Pension Scheme.

3. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

For 2013-14 the accounting policy changes that need to be reported relate to:

IFRS 13 Fair Value Measurement (May 2011)

This standard introduces a consistent definition of fair value. CIPFA/LASAAC is proposing to adapt this definition in those cases where service constraints require an authority to deliver services in a particular location, which will limit the number of assets where a new valuation basis will apply. However, some assets (office accommodation) may need to be revalued to market value in highest and best use rather than market value in existing use as at present. It is not anticipated that market value will differ significantly from existing use value for the Council's assets where revaluation will be necessary.

IFRS 10 Consolidated Financial Statements
IFRS11 Joint Arrangements
IFRS12 Disclosures of Interests in Other entities
IAS 27 Separate Financial Statements
IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)

These standards address the accounting for, and disclosures relating to, group accounts. The Council is not required to produce group accounts as it has no subsidiaries, associates or material joint arrangements. It is not considered that these standards will change this position and therefore there would be no changes to the financial statements as a result of them being adopted by the Code.

IAS32 Financial Instruments Presentation
IAS1 Presentation of the Financial Statements

These standards concern presentation issues and will not have a material impact on the Statement of Accounts.

IFRS13 only applies from 2015-16 subject to further consultative process, and the other standards are applicable from 1 April 2015.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

Although there is a degree of uncertainty about future levels of funding for local government the Council has determined that this uncertainty does not indicate that the assets of the Council might be impaired. The factors taken into account in concluding that the Council continues to be a going concern include our level or reserves, level of committed funding, budget and cash for the coming years, and the lack of proposed local government reorganisation.

Critical judgement has been used in identifying how assets are classified on the balance sheet. In particular, some assets that we hold to earn rental income are also held for economic development and regeneration purposes. However, as they are not used in the direct delivery of services they have been classified as investment property.

Also, some assets that are held for their historical interest are classified as property, plant and equipment rather than heritage assets because they are also used to provide a particular service.

The Council has determined that a materiality level of £1 million is appropriate for inclusion of accounting policies and disclosure notes in the Statement of Accounts.

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 made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2014 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if Actual Results Differ from Assumptions**
Business Rates	Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses in 2012-13 and earlier years, in their proportionate share. A provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2014. The provision has been calculated using the Valuation Office ratings list of appeals and the analysis of successful appeals to date.	If the level of successful appeals varies by 1%, it would increase or decrease the appeals provision by £105,000, which in turn would increase or decrease the deficit on the Collection Fund by £105,000. The Council's share of the increase or decrease would be £42,000, which would increase or decrease the surplus on provision of services in the CIES.
Property, Plant and Equipment (PPE) and Investment property	PPE and investment property are included in the balance sheet at fair value. Chartered surveyors are engaged to provide expert advice in the assumptions to be applied when carrying out the valuations. Individual items of PPE are depreciated over estimated useful lives that are partly dependent upon assumptions about the level of repairs and maintenance that will take place. If the Council were not able to	If the valuations were changed by 1%, it would increase or decrease the value of net assets on the balance sheet by £6.3 million. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. Depreciation costs do not affect the Council's overall financial position as they form part of the

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	sustain its level of spending on the repair and maintenance of its assets in the long term the estimated useful life assigned to individual assets would need to be reduced.	adjustment between accounting basis and funding basis under regulations.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements 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 £19.965 million. A one-year increase in member life expectancy would result in an increase in the pension liability of £6.072 million. A 0.5% increase in the salary increase rate would result in an increase in the pension liability of £5.937 million and a 0.5% increase in the Pensions increase rate would result in an increase in the pension liability of £13.792 million. During 2013-14, the Council's actuaries advised that the net pensions liability had increased by £7.345 million. This is principally due to falling real bond yields, partially offset by strong asset returns
Debtors	At 31 March 2014, the Council was owed approximately £8.2 million. A review of significant balances suggested that an allowance for doubtful debts of £3.2 million was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of doubtful debts would require an additional £820,000 to set aside as an allowance.

6. MATERIAL ITEMS OF INCOME AND EXPENSE

The Bellerby Theatre development site was sold during the year, resulting in a £10.4 million gain on disposal included in the gain on disposal of non-current assets, which forms part of other operating expenditure in the CIES.

The gross expenditure on local authority housing (HRA) in the CIES includes a net £8.7m revaluation gain, which partly reverses a revaluation loss of £60m charged to the HRA in 2010-11 as a result of the reduction in the vacant possession adjustment factor from 45% to 32%. Revaluation gains and losses do not impact on the HRA balance and the net revaluation gain is therefore reversed out in the MIRS.

7. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 25 September 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2013-14	**Usable Reserves**					
	General Fund Balance £000	**Housing Revenue Account £000**	**Capital Receipts reserve £000**	**Major Repairs Reserve £000**	**Capital Contributions Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):						
Charge for depreciation of non-current assets	5,405	5,678	-	-	-	(11,083)
Revaluation gains on Property Plant and Equipment	(485)	(8,698)	-	-	-	9,183
Movements in the market value of Investment Properties	56	-	-	-	-	(56)
Amortisation of intangible assets	194	4	-	-	-	(198)
Revenue expenditure funded from capital under statute	1,509	-	-	-	-	(1,509)
Amounts of non-current assets written off on disposal or sale as part of the gain on disposal to the CIES	4,642	1,903	-	-	-	(6,545)
Insertion of items not debited or credited to the CIES:						
Statutory provision for the financing of capital investment	(175)	-	-	-	-	175
Capital expenditure charged against the General Fund and HRA balances	(1,846)	-	-	-	-	1,846

2013-14	**Usable Reserves**					
	General Fund Balance £000	**Housing Revenue Account £000**	**Capital Receipts reserve £000**	**Major Repairs Reserve £000**	**Capital Contributions Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the CIES	(735)	(119)	-	-	854	-
Application of grants and contributions to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(864)	864
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain on disposal to the CIES	(14,319)	(3,577)	17,896	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	(6,525)	-	-	6,525
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	560	-	(560)	-	-	-
Adjustments involving the Accumulating Compensated Absences Adjustment Account						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	11	-	-	-	-	(11)
Adjustments primarily involving the Major Repairs Reserve:						
Transfer of HRA depreciation from the HRA	-	(5,678)	-	5,678	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(4,071)	-	4,071

2013-14	**Usable Reserves**					
	General Fund Balance £000	**Housing Revenue Account £000**	**Capital Receipts reserve £000**	**Major Repairs Reserve £000**	**Capital Contributions Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES (see note 36)	6,668	411	-	-	-	(7,079)
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,953)	(511)	-	-	-	4,464
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and NDR income credited to the CIES is different from council tax and NDR income calculated for the year in accordance with statutory requirements	640	-	-	-	-	(640)
Total adjustments	**(1,828)**	**(10,587)**	**10,811**	**1,607**	**(10)**	**7**

2012-13 Comparative figures	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts reserve £000	Major Repairs Reserve £000	Capital Contributions Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):						
Charge for depreciation of non-current assets	5,388	5,313	-	-	-	(10,701)
Revaluation losses /(gains) on Property Plant and Equipment	1,257	(907)	-	-	-	(350)
Movements in the market value of Investment Properties	(432)	(20)	-	-	-	452
Amortisation of intangible assets	222	-	-	-	-	(222)
Revenue expenditure funded from capital under statute	1,550	-	-	-	-	(1,550)
Amounts of non-current assets written off on disposal or sale as part of the gain on disposal to the CIES	254	997	-	-	-	(1,251)
Insertion of items not debited or credited to the CIES:						
Provision for the financing of capital investment (statutory and voluntary)	(91)	(18)	-	-	-	109
Capital expenditure charged against the General Fund and HRA balances	(4,406)	(1,451)	-	-	-	5,857

2012-13 Comparative figures	**Usable Reserves**					
	General Fund Balance £000	**Housing Revenue Account £000**	**Capital Receipts reserve £000**	**Major Repairs Reserve £000**	**Capital Contributions Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the CIES	(1,499)	-	-	-	1,499	-
Application of grants and contributions to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(1,424)	1,424
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain on disposal to the CIES	(49)	(1,662)	1,711	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	(1,284)	-	-	1,284
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	486	-	(486)	-	-	-
Adjustments involving the Accumulating Compensated Absences Adjustment Account						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1	-	-	-	-	(1)
Adjustments primarily involving the Major Repairs Reserve:						
Transfer of HRA depreciation from the HRA	-	(5,313)	-	5,313	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(5,313)	-	5,313

2012-13 Comparative figures restated	**Usable Reserves**					
	General Fund Balance £000	**Housing Revenue Account £000**	**Capital Receipts reserve £000**	**Major Repairs Reserve £000**	**Capital Contributions Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES (see note 36)	6,029	330	-	-	-	(6,359)
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,905)	(492)	-	-	-	4,397
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	8	-	-	-	-	(8)
Total adjustments	**4,813**	**(3,223)**	**(59)**	**-**	**75**	**(1,606)**

9. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2013-14.

	Balance at 31 March 2012	Transfers In 2012-13	Transfers Out 2012-13	Balance at 31 March 2013	Transfers In 2013-14	Transfers Out 2013-14	Balance at 31 March 2014
	£000	£000	£000	£000	£000	£000	£000
General fund:							
Capital Schemes	4,187	1,007	2,480	2,714	-	1,144	1,570
Car Parks Maintenance	2,752	696	343	3,105	701	406	3,400
Carried forward items	583	609	353	839	860	547	1,152
Invest to Save	1,376	1,092	622	1,846	615	705	1,756
Investment property rent top up	-	-	-	-	1,144	-	1,144
IT Renewals	1,117	271	189	1,199	311	571	939
New Homes Bonus	78	462	-	540	1,077	-	1,617
Park and Ride	1,650	-	-	1,650	-	-	1,650
Spectrum	1,010	330	236	1,104	166	19	1,251
Other earmarked reserves	5,648	802	1,737	4,713	2,488	1,402	5,799
Total	**18,401**	**5,269**	**5,960**	**17,710**	**7,362**	**4,794**	**20,278**
HRA:							
Capital Programme	17,257	2,500	1,428	18,329	2,500	-	20,829
New Build	-	7,693	23	7,670	7,923	-	15,593
Total	**17,257**	**10,193**	**1,451**	**25,999**	**10,423**	**-**	**36,422**

Capital Schemes: available to fund capital expenditure in future years
Car Parks Maintenance: used to fund repairs, maintenance and improvements in the Council's off street car parks
Carried forward items: this reserve allows the budget for items that we have not completed in the year to be carried forward so they can be finalised in later years without affecting that year's budget
Invest to Save: this reserve funds investment opportunities that will allow us to achieve ongoing savings, and short term increases in revenue costs during periods of transition
Investment Property rent top up: set up in the year to enable us to credit the revenue account in future years with an amount received in relation to a rent-free period when purchasing an investment property
IT Renewals: this reserve finances investment in information technology
New Homes Bonus: New Homes Bonus is a general grant that we receive from the UK government. It is not ring-fenced for any specific purpose
Park and Ride: this reserve will be used to fund future park and ride sites
Spectrum: this reserve is available to finance structural repairs and improvements to Spectrum Leisure Centre
Other: consists of 29 reserves with balances of less than £1 million, which have been earmarked for a range of different purposes e.g. insurance, pensions, protection from interest rate movements, legal actions, energy management schemes and armed forces day.

10. OTHER OPERATING EXPENDITURE

2012-13		2013-14
£000		**£000**
1,283	Parish council precepts	1,224
486	Payments to the government Housing Capital Receipts Pool	560
(470)	Gains on the disposal of non-current assets	(11,386)
1,299		**(9,602)**

The gain on disposal of non-current assets includes a £10.4 million gain on the sale of the Bellerby Theatre development site, which was sold for a market value of £14 million. The carrying value of the property included in the site, measured primarily at existing use value, was £3.7m.

11. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2012-13		2013-14
£000		**£000**
5,122	Interest payable and similar charges	5,049
2,718	Net interest on the net defined benefit liability	2,838
(945)	Interest receivable and similar income	(933)
(4,171)	Income and expenditure in relation to investment properties and changes in their fair value	(4,861)
2,724		**2,093**

12. TAXATION AND NON SPECIFIC GRANT INCOME

2012-13		2013-14
£000		**£000**
(9,624)	Council tax income	(9,197)
(5,810)	Non domestic rates income and expenditure	(1,870)
(904)	Non-ringfenced government grants	(5,383)
(1,499)	Capital grants and contributions	(854)
(17,837)		**(17,304)**

In April 2013 the Government introduced the Local Council Tax Support Scheme (LCTSS) and the Business Rates Retention Scheme (BRRS). Under the LCTSS, council tax payers previously in receipt of a benefit payment received a discounted council tax bill instead. We also received a new non-ringfenced government grant as part of this change. The BRRS is designed to allow local authorities to share in any business rate growth in their area, but also to bear the risk of any decline. These changes together have resulted in a reduction in council tax income and non-domestic rates income and an increase in non-ringfenced government grants, which are set out in note 32.

The non-domestic rates income and expenditure line above includes the following:

	2013-14
	£000
Tariff	27,008
Levy	531
Retained income	(29,409)
	(1,870)

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

Movement in 2013-14:

	Council dwellings £000	Other land and buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus assets £000	Assets under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2013	363,470	174,020	20,096	4,970	4,401	800	265	568,022
Additions	6,990	681	5,195	547	11	-	1,358	14,782
Disposals	(1,911)		(3,239)					(5,150)
Accumulated depreciation written off to cost or valuation	(5,348)	(1,843)						(7,191)
Revaluations recognised in the revaluation reserve	2,777	2,711						5,488
Revaluations recognised in the surplus on provision of services	8,698	485						9,183
Transfers		(340)		53	(53)	(250)		(590)
At 31 March 2014	**374,676**	**175,714**	**22,052**	**5,570**	**4,359**	**550**	**1,623**	**584,544**
Accumulated Depreciation and Impairment								
At 1 April 2013	5,093	9,747	13,346	3,723	-	-	-	31,909
Charge for 2013-14	5,597	3,755	1,583	148	-	-	-	11,083
Disposals	(8)		(2,302)		-	-	-	(2,310)
Revaluations	(5,348)	(1,843)			-	-	-	(7,191)
Transfers					-	-	-	0
At 31 March 2014	**5,334**	**11,659**	**12,627**	**3,871**	**-**	**-**	**-**	**33,491**

Comparative movements in 2012-13

	Council dwellings £000	Other land and buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus assets £000	Assets under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2012	360,309	177,681	18,995	4,111	4,542	845	664	567,147
Additions	7,131	1,175	1,476	707	117	-	686	11,292
Disposals	(1,009)	(144)	(375)	(94)	-	-	-	(1,622)
Accumulated depreciation written off to cost or valuation	(5,182)	(376)						(5,558)
Revaluations recognised in the revaluation reserve	1,128	(960)						168
Revaluations recognised in the surplus on provision of services	1,093	(1,508)				65		(350)
Transfers	-	(1,848)	-	246	(258)	(110)	(1,085)	(3,055)
At 31 March 2013	**363,470**	**174,020**	**20,096**	**4,970**	**4,401**	**800**	**265**	**568,022**
Accumulated Depreciation and Impairment								
At 1 April 2012	5,051	6,420	12,099	3,638	-	-	-	27,208
Charge for 2012-13	5,236	3,774	1,606	85	-	-	-	10,701
Disposals	(12)	-	(359)	-	-	-	-	(371)
Revaluations	(5,182)	(376)	-	-	-	-	-	(5,558)
Transfers	-	(71)	-	-	-	-	-	(71)
At 31 March 2013	**5,093**	**9,747**	**13,346**	**3,723**	**-**	**-**	**-**	**31,909**
Net book Value								
As at 31 March 2013	**358,377**	**164,273**	**6,750**	**1,247**	**4,401**	**800**	**265**	**536,113**
as at 31 March 2012	355,258	171,261	6,896	473	4,542	845	664	539,939

Depreciation

Depreciation is charged on a straight-line basis over the useful life of the asset. The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – 60 years
- Other Land and Buildings – 5 to 60 years
- Vehicles, Plant, Furniture and Equipment – 3 to 30 years
- Infrastructure – 10 years

Capital Commitments

At 31 March 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014-15 and future years budgeted to cost £8.781million. Similar commitments at 31 March 2013 were £132,000.

The major commitments are:

New housing –	Gomshall £3.266 million, Lakeside close, Ash £4.473 million, Wyke Avenue, Ash £429,000
Farnham Road MSCP –	decking £530,000

Revaluations

The freehold and leasehold properties, which comprise the Council's property portfolio, are revalued on a rolling programme that ensures that all property required to be measured at fair value is revalued at least every five years. Accordingly a proportion of these properties have been revalued as at April 2013 by the Valuation Office Agency and Wilks Head and Eve, chartered surveyors, on the under mentioned bases in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. The assets were inspected between April 2013 and March 2014, and the valuer assumed, where relevant, that the properties valued will continue to be in the occupation of the Council for the foreseeable future having regard to the prospect and viability of the continuance of that occupation.

Properties regarded by the Council as operational were valued on the basis of open market value for the existing use or, where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost.

Properties regarded by the Council as non-operational have been valued on the basis of open market value.

All assets of the same type, e.g. car parks, are generally revalued together in one year. We check that there are no material trends in the revaluations that should be applied to any of our other assets.

The sources of information and assumptions made in producing the various valuations are set out in a valuation certificate and report, which also provides assurance that the valuer has reviewed the balance sheet values of the remainder of the Council's property portfolio to give assurance that no class of assets is materially misstated.

The valuation figures incorporated in the accounts are the aggregate of separate valuations of parts of the portfolio, not an apportioned valuation of the portfolio valued as a whole.

The following statement shows the progress of the Council's rolling programme for the revaluation of PPE assets:

	Council Dwellings	**Other Land and Buildings**	**Vehicles, Plant, Furniture & Equipment**	**Surplus Assets**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Carried at historical cost	-	-	22,052	-	22,052
Valued at fair value as at:					
31-Mar-14	374,676	37,255	-	-	411,931
31-Mar-13	-	9,376	-		9,376
31-Mar-12	-	34,994	-	550	35,544
31-Mar-11	-	93,939	-	-	93,939
31-Mar-10	-	150	-	-	150
Total Cost or Valuation	**374,676**	**175,714**	**22,052**	**550**	**572,992**

14. HERITAGE ASSETS

Reconciliation of the carrying value of Heritage Assets held by the Council

	Monuments £000	Civic Regalia etc £000	Art Collection £000	Total Assets £000
Cost or Valuation				
At 1 April 2012	889	1,759	686	3,334
Additions	3	-	11	14
At 31 March 2013	**892**	**1,759**	**697**	**3,348**
Cost or Valuation				
At 1 April 2013	892	1,759	697	3,348
Additions			14	14
At 31 March 2014	**892**	**1,759**	**711**	**3,362**

The additions relate to the provision of public art works and sculpture in the Borough.

There have been no disposals of heritage assets in the last five years, and no material acquisition costs or other transactions.

Civic Regalia

The Council's collection of civic regalia is held at the Guildhall, and includes such items as the mayor's badge, small and large mace and the civic plate.

Art Collection

The collection comprises more than 550 pieces and small collections. Many objects consist of multiple parts so the number of works comes close to 800. They span more than 250 years and include a plethora of media - oil paintings, watercolours, pastels, etchings, engravings, prints, textiles, ceramics, sculpture and glass.

The Heritage Services Collections Development Policy is available from the Council's Heritage Manager.

The civic regalia and art collection were valued as at March 2012 by Bonhams 1793 Limited, international auctioneers and valuers. The basis of the valuation was for insurance purposes and was based on estimated price of the items if purchased on retail premises.

Museum Collections

Guildford Museum collects, preserves and interprets the human heritage of the Borough of Guildford, and its Surrey backdrop, for the public benefit. Its collections contain material of local, regional, national and international importance and form a unique cultural asset and resource for Guildford Borough, its people and its visitors.

The Council does not consider that reliable cost or valuation information can be obtained for the museum collection because of the diverse nature of the assets held and lack of comparable market values.

The heritage asset acquisitions and disposals policies are set out in the published Heritage Service's collections development policy, which the Council reviews every five years. This is a requirement of the national standards scheme for museums, which is managed by Arts Council England. A copy is lodged with other appropriate museums and regional organisations in Surrey and the South East. It is also available on the Council's website.

15. INVESTMENT PROPERTY

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

2012-13 £000		2013-14 £000
4,905	Rental income from investment property	5,678
880	Direct operating expenses arising from investment property	763
4,025	**Net gain**	**4,915**

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 for repairs, maintenance or enhancement.

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

2012-13 £000		2013-14 £000
78,941	Balance at start of the year	84,380
5,012	Additions	12,488
-	Disposals	(625)
452	Net gains/(losses) from fair value adjustments	(56)
(25)	Transfers	0
84,380	**Balance at end of the year**	**96,187**

The addition in 2013-14 relates to the freehold purchase of Liongate House, Ladymead, Guildford. The acquisition was part of a programme to increase the Council's portfolio of investment property to increase rental income and therefore benefit the General Fund revenue account.

Investment property is valued at open market value and is revalued sufficiently frequently (and at least every five years) to ensure that the balance sheet value is not materially misstated. See note 13 – Revaluations.

16. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity investment of another entity.

Financial instruments are both financial assets and financial liabilities.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council. It can be represented by a contractual obligation to deliver cash, financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

Financial liabilities held at the balance sheet date consist of long-term loans with the Public Works Loan Board (PWLB) and trade payables for good and services received.

Under the 2013-14 Code of Practice, the borrowing is measured at amortised cost. This form of measurement does not change the amount of cash paid under the terms of the loan but can affect the charge made to the CIES.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, other instruments or a contractual right to receive cash or another financial asset.

There are four classifications for financial assets under the Code of Practice:
- loans and receivables
- available for sale
- fair value through profit and loss
- unquoted equity investments held at cost because it is impracticable to determine fair value.

<u>Loans and Receivables (fixed or determinable payments and are not quoted in an active market)</u>

These comprise of:
- cash in hand
- bank current and deposit accounts with HSBC
- fixed term deposits with banks and building societies
- trade receivables for goods and services delivered.

The Council's portfolio of investments, at the balance sheet date, consist of fixed term deposits, money market funds, call accounts and notice accounts and are measured at amortised cost. This form of measurement does not change the amount of cash received under the terms of the investment.

<u>Available for sale financial assets (those that are quoted in an active market)</u>

These comprise of:
- money market funds and other collective investment schemes
- certificates of deposit issued by banks and building societies
- treasury bills and gilts issued by the UK Government
- bonds issued by multilateral development banks
- pooled funds

The Council's investments, at the balance sheet date, consisted of money market funds, pooled funds, including Payden Sterling Reserve Fund, CCLA property fund, M&G, SWIP and Schroders.

Balances in money market funds and call accounts at the end of the year are shown under 'cash and cash equivalents' in the balance sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of changes in value.

The Council did not have any investments required to be measured at 'fair value through profit or loss', or any unquoted equity investments.

The portion of long-term liabilities and investments due to be settled within 12 months of the balance sheet date are presented in the Balance Sheet under ‘current liabilities’ or ‘current investments’.

Transaction Costs

Measurement at amortised cost permits transaction costs relating to financial instruments to be attached to the loan or investment and charged to the Comprehensive Income and Expenditure Statement over the life of the instrument. Where these costs are considered to be immaterial, they can be charged in full to the Comprehensive Income and Expenditure Statement in the financial year in which they are incurred. The Council adopted this latter approach in 2013-14.

Financial Instruments - balances

The financial assets and liabilities disclosed in the balance sheet are analysed across the following categories:

	Long-term		Current	
	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000
FINANCIAL ASSETS				
Investments				
Loans and Receivables				
- Principal sum at amortised cost	-	-	39,525	28,001
- Accrued interest	-	-	55	110
Available-for-sale investments				
- Principal sum	-	-	27,463	20,093
- Accrued interest	-	-	78	0
- Fair value adjustments	-	-	-	(20)
Total Investments	**-**	**-**	**67,121**	**48,184**
Cash and Cash Equivalents				
Loans and Receivables				
- Cash	-	-	882	7
- Cash equivalents at amortised cost	-	-	4,753	20,485
- Accrued interest	-	-	1	8
Available-for-sale investments				
- Cash equivalents at fair value	-	-	13,658	36
Total Cash and Cash Equivalents	**-**	**-**	**19,294**	**20,536**
Trade receivables (Debtors)	64	85	4,775	4,613
TOTAL FINANCIAL ASSETS	**64**	**85**	**91,190**	**73,333**
FINANCIAL LIABILITIES				
Borrowing				
Loans at amortised cost				
- Principal sum borrowed	193,815	194,045	230	230
- Accrued interest	-	-	55	88
- Internal charities	-	-	34	36
Total Borrowing	**193,815**	**194,045**	**319**	**354**
Loans at amortised cost				
- Bank overdraft	**-**	**-**	-	230
Total Cash Overdrawn	**-**	**-**	**0**	**230**
Trade payables (Creditors)	**-**	**-**	4,585	3,174
TOTAL FINANCIAL LIABILITIES	**193,815**	**194,045**	**4,904**	**3,758**

Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments consist of the following items:

2012-13 Financial Liabilities (at amortised cost) £000	2012-13 Financial Assets: Loans and receivables £000	2012-13 Financial Assets: Available for sale £000	2012-13 Total £000		2013-14 Financial Liabilities (at amortised cost) £000	2013-14 Financial Assets: Loans and receivables £000	2013-14 Financial Assets: Available for sale £000	2013-14 Total £000
5,122	-	-	5,122	Interest expense	5,049	-	-	5,049
5,122	-	-	**5,122**	**Total expense in Surplus on the Provision of Services**	**5,049**	-	-	**5,049**
-	(533)	(234)	(767)	Interest income	-	(450)	(440)	(890)
-	**(533)**	**(234)**	**(767)**	**Total income in Surplus on the Provision of Services**	-	**(450)**	**(440)**	**(890)**
-	-	(226)	(226)	Gains on revaluation	-	-	(407)	(407)
-	-	**(226)**	**(226)**	**Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure**	-	-	**(407)**	**(407)**
5,122	**(533)**	**(460)**	**4,129**	**Net (gain)/loss for the year**	**5,049**	**(450)**	**(847)**	**3,752**

Fair Values of Assets and Liabilities

For each class of financial assets and financial liabilities, the Council is required to disclose the fair value of that class of assets and liabilities compared with the carrying amount (amortised cost).

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between the parties in an arm's length transaction. The fair value of a financial instrument on initial recognition is generally the transaction price.

Carrying value is defined as the value according to its balance sheet balance.

The Council's long-term loans are carried in the balance sheet at amortised cost.

The Council's debt outstanding at 31 March 2014 consists of PWLB Loans. The PWLB has provided the Council with Fair Value amounts in relation to its portfolio and has assessed the Fair Values by discounting the loans at the published interest rates for new PWLB certainty rate loans with an identical remaining term to maturity arranged on 31 March 2014.

Investments consist of loans and receivables, and available for sale. Loans and receivables are carried on the balance sheet at amortised cost, and available for sale at fair value based on public price quotations where there is an active market for the instrument.

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

The portion of debt and investments due to be settled within 12 months of the balance sheet date are presented in the balance sheet under short-term liabilities or short-term investments.

In the case of the Council's fixed investments with banks and building societies no early repayment or impairment is recognised because premature redemption is not permitted, therefore the carrying amount is used to approximate to fair value.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The following table shows those financial liabilities where the carrying value and fair values are different. We do not currently have any long-term investments and as such have excluded financial assets from the table.

	Carrying Amount 31 March 2013 £000	Fair Value 31 March 2013 £000	Carrying Amount 31 March 2014 £000	Fair Value 31 March 2014 £000
Financial Liabilities				
Short term borrowing	230	251	230	241
Long term borrowing	194,045	187,536	193,815	177,803
	194,275	**187,787**	**194,045**	**178,044**

The fair value of long-term borrowing is lower than the carrying amount because the Council's portfolio of loans includes fixed rate loans where the interest rate payable is lower than the current rates available for similar loans at the balance sheet date.

We have restated the fair values as at 31 March 2013 because we have changed the method of calculating fair value from the premature redemption rate to the new loan rate. This is because we plan to hold the loans to full term.

17. SHORT TERM DEBTORS

31 March 2013 £000		31 March 2014 £000
441	Central government bodies	309
2,703	Other local authorities	473
4,276	Other entities and individuals	4,306
7,420	**Total**	**5,088**

18. CASH AND CASH EQUIVALENTS

Cash comprises cash in hand and demand deposits. Cash will also include bank overdrafts that are repayable on demand and that are integral to the Council's cash management.

Balances classified as 'Cash Equivalents' fit the definition of being short term, highly liquid (that is callable) investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

The net balance of Cash and Cash Equivalents consists of the following elements:

31 March 2013 £000		31 March 2014 £000
7	Cash held by the Council	6
(230)	Bank current accounts	876
20,529	Callable deposits	18,412
20,306	**Total Cash and Cash Equivalents**	**19,294**

19. ASSETS HELD FOR SALE

2012-13 £000		2013-14 £000
-	Balance at start of the year	3,009
-	Assets purchased	-
	Assets newly classified as held for sale:	
3,009	Property, Plant and Equipment	591
-	Assets sold	(3,080)
3,009	**Balance at end of the year**	**520**

The Bellerby Theatre Site was sold in 2013-14, to provide a mixed-use development in Guildford town centre.

White Hart Court is to be sold in 2014-15 for the provision of social housing.

20. SHORT TERM CREDITORS

30 March 2013 £000		30 March 2014 £000
3,437	Central government bodies	4,188
4,353	Other local authorities	3,805
8,670	Other entities and individuals	14,072
16,460	**Total**	**22,065**

21. PROVISIONS

	Outstanding Legal Cases £000	Other Provisions £000	Total £000
Balance at 1 April 2013	187	867	1,054
Additional provisions made in 2013-14	15	1,775	1,790
Amounts used in 2013-14	11	651	662
Unused amounts reversed in 2013-14	-	110	110
Balance at 31 March 2014	**191**	**1,881**	**2,072**

The Council's provisions consist of seven items totalling £2,071,877 (£1,053,524 in 2012-13).

Outstanding Legal Cases

This relates to search fees, which, subject to legal action, may have to be repaid.

Other Provisions

£1.6 million of the balance of other provisions of £1.9 million relates to a new provision for NDR appeals that was set up in the year to cover the Council's share of the estimated reduction in business rates collectable due to rating appeals. It was calculated using information provided by the Valuation Office Agency about outstanding appeals, and our historical knowledge of the likely success rate of these appeals. The contribution to the provision of £3.9 million was made from the Collection Fund but only the Council's 40% share is shown on the balance sheet as a provision. The remainder is shared between central government (50%) and Surrey County Council (10%) and is reflected in the balance sheet in the Council's net creditors with them. It is expected that the appeals will be settled over the next five years. Further appeals from the 2010 valuation may arise, which we are unable to quantify, see note 37.

22. USABLE RESERVES

Movement in the Council's usable reserves is set out in the Movement in Reserves Statement and notes 8 and 9.

The usable reserves can be classified into the following categories:

- earmarked reserves – providing financing for future expenditure plans, commitments and possible liabilities (see note 9)
- general balances – available balances to cushion the impact of uneven cash flow and a contingency for unexpected events
- capital receipts and contributions – the balance of proceeds from the sale of assets and contributions received that have not been used to fund new capital expenditure but are set aside to fund future capital expenditure
- major repairs reserve – the balance of depreciation charged to the HRA that has yet to be used to fund expenditure on HRA assets
-

23. UNUSABLE RESERVES

31 March 2013 £000		31 March 2014 £000
67,152	Revaluation Reserve	70,012
34	Available for Sale Financial Instruments Reserve	441
355,881	Capital Adjustment Account	361,782
(63,238)	Pensions Reserve	(70,583)
38	Collection Fund Adjustment Account	(602)
(228)	Accumulated Absences Account	(239)
359,639		**360,811**

Revaluation Reserve

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

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

The reserve contains only revaluation gains accumulated since 1 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.

2012-13 £000			2013-14 £000
68,424	**Balance at 1 April**		67,152
3,738	Upward revaluation of assets	5,967	
(3,571)	Downward revaluation of assets not charged to the Surplus on Provision of Services	(479)	
167	Surplus on revaluation of non-current assets not posted to the Surplus on Provision of Services		5,488
(1,378)	Difference between fair value depreciation and historical cost depreciation	(1,285)	
(61)	Accumulated gains on assets sold or scrapped	(1,343)	
(1,439)	Amounts written off to the Capital Adjustment Account		(2,628)
67,152	**Balance at 31 March**		**70,012**

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 CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

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

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8 provide details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2012-13 £000			2013-14 £000
354,077	**Balance at 1 April**		355,881
	Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:		
(10,701)	Charge for depreciation of non-current assets	(11,083)	
(350)	Revaluation gains / (losses) on Property Plant and Equipment	9,183	
(222)	Amortisation of intangible assets	(198)	
(1,550)	Revenue expenditure funded from capital under statute	(1,509)	
(1,251)	Amounts of non-current assets written off on disposal or sale as part of the gain on disposal to the CIES	(6,545)	
(14,074)			(10,152)
1,439	Adjusting amounts written out of the Revaluation Reserve		2,628
(12,635)	Net written out amount of the cost of non-current assets consumed in the year		(7,524)
	Capital financing applied in the year:		
1,284	Use of the Capital Receipts Reserve to finance new capital expenditure	6,525	
5,313	Use of the Major Repairs Reserve to finance new capital expenditure	4,071	
1,424	Use of capital grants and contributions to finance new capital expenditure	864	
109	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	175	
5,857	Capital expenditure charged against the General Fund and HRA balances	1,846	
13,987			13,481
452	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(56)
355,881	**Balance at 31 March**		**361,782**

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 CIES 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.

2012-13 Restated £000		2013-14 £000
(57,000)	**Balance at 1 April**	(63,238)
(4,276)	Remeasurements of the net defined benefit liability	(4,730)
(6,359)	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	(7,079)
4,397	Employer's pensions contributions and direct payments to pensioners payable in the year	4,464
(63,238)	**Balance at 31 March**	**(70,583)**

24. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2012-13 £000		2013-14 £000
631	Interest received	919
(5,244)	Interest paid	(4,981)

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

2012-13 Restated £000		2013-14 £000
10,701	Depreciation	11,083
350	Revaluation (gains) / losses on Property, Plant & Equipment	(9,183)
222	Amortisation of intangible assets	198
2,975	Increase in creditors	421
(1,717)	(Increase) / decrease in debtors	1,953
276	(Increase) / decrease in inventories	(163)
1,962	Movement in pension liability	2,615
578	Contributions to provisions	1,018
1,251	Carrying amount of non-current assets sold	6,545
(452)	(Increase) / decrease in investment property value	56
(226)	Other adjustments	0
15,920		**14,543**

The surplus on the provision of services has been adjusted for the following items that are investing and financing activities:

2012-13 £000		2013-14 £000
(1,499)	Capital grants and contributions credited to surplus on the provision of services	(854)
(1,711)	Proceeds from the sale of non-current assets	(17,896)
(3,210)		**(18,750)**

25. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for investing activities are:

2012-13 £000		2013-14 £000
(16,934)	Purchase of property, plant and equipment, investment property and intangible assets	(26,548)
(114,025)	Purchase of short-term and long-term investments	(85,943)
1,672	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	17,767
90,026	Proceeds from short-term and long-term investments	67,493
755	Other receipts from investing activities	1,550
(38,506)	**Net cash flows from investing activities**	**(25,681)**

26. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for financing activities are:

2012-13 £000		2013-14 £000
-	Cash receipts of short and long-term borrowing	27,500
(336)	Other receipts from financing activities	3,702
(233)	Repayments of short and long-term borrowing	(27,732)
(569)	**Net cash flows from financing activities**	**3,470**

The other receipts from financing activities relate to council tax and business rate adjustments for billing authorities.

27. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the CIES is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Executive on the basis of budget reports analysed across Service Units.

These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made for revaluation and impairment losses in excess of the balance on the Revaluation Reserve, which are charged to services in the CIES
- the cost of retirement benefits (payment of employer's pensions contributions) is based on cash flows rather than current service cost of benefits accrued in the year
- gross expenditure and income (including recharge income) on support services are reported within the appropriate Service Unit. Support services charges are also included within the relevant service costs.

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

2013-14	Business Systems	Corporate Development	Economic Development	Financial Services	Housing Advice Services	Health and Community Care	Human Resources	Legal and Democratic Services	Neighbourhood and Housing Management	Operational services	Parks and Leisure	Planning Services	Revenues and Payments	Housing Revenue Account	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(3,990)	(952)	(7,174)	(1,206)	(205)	(2,616)	(826)	(1,183)	(3,688)	(19,784)	(4,689)	(1,988)	(2,593)	(31,115)	(82,009)
Government grants and contributions	(7)	-	-	(61)	-	(95)	-	(16)	-	-	-	(10)	(38,064)	-	(38,253)
Total Income	(3,997)	(952)	(7,174)	(1,267)	(205)	(2,711)	(826)	(1,199)	(3,688)	(19,784)	(4,689)	(1,998)	(40,657)	(31,115)	(120,262)
Employee expenses	1,668	1,418	1,736	2,362	629	2,609	573	1,410	1,763	6,888	2,582	2,824	1,738	2,556	30,756
Other service expenses	1,620	850	1,928	229	940	2,002	94	858	2,063	10,529	4,474	1,106	38,976	6,057	71,726
Support service recharges	420	489	670	408	92	629	123	762	232	1,817	465	742	499	1,528	8,876
Depreciation and amortisation	407	30	1,073	-	-	50	-	-	30	2,249	1,760	-	-	5,682	11,281
Total Expenditure	4,115	2,787	5,407	2,999	1,661	5,290	790	3,030	4,088	21,483	9,281	4,672	41,213	15,823	122,639
Net Expenditure	118	1,835	(1,767)	1,732	1,456	2,579	(36)	1,831	400	1,699	4,592	2,674	556	(15,292)	2,377

2012-13	Business Systems	Corporate Development	Economic Development	Financial Services	Housing Advice Services	Health and Community Care	Human Resources	Legal and Democratic Services	Neighbourhood and Housing Management	Operational services	Parks and Leisure	Planning Services	Revenues and Payments	Housing Revenue Account	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(3,905)	(923)	(6,216)	(1,235)	(126)	(2,260)	(735)	(1,006)	(3,753)	(20,070)	(4,471)	(1,566)	(2,143)	(30,099)	**(78,508)**
Government grants and contributions	-	-	-	(13)	(372)	(33)	-	-	-	-	-	(5)	(44,177)	-	**(44,600)**
Total Income	**(3,905)**	**(923)**	**(6,216)**	**(1,248)**	**(498)**	**(2,293)**	**(735)**	**(1,006)**	**(3,753)**	**(20,070)**	**(4,471)**	**(1,571)**	**(46,320)**	**(30,099)**	**(123,108)**
Employee expenses	1,525	1,262	1,626	2,370	419	2,673	496	1,364	1,691	6,913	2,570	2,568	1,660	2,406	**29,543**
Other service expenses	1,487	754	2,209	240	732	1,813	47	689	2,261	10,443	4,323	662	45,130	5,639	**76,429**
Support service recharges	372	480	602	379	93	625	116	734	238	1,708	438	719	498	1,529	**8,531**
Depreciation and amortisation	515	34	1,022	-	-	49	-	-	34	2,165	1,791	-	-	5,313	**10,923**
Total Expenditure	**3,899**	**2,530**	**5,459**	**2,989**	**1,244**	**5,160**	**659**	**2,787**	**4,224**	**21,229**	**9,122**	**3,949**	**47,288**	**14,887**	**125,426**
Net Expenditure	**(6)**	**1,607**	**(757)**	**1,741**	**746**	**2,867**	**(76)**	**1,781**	**471**	**1,159**	**4,651**	**2,378**	**968**	**(15,212)**	**2,318**

Reconciliation of Service Unit income and expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Service Unit income and expenditure relate to the amounts included in the CIES.

2012-13		2013-14
£000		£000
2,318	Net expenditure in the Service Unit Analysis	2,377
686	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis, mainly comprising, revaluation gains and losses, revenue funded from capital under statute (REFCUS) and IAS19 adjustment.	(7,842)
4,349	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	4,872
7,353	**Net Cost of Services in Comprehensive Income and Expenditure Statement**	**(593)**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Service Unit income and expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the CIES.

2013-14	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(82,009)	-	-	11,854	10,112	(60,043)	-	**(60,043)**
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	**-**
Interest and investment income	-	-	-	-	-	-	(5,794)	**(5,794)**
Income from council tax	-	-	-	-	-	-	(9,197)	**(9,197)**
Business Rates Retension Scheme (net)	-	-	-	-	-	-	(1,871)	**(1,871)**
Government grants and contributions	(38,253)	-	-	-	-	(38,253)	(6,236)	**(44,489)**
Total Income	**(120,262)**	**-**	**-**	**11,854**	**10,112**	**(98,296)**	**(23,098)**	**(121,394)**
Employee expenses	30,756	-	(224)	(1,521)	(321)	28,690	-	**28,690**
Other service expenses	71,726	-	-	(3,768)	(1,589)	66,369	-	**66,369**
Support service recharges	8,876	-	-	(674)	(8,202)	-	-	**-**
Depreciation, amortisation, valuation gains and losses and REFCUS	11,281	-	(7,618)	(1,019)	-	2,644	-	**2,644**
HRA reform debt settlement	-	-	-	-	-	-	-	**-**
Interest payments	-	-	-	-	-	-	7,887	**7,887**
Precepts and levies	-	-	-	-	-	-	1,224	**1,224**
Payments to housing Capital Receipts Pool	-	-	-	-	-	-	560	**560**
Gain on disposal of fixed assets	-	-	-	-	-	-	(11,386)	**(11,386)**
Total expenditure	**122,639**	**-**	**(7,842)**	**(6,982)**	**(10,112)**	**97,703**	**(1,715)**	**95,988**
(Surplus) or deficit on the provision of services	**2,377**	**-**	**(7,842)**	**4,872**	**-**	**(593)**	**(24,813)**	**(25,406)**

2012-13 (restated)	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(78,508)	-	-	11,364	9,519	(57,625)	-	**(57,625)**
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	**-**
Interest and investment income	-	-	-	-	-	-	(5,116)	**(5,116)**
Income from council tax	-	-	-	-	-	-	(9,624)	**(9,624)**
Government grants and contributions	(44,600)	-	-	-	-	(44,600)	(8,213)	**(52,813)**
Total Income	**(123,108)**	**-**	**-**	**11,364**	**9,519**	**(102,225)**	**(22,953)**	**(125,178)**
Employee expenses	29,543	-	(761)	(1,413)	(254)	27,115	-	**27,115**
Other service expenses	76,429	-	-	(4,314)	(1,374)	70,741	-	**70,741**
Support service recharges	8,531	-	-	(640)	(7,891)	-	-	**-**
Depreciation, amortisation, valuation gains and losses and REFCUS	10,923	-	1,447	(648)	-	11,722	-	**11,722**
HRA reform debt settlement	-	-	-	-	-	-	-	**-**
Interest payments	-	-	-	-	-	-	7,840	**7,840**
Precepts and levies	-	-	-	-	-	-	1,283	**1,283**
Payments to housing Capital Receipts Pool	-	-	-	-	-	-	486	**486**
Gain on disposal of fixed assets	-	-	-	-	-	-	(470)	**(470)**
Total expenditure	**125,426**	**-**	**686**	**(7,015)**	**(9,519)**	**109,578**	**9,139**	**118,717**
(Surplus) or deficit on the provision of services	**2,318**	**-**	**686**	**4,349**	**-**	**7,353**	**(13,814)**	**(6,461)**

28. TRADING OPERATIONS

The Council has established four trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of these units are as follows:

	2013-14 Turnover £000	**Expenditure £000**	**Surplus/(Deficit) £000**	**2012-13 Turnover £000**	**Expenditure £000**	**Surplus/(Deficit) £000**
Building maintenance	2,798	2,754	44	2,876	2,901	(25)
Fleet Management	2,324	2,384	(60)	2,634	2,423	211
Stores	121	120	1	141	142	(1)
Vehicle Maintenance	830	826	4	889	898	(9)

The net surplus on trading operations is included in the Financing and Investment Income and Expenditure line of the CIES.

29. COUNCILLORS' ALLOWANCES

The Council paid allowances of £291,972 (£284,844 in 2012-13) to Councillors in the year to 31 March 2014.

A further breakdown is as follows:

2012-13 £		2013-14 £
225,131	Basic Allowance	227,859
55,679	Special Responsibility Allowance	60,534
4,034	Mileage and Subsistance	3,579
284,844		**291,972**

The amount paid to each councillor is published annually on the Council's website, at http://www.guildford.gov.uk/article/5128/Councillors---allowances

30. OFFICERS' REMUNERATION

The number of employees whose remuneration (including payments receivable on termination of employment and excluding employer's pension contributions) was £50,000 or more in bands of £5,000 were:

Remuneration Band	2013-14 Number of Employees	2012-13 Number of Employees
£50,000 - £54,999	12	10
£55,000 - £59,999	12	10
£60,000 - £64,999	2	2
£65,000 - £69,999	3	4
£70,000 - £74,999	3	4
£75,000 - £79,999	2	3
£80,000 - £84,999	4	1
£85,000 - £89,999	0	0
£90,000 - £94,999	0	1
£95,000 - £99,999	0	2
£100,000 - 104,999	1	0
£115,000 - £119,999	1	0
£135,000 - £139,999	0	1
£230,000 - £234,999	1	0

The following table sets out the Senior Officers' emoluments for 2013-14, where the salary is between £50,000 and £150,000 per year:

Postholder	Note		Salaries, fees and Allowances	Other non salary payments	Lump sum in respect of car mileage, telephone etc.	Termination Payments	Pension Contribution	Car lease/ other benefits	Total
Managing Director		**2013-14**	**109,001**	**-**	**1,668**	**-**	**15,914**	**5,317**	**131,900**
		2012-13	91,766	-	1,653	-	13,398	5,295	112,112
Chief Executive	1	**2013-14**	**73,650**	**5,898**	**884**	**147,529**	**9,943**	**3,226**	**241,130**
		2012-13	123,183	5,689	1,653	-	17,985	5,099	153,609
Strategic Director	1	**2013-14**	**93,141**	**-**	**1,668**	**-**	**13,599**	**5,360**	**113,768**
		2012-13	91,766	-	1,653	-	13,398	5,024	111,841
Executive Head of Development	2	**2013-14**	**69,948**	**-**	**479**	**-**	**10,209**	**5,691**	**86,327**
		2012-13	68,475	-	472	-	9,997	5,436	84,380
Executive Head of Environment	2	**2013-14**	**75,585**	**-**	**671**	**-**	**11,035**	**4,801**	**92,092**
		2012-13	71,853	-	664	-	10,491	4,528	87,536
Executive Head of Housing and Health	2	**2013-14**	**73,453**	**-**	**479**	**-**	**10,724**	**5,123**	**89,779**
		2012-13	69,319	-	472	-	10,287	4,883	84,961
Executive Head of Organisational Development	2	**2013-14**	**77,108**	**-**	**479**	**-**	**11,257**	**5,509**	**94,353**
		2012-13	71,800	-	472	-	10,483	5,264	88,019
Executive Head of Financial Services	2	**2013-14**	**67,472**	**-**	**479**	**-**	**9,851**	**2,491**	**80,293**
		2012-13	66,531	-	472	-	9,705	2,313	79,021
Head of Financial Services		**2013-14**	**50,127**	**-**	**959**	**-**	**5,700**	**2,817**	**59,603**
		2012-13	67,062	-	472	-	9,790	4,611	81,935
Head of Planning Services		**2013-14**	**67,497**	**-**	**610**	**-**	**9,851**	**4,448**	**82,406**
		2012-13	66,484	-	604	-	9,705	4,661	81,454
Head of Business Systems		**2013-14**	**67,472**	**-**	**2,109**	**-**	**9,851**	**-**	**79,432**
		2012-13	66,475	-	2,109	-	9,705	-	78,289
Head of Human Resources	1	**2013-14**	**20,341**	**-**	**180**	**59,105**	**2,913**	**822**	**83,361**
		2012-13	66,475	-	604	-	9,705	2,103	78,887
Head of Health and Community Care Services		**2013-14**	**67,472**	**-**	**479**	**-**	**9,851**	**4,801**	**82,603**
		2012-13	66,915	-	812	-	9,740	4,083	81,550
Head of Housing Advice		**2013-14**	**59,370**	**-**	**1,834**	**-**	**8,668**	**-**	**69,872**
		2012-13	58,013	-	1,477	-	8,390	600	68,480
Head of Parks and Leisure Services		**2013-14**	**58,193**	**-**	**731**	**-**	**8,496**	**6,734**	**74,154**
		2012-13	57,932	-	724	-	8,458	6,470	73,584

Note 1 – These posts have now been deleted as part of a senior management restructure, together with a Strategic Director post which was covered under an agency contract at a cost of £17,973 (£50,842 in 2012-13); an overall reduction of 4 posts

Note 2 – As part of the senior management restructure, these posts have been re-designated Executive Head of Service

Note 3 – The post of Executive Head of Governance has been covered under an agency contract with SOLACE Enterprises Ltd and a consultancy contract with Venture Legal Consulting Ltd during the year. The total fees paid under both contracts in respect of performing the duties of this post was £152,227 (£120,105 agency fees in 2012-13)

The other non-salary payment in 2013-14 is for work relating to the Surrey County Council elections; Surrey County Council reimburses the costs in respect of this election. In 2012-13 it relates to the Police and Crime Commissioner election; Central Government reimburses the costs in respect of this election.

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

Exit Package cost band (inc. special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
							£	£
£0 - £20,000	9	1	2	1	11	2	97,779	11,590
£20,001 - £40,000	2	1	2	0	4	1	117,203	26,262
£40,001 - £60,000	1	0	1	0	2	0	103,394	0
£60,001 - £80,000	1	0	1	0	2	0	130,625	0
£80,001 - £100,000	1	1	0	0	1	1	84,539	82,526
£100,001 - £120,000	0	1	0	0	0	1	0	113,086
£140,000 - £160,000	1	0	0	0	1	0	147,529	0
	15	**4**	**6**	**1**	**21**	**5**	**681,069**	**233,464**
Less: amounts included above provided for in 2012-13							**-208,992**	
Add: Amounts provided for in CIES not included in bandings								148,992
								60,000
						Note 1	110,296	
Total cost included in CIES							**582,373**	**442,456**

1. The Comprehensive Income and Expenditure Statement (CIES) includes a provision of £110,296 for exit packages which were agreed before the year-end but not payable until after 31 March 2014. These costs are not included in the bands.

Payments shown in respect of redundancies include both redundancy payments and additional amounts paid to the Pension Fund, where applicable

Payments made in respect of other departures agreed include voluntary redundancies, contractual obligations and discretionary payments, relating to people who have left the Council's employment in the interests of efficiency of the service.

31. 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:

2012-13 £'000		2013-14 £'000
76	Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	76
(8)	Less rebate received from the Audit Commission	0
48	Fees payable to Grant Thornton in respect of certification of grant claims and returns	21
116	**Total**	**97**

32. GRANT INCOME

The Council credited the following grants, contributions and donations to the CIES in 2013-14:

2012-13 £'000		2013-14 £'000
	Credited to Taxation and Non Specific Grant Income	
5,810	Non domestic rates	1,870
	Non-ringfenced government grants	
113	Revenue Support Grant	3,846
584	New Homes Bonus	1,214
207	Council Tax Freeze	0
0	s31 grant - Small Business rate relief	323
1,499	Capital grants and contributions	854
8,213	**Total**	**8,107**
	Credited to Services	
21,265	Housing Benefit Rent Allowance subsidy	21,918
14,780	Housing Benefit Rent Rebate subsidy	15,052
721	Housing Benefit Administration	658
536	Supporting People Grant	555
474	Day care and other social services	518
0	Social Care prevention partnership fund	315
239	Business Rate Collection	238
177	Contributions to grants to voluntary organsiations	225
156	Recycling	94
7,010	Council Tax Benefit subsidy	0
379	Homelessness Strategies	0
349	Other	557
46,086	**Total**	**40,130**

33. RELATED PARTIES

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

UK Central Government

UK Central Government has significant influence 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 (for example council tax bills, housing benefits). Grants received from Government departments are set out in note 32.

Councillors and Officers

Councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid in 2013-14 is shown in Note 29. The Council paid grants totalling £202,424 to voluntary organisations in which a number of elected councillors had an interest. In addition, the Council paid grants totalling £394,700 to voluntary organisations in which a number of councillors were acting as a Borough Council nominee. The Council gave support totalling £327,081 to the Citizens Advice Bureaux in which two councillors had an interest and five councillors were acting as Borough Council nominees. In all instances, the grants were made with proper consideration of declarations of interest and the relevant councillors, although able to take part in any discussion relating to these grants, were excluded from voting.
Senior officers have not disclosed any transactions with related parties.

34. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The table below shows the total amount of capital expenditure incurred in the year 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.

2012-13 £'000		**2013-14 £'000**
200,318	*Opening Capital Financing Requirement*	204,382
	Capital Investment	
11,306	Operational assets	14,796
5,012	Non-operational assets	12,488
182	Intangible assets	465
1,550	Revenue Expenditure Funded from Capital under Statute	1,509
	Sources of finance	
(390)	Specific Capital Grants	(245)
(1,283)	Capital Receipts	(6,525)
(1,034)	Contributions	(619)
(5,966)	Direct Revenue Financing and MRP / VRP	(2,021)
(5,313)	HRA Major Repairs Reserve	(4,071)
204,382	***Closing Capital Financing Requirement***	**220,159**
4,064	*Movement during the year* Increase in in underlying need to borrow (unsupported by government financial assistance)	15,777

35. LEASES

Council as Lessee

Finance leases
The Council has acquired a number of assets under finance leases. They are included on the Balance Sheet at the following net amounts:

2012-13 £'000		2013-14 £'000
1,920	Council Dwellings	1,993
10,107	Other Land & Buildings	9,861
675	Investment Property	675
12,702		**12,529**

The Council paid premiums at the start of the property leases and there are no more payments due.

Council as Lessor

Finance leases
The Council has leased out a number of investment properties on finance leases with remaining lease terms of 60 years or more. In each case a premium was paid to the Council by the lessee in order to enter into the lease and there are no future minimum lease payments due.

Operating leases
The Council leases out operational property under operating leases primarily for the provision of social housing and community services such as sports facilities. It also leases out investment property under operating leases.

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

2012-13 £'000		2013-14 £'000
5,660	Not later than one year	6,701
20,484	Later than one year and not later than five years	23,306
301,183	Later than five years	303,115
327,327		**333,122**

The lease payments receivable in 2013-14 were £6,568,110 (£5,582,477 in 2012-13).

36. DEFINED BENEFIT PENSION SCHEME

Participation in Pension Schemes

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

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

The scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pension Board of Surrey County Council. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the Fund are appointed by the Board and consist of eleven investment fund managers plus private equity fund managers.

The principal risks to the Council of the scheme are the longevity of members, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of 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.

The scheme is a multi-employer plan. Employers are required by regulation to meet the minimum contributions as set out in the Rate and Adjustments Certificate for the relevant actuarial valuation. For 2013-14 this would be the valuation carried out as at March 2010.

If another entity was to be unable to meet required funding commitments to the Fund and no suitable guarantee was available, either in the form of a bond or a charge on assets or a parent organisation, then any deficit would be spread across existing fund employers.

If the Council were to withdraw from the scheme, the fund actuary would carry out a cessation valuation to calculate the it's plan liabilities and assets. Any deficit on this valuation would need to be recovered through a final contribution to the fund. Any surplus would not be recoverable.

Transactions Relating to Post-employment Benefits

We recognise 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 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:

Restated 2012-13 £000	**Comprehensive Income and Expenditure Statement**	**2013-14 £000**
	Service Cost	
3,457	Current service cost	4,135
184	Past service cost (including curtailments)	106
3,641	**Total Service Cost**	**4,241**
	Financing and Investment Income and Expenditure:	
(5,198)	Interest income on plan assets	(5,624)
7,916	Interest cost on defined benefit obligation	8,462
2,718	**Total Net Interest**	**2,838**
6,359	**Total Post Employment Benefits charged to the Surplus or Deficit on the Provision of Servies**	**7,079**
	Remeasurement of the Net Defined Liability comprising	
(11,827)	Return on plan assets excluding amounts included in net interest	(1,369)
0	Actuarial losses arising from changes in demographic assumptions	3,507
16,253	Actuarial gains/(losses) arising from changes in financial assumptions	(2,045)
(150)	Other experience	4,637
4,276	**Total remeasurements recognised in Other Comprehensive Income (OCI)**	**4,730**
10,635	**Total Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement**	**11,809**
	Movement in Reserves Statement	
(6,359)	Reversal of net charges made to the Surplus or Deficit on the provision of services for post employment benefits in accordance with the code	**(7,079)**
	Actual amount charged against the General Fund Balance for pensions in the year:	
4,397	**Employers' contributions payable to scheme**	**4,464**

Changes to IAS19 have been adopted by the Code of Practice for the first time in 2013-14. Comparators for 2012-13 have been produced to show what the figures in 2012-13 would have been under the new accounting policy. The 2012-13 return on plan assets figure has been reduced by £1 million and actuarial gains/losses have increased by £1 million. This change has no impact on the total amount charged to the income and expenditure statement and does not affect the balance sheet value.

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

Restated 2012-13 £000		2013-14 £000
125,299	Fair value of employer assets	131,804
(184,864)	Present value of funded liabilities	(198,621)
(3,673)	Present value of unfunded liabilities	(3,766)
(63,238)	**Net Liability arising from Defined Benefit Obligation**	**(70,583)**

Reconciliation of the Movements in the Fair Value of the Scheme Assets:

Restated 2012-13 £000		2013-14 £000
108,272	Opening fair value of the scheme assets	125,299
5,198	Interest income	5,624
	Remeasurement gain	
11,827	Return on plan assets excluding amounts included in net interest	1,369
4,378	Contributions from employer	4,464
1,176	Contributions from employees into the scheme	1,220
(5,552)	Benefits paid	(6,172)
125,299	**Closing Fair Value of Scheme Assets**	**131,804**

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

165,272	Opening fair value of the scheme liabilities	188,537
3,457	Current service cost	4,135
7,916	Interest cost	8,462
1,176	Contributions from scheme participants	1,220
	Remeasurement gain	
0	Actuarial losses arising from changes in demographic assumptions	3,507
16,253	Actuarial gains/(losses) arising from changes in financial assumptions	(2,045)
(169)	Other	4,637
184	Past Service Cost	106
(5,552)	Benefits paid	(6,172)
188,537	**Closing Fair Value of Scheme Liabilities**	**202,387**

.**Pension Scheme Assets Comprised**:

Asset Category	31-Mar-14				31-Mar-13			
	Quoted Prices in Active Markets £(000s)	Prices not quoted in Active markets £(000s)	Totals £(000s)	%	Quoted Prices in Active Markets £(000s)	Prices not quoted in Active markets £(000s)	Totals £(000s)	%
Equity Securities:								
Consumer	11,118.5	-	11,118.5	8%	9,981.5	-	9,981.5	8%
Manufacturing	9,014.6	-	9,014.6	7%	8,936.8	-	8,936.8	7%
Energy and utilities	6,395.1	-	6,395.1	5%	5,482.9	-	5,482.9	4%
Financial Institutions	8,601.3	-	8,601.3	7%	7,965.2	-	7,965.2	6%
Health and Care	4,815.9	-	4,815.9	4%	4,267.3	-	4,267.3	3%
Information Technology	7,168.8	-	7,168.8	5%	6,607.3	-	6,607.3	5%
Other	-	-	-	0%	-	-	-	0%
Debt Securities								
Corporate Bonds (investment grade)	5,034.9	-	5,034.9	4%	5,615.9	-	5,615.9	4%
Corporate Bonds (non-investment grade)	224.8	-	224.8	0%	106.3	-	106.3	0%
UK Government	3,028.1	-	3,028.1	2%	3,141.3	-	3,141.3	3%
Other	854.1	-	854.1	1%	693.3	-	693.3	1%
Private Equity								
All	-	5010.1	5,010.1	4%	-	4454.2	4,454.2	4%
Real Estate								
UK Property	2,806.3	-	2,806.3	2%	4,453.7	-	4,453.7	4%
Overseas Property	4,500.9	-	4,500.9	3%	1,531.9	-	1,531.9	1%
Investment Funds and Unit Trusts								
Equities	36,744.4	-	36,744.4	28%	34,506.9	-	34,506.9	28%
Bonds	11,815.8	-	11,815.8	9%	12,538.5	-	12,538.5	10%
Hedge funds	-	-	-	0%	-	-	-	0%
Commodities	-	-	-	0%	-	-	-	0%
Infrastructure	-	-	-	0%	-	-	-	0%
Other	12,959.9	-	12,959.9	10%	11,783.8	-	11,783.8	9%
Derivatives								
Inflation	-	-	-	0%	-	-	-	0%
Interest Rate	9.3	-	9.3	0%	- 15.3	-	- 15.3	0%
Foreign Exchange	618.8	-	618.8	0%	- 263.6	-	- 263.6	0%
Other	-	-	-	0%	-	-	-	0%
Cash and Cash Equivalents								
All	1,082.1	-	1,082.1	1%	3,511.2	-	3,511.2	3%
Totals	126,793.6	5,010.1	131,803.7	100%	120,844.9	4,454.2	125,299.1	100%

IAS 19 changes

In June 2011 the International Accounting Standards Board (IASB) issued a new version of IAS19 applying to financial years starting on or after 1 January 2013 and therefore has been adopted by the council for the first time in 2013-14.

The key change is that the interest cost and expected return on assets components of profit are now combined into a net figure. Actuarial gains and losses are now categorised into remeasurements arising from changes in demographic assumptions, changes in financial assumptions and other experience. In effect this means that the expected return has been replaced by a figure that would be applicable if the expected return on assets assumption was equal to the discount rate. An employer can therefore no longer show higher profits where a scheme invests in assets expected to generate higher returns (or lower profits where it invests in assets expected to generate lower returns).

The actuary recalculated the 2012-13 figures following the new accounting standard. Under the new accounting standard the actuary determined that the expected return on assets would decrease by £1m and a corresponding increase in actuarial gains/losses of £1m would need to be recognised. The impact of the changes has no impact on the amounts charged to the general fund.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumption about mortality rates, salary levels etc. The County Council fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. The Actuary has prepared the figures by applying a 'roll-forward' approach to the last formal valuation, which was as at 31 March 2013.

The main financial assumptions used in their calculation have been:

	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
21.9 years	Men	22.5 years
24 years	Women	24.6 years
	Longevity at 65 for future pensioners:	
23.9 years	Men	24.5 years
25.9 years	Women	26.9 years
2.8%	**Rate of Inflation**	2.8%
1.0%	**Rate of increase in salaries**	1.5%
2.8%	**Rate of increase in pensions**	2.8%
4.5%	**Rate for discounting scheme liabilities**	4.3%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses 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 analyses changes while all the other assumptions remain constant. The assumptions in longevity for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the 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 credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2012-13.

Change in Assumptions at 31 March 2014	**Approximate % increase to Employer**	**Approximate monetary amount (£000)**
0.5% decrease in Real Discount rate	10%	19,965
1 year increase in member life expectancy	3%	6,072
0.5% increase in the Salary Increase Rate	3%	5,937
0.5% increase in the Pension Increase Rate	7%	13,792

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 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 the other main existing public service pension 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 Council anticipates paying £4,974,000 contributions to the scheme in 2014-15.

The weighted average duration of the defined benefit obligation for scheme members is 18.9 years.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £70.5 million 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 will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

37. CONTINGENT LIABILITIES

MMI Ltd may claim an amount of up to £588,000 in relation to the company's liability for asbestos induced mesothelioma claims arising on the Council's liability account. During 2012-13 the directors of MMI Ltd triggered the scheme of arrangement, with an initial levy rate of 15 per cent, which the Council has made a provision for. There may be further levies at some time in the future, but there is no indication of when or how much.

There are further contingent liabilities likely to arise from appeals against business rates valuation decisions but the financial effect of these and timing of outflows cannot be estimated with sufficient certainty as it depends on the timing, number and success of future appeals.

38. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with the Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements the Council must follow to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management

Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

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 commitment to make payments
- market risk – the possibility that financial loss might arise as a result of changes in market variables such as interest rates.

Credit risk: Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy.

The strategy requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria (A- or equivalent). Although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of credit indicators. These include:

- credit ratings (minimum long-term A+ in accordance with CIPFA's lowest common denominator approach)
- credit default swaps
- GDP
- Net Debt as a percentage of GDP
- Sovereign Support Mechanisms / potential support from a well-resourced parent institution
- share price

The Treasury Management Strategy also imposes a maximum sum the Council can invest with a financial institution (£10 million) and a total group investment limit for institutions that are part of the same banking group (£15 million). A maximum sum for long-term investments (greater than 364 days) is also set.

All investments in 2013-14 were in line with the Council's approved Treasury Management Strategy.

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

The Council does not hold collateral against any investments.

The table below summarises the nominal value of the council's investment portfolio at 31 March 2014 and shows that all deposits outstanding at 31 March 2014 met the Council's credit rating criteria on that date:

Counterparty	Long term Credit Rating (lowest denominator) at 31 March 2014	Balance invested as at 31 March 2014 - maturity profile						Totals
		Up to 1 month £000	1 to 3 months £000	3 to 6 months £000	6 to 9 months £000	9 to 12 months £000	>24 months £000	£000
Term Deposits/CDs:	AAA	-	-	-	-	-	-	-
	AA+	-	-	-	-	-	-	-
	AA	-	-	-	-	-	-	-
	AA-	3,000	3,000	-	-	-	-	6,000
	A+	4,000	-	2,000	-	-	-	6,000
	A	2,000	15,000	-	1,000	-	-	18,000
	A-	-	2,500	-	-	-	-	2,500
Money Market Funds	AAA	13,654	-	-	-	-	-	13,654
Call Accounts	AA-/A+/A	4,753	-	-	-	-	-	4,753
Notice Accounts	A	11,024	-	8,000	-	-	-	19,024
Investment Funds	n/a	10,527	-	-	-	5,000	-	15,527
Total Investments		**48,958**	**20,500**	**10,000**	**1,000**	**5,000**	**-**	**85,458**

Trade Receivables

The Council does not generally allow credit for customers. Of the total debt outstanding, £2.2 million relating to services that the Council has invoiced for is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than six months	1,391
Six months to one year	145
More than one year	621
	2,157

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council has access to borrowing facilities via the Public Works Loans Board (PWLB), and at higher rates from banks and building societies. There is no perceived risk that it will be unable to raise finance to meet its commitments.

The Council is exposed to the risk that it will need to refinance a significant proportion of its borrowing at the time of unfavourable interest rates. The Council's strategy is to plan carefully when new loans are taken out and making early repayments where financially advantageous. It also maintains a spread of fixed rate loans ensuring loans mature at different times to minimise this risk.

The Council would only borrow in advance of need where there is a clear business case for doing so.

The maturity analysis of the principal sums borrowed is as follows:

31 March 2013 £'000		31 March 2014 £'000
	Short Term Borrowing	
230	Less than one year	230
	Long Term Borrowing	
230	Over 1 but not over 2 years	230
690	Over 2 but not over 5 years	690
45,920	Over 5 but not over 10 years	45,460
40,000	Over 10 but not over 15 years	40,000
50,000	Over 15 but not over 20 years	50,000
25,000	Over 20 but not over 25 years	25,000
32,205	Over 25 but not over 30 years	32,435
194,275	**Total Borrowings**	**194,045**

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

Market risk: Interest rate risk

The Council is exposed to risks arising from movements in interest rates on its borrowing and investments. Movement in interest rates have a complex impact on the Council. The Treasury Management Strategy aims to mitigate these risks by setting upper limits for fixed and variable interest rate exposures.

Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is greater exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

A rise in interest rates would have the following effects:

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

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement.

Changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in fair value of fixed rate investments classed as “available for sale” are reflected in Other Comprehensive Income and Expenditure.

If interest rates had been 1% higher (all other variables being constant) the Council would have received approximately £928,000 more in interest receipts on its investments.

Market Risks: Price Risk

The market prices of the Council’s fixed bond investments and its units in collective investment schemes are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited to the Council's maximum exposure to property investments of £5 million. If there is a fall in commercial property prices would not impact on the General Fund until the investment was sold.

The Council does not invest in any other equity shares and therefore is not subject to equity price risk.

HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

2012-13 £000		NOTE	2013-14 £000
	Income		
	Gross Rent Income	1	
27,676	Dwellings		28,618
941	Non-dwellings		851
1,117	Charges for Services and Facilities		1,289
365	Supporting People Grant		356
30,099	**Total Income**		**31,114**
	Expenditure		
4,422	Repairs and Maintenance		4,652
4,454	Supervision and Management		4,891
18	Negative HRA Subsidy Payable		0
86	Rent Rebates	2	43
90	Increased Provision for Bad or Doubtful Debts		90
4,385	Depreciation and Impairment	9	(3,020)
93	Debt Management Expenses		98
9	Other Expenditure		15
13,557	**Total Expenditure**		**6,769**
(16,542)	**Net Income of HRA Services per Comprehensive Income & Expenditure Statement**		**(24,345)**
234	HRA Share of Corporate & Democratic Core		244
(16,308)	**Net Income of HRA Services**		**(24,101)**
(665)	Gain on sale of HRA fixed assets		(1,678)
(109)	HRA Investment Income		(147)
5,117	Interest payable		5,035
0	Capital grants and contributions		(119)
(11,965)	**(Surplus) for year on HRA services**		**(21,010)**

The HRA income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rent to cover expenditure in accordance with the legislative framework; this is different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the HRA Statement.

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

2012-13 £000			2013-14 £000
2,500	Balance on the HRA at the end of the previous year		2,500
11,965	Surplus for the year on the HRA Income and Expenditure Account	21,010	
(3,223)	Adjustments between accounting basis and funding basis under statute (see note 8 to the Accounts)	(10,587)	
8,742	Net increase before transfers to reserves	10,423	
(8,742)	Transfers to reserves	(10,423)	
-	Increase in year on the HRA		-
2,500	**Balance on the HRA at the end of the current year**		**2,500**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Gross Rent Income

This is the total rent income due for the year after allowance is made for voids etc. During the year, voids amounted to £493,267 or 1.72 per cent of gross rent income from dwellings (£489,491 or 1.78 per cent for 2012-13). Average rents were £105.20 per week in 2013-14, an increase of £3.53 over the previous year.

2. Rent Rebates

Costs and associated subsidy transferred to the General Fund with effect from 1 April 2004. Rent rebate expenditure not eligible for subsidy due to average rents being above Government guideline rents remains chargeable to the HRA and was £43,549 in 2013-14 (£85,686 in 2012-13).

3. Rent Arrears

At 31 March 2014, rent arrears were £958,678 (including £318,789 former tenant arrears) or 3.34 per cent of gross rent income. The comparable figures for 2012-13 were £1,092,573 (including £286,829 former tenant arrears) or 3.98 per cent of gross rent income.

The provision for bad debts at 31 March 2014 was £473,604. The comparable figure for 2012-13 was £439,629.

Amounts written off in the year amounted to £56,025 (£87,794 in 2012-13).

Payments in advance amounted to £229,442 (£182,969 in 2012-13).

4. Housing Stock

The Council was responsible for managing on average 5,255 dwellings in 2013-14, analysed below:

2012-13	Average	2013-14
2,638	Houses	2,628
2,299	Flats	2,295
350	Bungalows	332
5,287		**5,255**

2012-13		2013-14
5,293	Stock at 1 April	5,279
(11)	Less Sales	(21)
(3)	Other Adjustments	(29)
5,279	**Stock at 31 March**	**5,229**

5. Stock Valuation – Balance Sheet Basis

The basis for the balance sheet valuation of the Council's housing stock is Existing Use Value – Social Housing (EUV – SH) as defined by the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual. The EUV – SH is broadly based on the vacant possession value of the properties, adjusted to reflect the occupation by a secure tenant. The valuation was carried out by Wilks Head and Eve, Chartered Surveyors. The date of the valuation was April 2013.

The balance sheet value increases where new dwellings and properties are built or acquired and when capital works that improve or significantly enhance the value of the assets are carried out. The balance sheet value reduces when assets are sold and are written out of the accounts. Depreciation is charged on assets and this also reduced the balance sheet valuation.

Valuations for HRA assets are:

1 April 2013 £000		1 April 2014 £000
358,377	Dwellings (valued at EUV - SH)	369,342
3,981	Other Operational Land and Buildings (valued at MV - EU)	3,841
0	Vehicles, plant, furniture and equipment	7
0	Infrastructure	89
148	Community Assets (historic cost)	148
0	Assets under construction	1,623
362,506	**Total HRA Assets**	**375,050**

6. Stock Valuation – Vacant Possession Value

Valuation of dwelling stock at Vacant Possession Value within the HRA at 1 April 2013 was £1,039 million. The vacant possession value and the balance sheet value of dwellings within the HRA show the economic cost to Government of providing council housing at less than open market rent.

7. Major Repairs Reserve (MRR)

The MRR is a reserve established by the Government as part of the resources accounting system in the HRA. Movements in the MRR during the year were:

2012-13 £000		2013-14 £000
-	**Opening Balance at 1 April**	-
5,313	Depreciation transferred from the HRA	5,678
(5,313)	Capital Expenditure on HRA assets financed from the Major Repairs Reserve	(4,071)
-	**Closing Balance at 31 March**	1,607

Under the self-financing regime, which began on 1 April 2012, the Council no longer receives a major repairs allowance from Government. Instead, depreciation is a real charge to the HRA, and is transferred to the MRR, to be used for funding expenditure on HRA assets.

8. Capital Expenditure and Financing

The table below shows the total amount of capital expenditure incurred in the year together with the resources that have been used to finance it. Where capital expenditure has not been financed in the year, it results in an increase in the Capital Financing Requirement.

2012-13 £'000		2013-14 £'000
196,664	*Opening Capital Financing Requirement*	196,664
	Capital Investment	
7,131	Council dwellings	6,990
23	Assets under construction	1,178
18	Intangible assets	8
	Sources of finance	
(404)	Capital Receipts	(487)
(5,313)	Major repairs allowance	(4,071)
(1,428)	Reserve for future capital	0
(23)	New build reserve	0
(4)	Grants and contributions	(118)
(17)	Voluntary revenue provision	0
	Appropriations	
17	Land	(3,500)
196,664	***Closing Capital Financing Requirement***	**196,664**
0	*Movement during the year*	0
	Increase in in underlying need to borrow (unsupported by government financial assistance)	

Total capital receipts from disposals of land, houses and other property within the HRA during the financial year amounted to £1.662 million.

During the year, the HRA sold land relating to the Bellerby Theatre site to the General Fund, generating a non-cash receipt of £3.5 million. This was used to fund capital expenditure during the year.

9. Depreciation

The charges for depreciation for the houses and other property within the HRA for the year are as follows:

2012-13 £000		2013-14 £000
5,236	Dwellings	5,597
77	Other Operational Land and Buildings	72
-	Vehicles, plant, furniture and equipment	1
-	Infrastructure	7
5,313	**Total HRA Assets**	**5,677**

The depreciation amount has been calculated by the straight-line method and has not been charged on investment properties or on non-operational housing assets.

The depreciation and impairment line of the HRA also includes a net revaluation gain of £8.7 million, which partly reverses a revaluation loss of £60m charged to the HRA in 2010-11 as a result of the reduction in the vacant possession adjustment factor from 45% to 32%.

10. Contributions to/from the Pensions Reserve

The HRA share of the contributions to the Pensions reserve is as follows:

2012-13 £000		2013-14 £000
330	Reversal of items relating to retirement benefits debited to the HRA	411
(492)	Employer's pensions contributions and direct payments to pensioners payable in the year	(511)
(162)	**Contribution to the Pensions Reserve**	**(100)**

COLLECTION FUND

2012-13 £000		2013-14 £000 Council Tax	2013-14 £000 Business Rates
	Income		
75,990	Income from Business Ratepayers - Note 2		78,648
88,019	Council Taxes	84,485	
164,009	**Total Income**	**84,485**	**78,648**
	Expenditure		
	Precepts		
66,271	Surrey County Council	62,614	
11,730	Surrey Police and Crime Commissioner	11,083	
9,587	Guildford Borough Council	9,063	
	Payment of Business Rates shares:		
	Central Government		37,691
	Surrey County Council		7,538
	Guildford Borough Council		30,153
	Transitional Protection payments		612
74,751	Contribution to NDR National Pool		
239	Charge to General Fund for collecting NDR		238
1,100	Provision for council tax bad debts	500	
	Provision for business rates bad debts		375
	Provision for business rates appeals		3,900
	Distribution of prior year estimated surplus:		
303	Surrey County Council	213	
54	Surrey Police and Crime Commissioner	38	
45	Guildford Borough Council	31	
164,080	**Total Expenditure**	**83,542**	**80,507**
	Collection Fund Balance		
409	Balance at the beginning of the year	338	-
(71)	Surplus/(deficit) for the year	943	(1,859)
338	Balance at the end of the year	**1,281**	**(1,859)**

NOTES TO THE COLLECTION FUND

1. General

These accounts represent the transactions of the Collection Fund, which is a statutory fund separate from the main accounts of the Council. The accounts are prepared on an accruals basis, and they are consolidated with the other accounts of the Council on an agency basis.

The year-end Collection Fund surplus or deficit in relation to council tax is distributed between billing (the Council) and precepting (Surrey County Council and Surrey Police and Crime Commissioner) authorities on the basis of estimates of the year-end balance made on 15 January.

In 2013-14, the local government finance regime was revised with the introduction of the business rates retention scheme. Under this scheme the year-end surplus or deficit on business rates is also distributed between billing and precepting (central government and Surrey County Council) authorities on the basis of year-end estimates made on 31 January.

2. Income from Business Rates

The Council collects non-domestic rates for its area. These rates are based on local rateable values (£194,643,724 as at 31 March 2014) multiplied by a uniform rate (48.2p standard and 47.1p small business rate in 2013-14). In previous financial years the total amount due, less certain allowances, was paid to a central pool. Local authorities were then paid their share of the pool, based on a standard amount per head of the local adult population.

In 2013-14 central government introduced the business rates retention scheme, which aims to give councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying business rates to the central pool, local authorities retain a proportion of the total collectable rates due. For Guildford this share is 40%. The remainder is distributed to central government (50%) and Surrey County Council (10%).

3. Income from Council Tax

The Council's tax base, that is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings, was calculated as follows:

Band	Estimated number of taxable properties after effect of discounts	Ratio	Band D equivalent dwellings
Dis A	2.50	5/9	1.39
A	662.25	6/9	441.50
B	2,511.75	7/9	1,953.58
C	9,528.50	8/9	8,469.78
D	13,661.25	9/9	13,661.25
E	8,734.25	11/9	10,675.19
F	5,903.50	13/9	8,527.28
G	6,741.75	15/9	11,236.25
H	1,479.75	18/9	2,959.50
	49,225.50		**57,925.72**
Plus adjustment for MoD properties and collection rates offset by anticipated changes during the year for successful appeals against valuation banding, new properties,demolitions, disabled person's relief, exempt properties and the Local Council Tax Scheme			-4524.50
			53,401.22

4. Collection Fund Provisions

The movement of the council tax bad debt provision during the year was as follows:

2012-13 £'000		2013-14 £'000
255	Balance at 1 April	96
100	Transfer from revenue	500
(259)	Write offs	(364)
96	Balance at 31 March	**232**

The movement on the business rates bad debt provision was as follows:

2012-13 £'000		2013-14 £'000
1,741	Balance at 1 April	670
1,000	Transfer from revenue	375
(2,071)	Write offs	(328)
670	Balance at 31 March	**717**

The Collection Fund also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency not settled as at 31 March 2014. This is the first year of the provision, and £3.9m was transferred into it from the Collection Fund, of which the Council's 40% share is £1.56 million.

Chairman of the Corporate Governance and Standards Committee approving the accounts

25 September 2014

GUILDFORD BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT 2013-14

1. SCOPE OF RESPONSIBILITY

1.1. Guildford 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.

1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs to facilitate the effective exercise of its functions, including arrangements for the management of risk.

1.3. The Council has approved and adopted a local code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework Delivering Good Governance in Local Government, including compliance with the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010) . A copy of the code is on the website at www.guildford.gov.uk or can be obtained from Corporate Development Services, Millmead House, Millmead, Guildford, Surrey, GU2 4BB (tel. 01483 444854).

1.4. This statement explains how the Council has complied with the code and meets the requirements of regulation 4) of the Accounts and Audit Regulations 2011 in relation to the statement on internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. 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, cost effective services.

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

2.3 The governance framework has been in place for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

3. GOVERNANCE FRAMEWORK

3.1 The Council is a complex organisation with an appropriately comprehensive governance framework that works in a dynamic environment and keeps its processes under constant review.

Strategic Framework and Performance Management

3.2 The Governance arrangements start with the Strategic Framework, which sets out the Vision and Mission and establishes the Council's key priorities. In 2013-14 the Council approved a Corporate Plan for the period 2013-2016. This is an essential part of our strategic framework and sets out the vision for the borough for the next three years.

3.3 The Corporate Plan has five themes which have informed the more detailed service plans. The five themes provide a focus for Council activities and there is a clear link between service delivery and the Council's corporate objectives. We monitor progress against the objectives in the service plans through regular performance monitoring meetings and reports to the Corporate Management Team. The five themes are:

- Infrastructure
- Economy
- Development
- Sustainability
- Society

3.4 The Council has had a robust performance management system for many years with links individual service improvement plans, key delivery targets (KDTs) and the Council's risk management system. We report progress against the corporate indicators to both the Corporate Management Team and Corporate Improvement Scrutiny Committee.

3.5 In 2013-14 we reviewed our reporting and monitoring arrangments for performance management. There is now a more robust system in place with individual service managers attending the Corporate Scrutiny Committee to present their performance indicators for discussion and comment. We have embedded risk management within the organisation. It is an integral part of project management and service unit plans. We have changed the format of the risk register within the service level plans in line with the latest guidance from ALARM, the public sector risk management association.

3.6 Officers should review each service risk register during the year. However, this is not currently done consistently across the organisation and this will be monitored in 2014-15.

3.7 We record risks at all levels from the basic, but essential, health and safety risks such as slips, trips and falls to high level-risks such as the impact of the financial situation and climate change.

3.8 Risk Management is an integral part of project management and we use risk management effectively in all of our significant projects. However, we do not currently apply risk management consistently in all of our smaller projects.

3.9 We recognised this was an issue and we have reviewed our project management framework. We had already identified a framework that tailors the project management process to the scale of the project but we recognise that we need a programme management solution to monitor the wide range of projects and activities which are needed to deliver the targets in the Corporate Plan. This will be introduced in 2014-15.

3.10 The Council has always scored well under the Audit Commission's annual assessment of Value for Money. In 2013-14 we continued with our service challenge and Lean Management programmes to improve services and reduce costs. In addition we have also reviewed our senior management structure and achieved a significant reduction in costs as a result. These reviews have been undertaken without any reduction in customer service. We are also moving ahead with the "Better place, better council" transformational change programme and have introduced a programme of fundamental service reviews. Over the coming years every service will be subject to scrutiny and improvement. The reviews will actively lookat alternative methods of service delivery through the Lean programme, shared services and partnerships with the public, voluntary or commercial sectors.

3.11 Other significant achievements in 2013-14 were:

1. established a programme of traded service reviews
2. set up an investment fund to increase the Council's investment property portfolio and purchased an additional investment property asset, achieving £0.5 million net rental income
3. undertook a restructure of our senior management and reduced costs by over £200,000
4. joined the Surrey wide Unicorn infrastructure network that provides greater capacity, increases resilience, maintains best market costs and allow us to share services. This includes superfast broadband links and a new telephony system which provide greater flexibility and improved business continuity
5. built a new virtual desktop to bring our staff IT facilities up to date, provide flexible working and reduce power consumption
6. replaced the GIS system with a new open source technology solution in collaboration with other Surrey authorities
7. retained the Customer Service Excellence Standard covering the whole Council
8. achieved the bronze standard under the Investors in People accreditation
9. retained our Aa1 credit rating with Moody's following a further inspection
10. consulted on the issues and options for our new draft local plan, including key evidence documents such as strategic housing market assessment, strategic land assessment and traveller accommodation assessment
11. developed a new homeslessness strategy
12. launched Guildford Philanthropy; a community fund to support vulnerable and disadvantaged groups and individuals, particularly focussing on improving access to education, training and skills
13. completed a review of legal services

14. implemented recycling more, achieving increased recycling and composting rates with wheeled bins, reducing future capital requirements and generated annual savings
15. completed the development of a new park and ride facility
16. invested in a local apprenticeship scheme, creating 10 job opportunities
17. achieved an award for our tourist information centre
18. sold the former bellerby theatre site for the development of a new town centre supermarket and achieved a £14million capital receipt
19. selected a development partner and agreed the heads of terms for the redevelopment of North Street
20. revised our economic strategy
21. revised our civic function and continued to increase our governance on committee reports and outcomes
22. kept council tax below inflation and achieved £150,000 savings from agreeing our local council tax support scheme
23. maintained council tax and business rates collection rates at over 99% despite significant government changes to both arising from implementation of the local council tax support scheme and business rates retention scheme
24. agreed contracts for new build on 3 HRA sites, totalling approximately £10 million to deliver 65 homes. These will be the first HRA properties built by the Council in over 20 years.
25. invested over £6.5 million maintaining and improving tenants' homes
26. worked in partnership with Surrey County Council to deliver the national Troubled Families programme locally through a family support scheme.
27. undertook extension work through the local plan process to identify potential accommodation for our travelling community. We secured planning permission to extend the existing social rented site at Ash Bridge Road.

All of these demonstrate the Council's sound governance arrangements.

The Constitution

3.12 The Council has a comprehensive Constitution that covers, amoungst other things, the roles and responsibilities of Councillors and officers. We constantly review the Constitution with amendments agreed and issued throughout the year to ensure that it remains relevant to the objectives contained in the Strategic Framework.

3.13 We started a complete review of the constitution in December 2013. Phase 1 of the review, covering parts 1 to 3 of the Constitution, was completed in May 2014. Phase 2, covering the various procedure rules, codes and protocols is due for completion by December 2014.

3.14 During the year we reviewed the Civic Function and made changes to the role of the Mayor and Deputy Mayor to ensure that they are a modern fit for purpose function that fit with the Council's Corporate Plan and objectives. This included a review of the Honorary Freeman and Honorary Alderman, use of the coat of Arms and Common Seal. The review made a number of recommendations that were approved by Council in April 2014.

Forward Plan and Committee Decisions

3.15 We use the Forward Plan to manage the work programme and decisions of the Executive and full Council. The work programme for the two scrutiny committees are discussed at agenda setting meetings held every two months with the chairmen and vice-chairmen of the scrutiny committees.

Scrutiny Committees

3.16 The Council is striving to improve its scrutiny arrangements and is making good progress. Following a scrutiny workshop with councillors in May 2013, a range of proposals were put together into a draft improvement plan which was adopted by both scrutiny committees in July 2013. Although we have two scrutiny committees, they meet as a Joint Scrutiny committee for items of mutual interest such as the Leader's report and the Outline Budget report. The improvement plan will be reviewed by the Joint Scrutiny Committee in June 2014.

Localism Act

3.17 The Localism Act, which came into force in 2011 and was updated in 2012, has had a significant impact on the Council. Because of changes to the Standards regime, we replaced the Standards and Audit Committee with the Audit and Corporate Governance Committee and a separate Standards Committee. We continue to keep under review the potential impact on planning and housing services.

Corporate Governance and Standards Committee (formerly Audit and Corporate Governance Committee)

Because of the Localism Act 2011, we disbanded the Standards and Audit Committee and set up an Audit and Corporate Governance Committee. In May 2014 the Committees were re-organised and the responsible committee is now known as the Corporate Governance and Standards Committee. The role and functions of the committee(s) include:

- monitoring internal audit activity and receiving bi-annual reports from the Executive Head of Organisational Development
- receiving reports from the external auditor, including his annual letter
- review and approve the annual statement of accounts
- monitoring and reviewing the Council's constitution
- corporate governance, risk management, statement on internal control and any issues referred to it
- compliance with the Council's own and published standards
- monitoring the effectiveness of various Council policies.

The full role and responsibilities are available on our website, at Part 2 (Article 11) of the Constitution.

3.18 We advise the committee, through a regular reporting process, of progress against agreed internal audit recommendations and other governance issues such as equalities, risk management, sickness, health and safety, business recovery and data quality.

Compliance with Laws and Regulations

3.19 The Council employs appropriate professional staff in relevant fields to provide guidance and advice as required. Part of their role is to ensure that the actions of the Council and individual councillors and officers comply with relevant laws and regulations, as well as the Council's own policies and procedures.

3.20 In 2013-14 there were changes to the two of the three statutory posts at the council. The Chief Financial Officer also became the Head of Paid Service and undertakes both roles as the Managing Director. The arrangement of one officer performing both rolesis unusual. The Managing Director is supported by two Deputy Chief Financial Officers so that where a conflict of interest could exist, the Managing Director assumes the role of Head of Paid Service, and one of the Deputy Chief Financial Officers assumes the role of the Chief Financial Officer. In this arrangement, the Council ensures separation of duties exist where necessary and the governance framework is maintained.

3.21 The Corporate Management Team, lead by the Chief Financial Officer review all reports to the Executive. The Executive Head of Governance is the Council's Monitoring Officer and is part of the Corporate Management Team. In addition, the Council has comprehensive Financial Procedure Rules and Procurement Procedure Rules as part of the Constitution that provide guidance on spending decisions to ensure that expenditure is lawful and properly controlled.

Whistleblowing and Complaints

3.22 The Council has a Whistleblowing policy as part of its Constitution. This was reviewed in 2013 and a new policy was approved by the Executive in January 2014.

3.23 During 2013-14, we reviewed how the Council deals with corporate complaints and approved a new policy which will come into force in 2014-15. This will shorten and simplify the process for the customer and improve the timeliness and quality of complaint handling. We have created a new post of Complaints and Improvement Officer to monitor complaints, identify trends and work with managers to drive service improvements.

Development of Councillors and Senior Officers

3.24 Our strategic framework, which was revised when the Council adopted the Corporate Plan in October 2013, states that a key aspiration in the development of our Council is to have "highly trained and proficient staff and councillors who challenge and learn." All officers (including senior officers) have two performance reviews (appraisals) a year. Officers also have a series of one to one meetings with their line manager to discuss individual performance against agreed targets. This is also an opportunity to identify development needs and training requirements against the Council's objectives.

3.25 We have developed a set of behavioural competencies linked to each post. We have provided training to all staff and managers and in May 2013, we introduced the first full year of performance review appraisal meetings under the new system.

3.26 The Council also recognises the importance of ensuring that its councillors receive all necessary training and development in order to carry out their various roles. In

September 2013, the Council received accreditation under the South East Employers Charter for Elected Member Development by demonstrating that we had a strategic approach to councillor development which linked to the Council's corporate objectives and priorities. The Councillor Development Steering Group has put in place a comprehensive member development programme that meets councillors' ongoing training and development needs. The processes and procedures put in place give us a robust framework for responding to future challenges and legislative changes.

3.27 We offer training for Councillors on a wide range of topic areas such as Ethical Standards, Planning, Licensing, local government finance, media skills, chairing skills and time management.

3.28 The steering group will be preparing a comprehensive induction programme for new councillors for implementation after the Borough elections in May 2015.

3.29 The Council has adopted a Corporate Plan which clearly set out the aims and objectives of the Council over the next three years, but they need to be underpinned by a clear set of values that are understood and adhered to by staff at all levels. The work that we have carried out on values and performance and development over the last year provides staff with an understanding how they contribute to the achievement of our corporate priorities.

3.30 During 2013-14, we demonstrated our drive to continue to provide excellent customer service. We successfully retained our IIP status and because of the improvements over the last year we were awarded a bronze accreditation. We also retained our Customer Service Excellence Standard. The assessor found a deep understanding and commitment to customer service excellence from senior management through to front line staff.

Communication, Consultation and Accountability

3.31 The Council has a well-established process to manage effective communication with residents and stakeholders. As part of this, we produce and deliver four editions a year of our Council newspaper, *About Guildford* to all households in the boroughto provide an update on the Council's activities, services and performance.

3.32 In addition, we have a corporate procedure for producing individual services' publications for residents and customers to provide information and education (for example, to encourage behaviour changes in recycling and litter).

3.33 The Council has a corporate identity used to brand communications and services. This helps customers and taxpayers to understand and recognise which services we provide or are responsible for.

3.34 In 2013-14, following a restructure of our website, we achieved 4 stars in the Society of IT Managers (SOCITM) Better Connected annual review of our website. This award recognised our performance at ensuring our website operates across all mobile technology platforms. We are also continuing to expand our use of social media to improve our customer engagement.

3.35 The Council realises the importance of consultation with our residents and community. We already consult widely in line with our Community engagement strategy and consultation standards using publications, surveys, focus groups and our Citizens' Panel. We recognise the need for greater engagement and involvement with residents and stakeholders in our strategic decision making and service delivery and are working on an action plan to improve our consultation processes still further.

3.36 Many of our services actively consult with the community as an integral part of their service delivery, for example our widespread consultation on the issues and options for our new Local Plan. However, our community is changing and we need to be responsive to their developing needs. We have identified consultation as part of the overall process of transparency and engagement with our residents and customers.

Partnerships

3.37 Our mission statement emphasises the importance of partnership working in providing first class services. At the strategic level, we established a new Guildford-Surrey Board in September 2013 to replace the former Guildford Local Strategic Partnership. The Board, which comprises senior Councillors and officers from the Borough Council and Surrey County Council, together with representatives of the University of Surrey, Royal Surrey County Hospital and Guildford College, focuses on the overseeing the delivery of the following shared priorities:

a. infrastructure improvements, including roads (trunk roads and town centre), rail and future transport innovations

b. economic development, including sustainable business and jobs growth and access to learning and skills

c. promoting sustainable development, including housing

d. delivering public health improvements

e. supporting families and our less advantaged communities, including in the light of welfare and benefit reforms

f. maximising the use of our assets and estates to drive income and community benefit

g. maximising the value extracted from waste.

3.38 At the same time, we established a new Guildford Health and Wellbeing Board comprising representatives of the Council and other major public and voluntary sector organisations, such as Guildford and Waverley Clinical Commissioning Group, Royal Surrey County Hospital, Surrey County Council. The Board supports and promotes the public health agenda in its widest sense. This incorporates health improvement (including people's lifestyles, inequalities in health and the wider social influences of health), health protection and health services. The Board will be responsible for developing and implementing a new Guildford Health and Wellbeing Strategy.

3.39 We have also forged a very strong relationship with the Enterprise M3 Local Enterprise Partnership (LEP). The Leader of the Council joined the Board in 2014, and Guildford Council enjoys regular representation at all levels of the LEP through strategic working groups. The Council provided significant input into the formation of the LEP's Strategic Economic Plan and subsequent Local Growth Deal submission and European Funding Investment Strategy. This included formulating a broad and comprehensive growth package for consideration by government covering infrastructure, housing, skills and enterprise.

3.40 Through Enterprise M3 we are able to access capital funding and borrowing at preferential rates for key strategic projects. We have recently received approval for

£6 million borrowing at the PWLB project rate for Clay Lane Link road through the LEP and are working with them to bid for funding under the Local Growth Fund for HRA Borrowing.

3.41 We are also involved in a large number of service specific partnerships. Examples of best practice include Surrey Strategic Waste Partnership, Safer Guildford Partnership and the Choice-Based Lettings housing scheme.

3.42 During 2013-14, the Council worked with Surrey Lifelong Partnership, Oakleaf Enterprise and Guildford YMCA to establish Glade (Guildford Learning and Development Enterprise). The focus of this new social enterprise is to provide training, skills, qualifications and employment opportunities for young unemployed people in Westborough and Stoke. Glade has been contracted to provide gardening services on behalf of the Council at day centres, sheltered housing schemes and elderly tenant's homes.

3.43 We have also continued to support the Guildford Bike Project. We have leased a retail unit in Westborough which they will use as a shop. This is currently being refurbished. The workshop at Woking Road Depot has been extended and refurbished to provide greater capacity and employment opportunities for jobseekers. The scheme has now received approval as an accredited City and Guilds Centre.

3.44 Following the success of these two schemes we are looking to continue to develop new social enterprise partnerships including a possible PC refurbishment business based on the bike project model.

4. REVIEW OF EFFECTIVENESS

4.1. 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 effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Executive Head of Organisational Development's annual report , (as the Head of Internal Audit), and by comments made by the external auditors and other review agencies and inspectorates.

4.2. Internal Audit has conducted an ongoing review of the Council's Corporate Governance processes and carried out audits according to the annual Audit Plan, which was approved by the Corporate Management Team and the Audit and Corporate Governance Committee. We base the Audit Plan on a risk assessment that provides guidance as to the frequency of audits. It covers four main themes (Financial Control, Asset Management, Management Control and ICT) specifically to address the main concerns of corporate governance

4.3. Internal Audit has produced an annual report on Corporate Governance, which is an assessment of corporate governance against CIPFA guidelines. They also review standards of internal control including risk and performance management. The overall conclusion is that the system of Internal Control at Guildford Borough Council for the period to 31 March 2014 was sound.

4.4. We have used all of this activity to inform the annual Corporate Governance Statement.

4.5. We have a Corporate Governance Group that meets quarterly to discuss any governance issues or concerns. The group comprises the Managing Director (as Head of Paid Service), either the Head of Financial Services or Principal

Accountant for financial management and projects (as deputy Chief Financial/S151 Officers), the Executive Head of Organisation and Development and the Executive Head of Governance (as Monitoring Officer). We also have an Information Security Risk Group to review the Council's information governance and have appointed a senior manager as the Senior Information Risk Owner who is working with a group of officers to improve information security.

4.6. There are two scrutiny committees:

1. Corporate Improvement Scrutiny Committee - to lead on functions concerned with the management of the Council's resources, internal services and overall improvement programme.
2. Customer and Community Scrutiny Committee – to lead on functions that have a direct impact on the Council's customers and local communities.

4.7. The two scrutiny committees meet as a Joint Scrutiny committee for items of mutual interest, such as the Leader's report and Outline Budget report.

4.8. The Corporate Governance and Standards Committee (until May 2014 the Audit and Corporate Governance Committee) receive reports on progress against the audit plan, activities and findings of Internal Audit, risk management, health and safety, equalities, treasury management, ethical standards, Ombudsman complaints and progress against audit recommendations. It also receives interim and annual reports from the Audit Commission and Grant Thornton, the Council's previous and current external auditors, and is responsible for approving the Council's Statement of Accounts.

5. INTERNAL AUDIT STATEMENT

During 2013-14 internal auditors completed 86 per cent of the audit plan There were another 10 unplanned reviews carried out over the year which accounted for the shortfall. The assurance levels of the work carried out in the year to 31 March 2014 are shown below:

Assurance Rating	Number of Audits
Substantial	26
Reasonable	22
Limited	5
No Assurance	0
No Opinion (one-off projects)	6
Ongoing (inc fundamental service reviews)	5

5.2 Where appropriate the audit report provides management recommendations designed to address weaknesses in the system of internal control. We report the outcomes of these audits to the Corporate Governance and Standards Committee every six months giving councillors an opportunity to understand the Council's compliance with key controls and to discuss any areas of concern with the auditors. We also update councillors on the progress of recommendations.

5.3 The Council has very high levels of assurance in respect of all its main financial systems and its governance arrangements. The main financial systems, which feed into the production of the Council's financial statements, achieved a substantial assurance level following internal audit.

5.4 Each year the Executive Head of Organisational Development , as the Head of internal Audit, provides an opinion on the Council's assurance and control framework in his Annual Opinion Report April 2013 to March 2014.

6. SIGNIFICANT GOVERNANCE ISSUES

6.1. This year has been a period of change and there have been ongoing financial pressures. Despite this challenging environment, there have been significant achievements and continuing improvement in the Council's overall governance arrangements. Where we have identified areas for further improvement we will take the necessary action to implement changes that will further develop our governance framework.

6.2. Within the last twelve months there has been a data protection breach, which was reported to the Information Commissioner's Office. The incident was fully investigated and appropriate action taken. In order to prevent future occurrences we have instigated Data Protection training for all staff. There have been 28 sessions in 2013-14 with a further 20 scheduled over the coming months.

6.3. During 2013-14 we carried out a review of premises licensing which found that there were a number of control weaknesses and some inconsistencies. As a result of the findings we will be carrying out a wide-ranging review of licensing within the first half of 2014-15.

7. ASSURANCE SUMMARY

7.1. 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 our area in an equitable and open way. It recognises the 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 and fundamental to showing that public money is well spent.

7.2. From the review, assessment and monitoring work undertaken and the ongoing work of internal audit we have reached the opinion that overall key systems are operating soundly and that there are no fundamental control weaknesses.

7.3. We confirm, to the best of our knowledge and belief, that this statement provides an accurate and fair view.

SIGNED:

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Leader of the Council on behalf of Guildford Borough Council

SIGNED:

………………………… ……………………………………………

Managing Director on behalf of Guildford Borough Council