

Merton Council

Standards and General Purposes Committee

30 July 2018

14 Documents tabled at the meeting

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Summary Statement of Accounts

31st March 2018

INTRODUCTION

The purpose of this explanatory paper is to provide Council stakeholders with a guide to the full Statement of Accounts and to give clear answers to the following key questions:

- What did our services cost in the year?
- Where did the money come from?
- What are our assets and liabilities?

It is both a summary and an interpretation of the accounts, highlighting the key issues that have arisen during the financial year. The full set of accounts and this summary are available on the Council's website at: <https://www2.merton.gov.uk/council/finance.htm>.

THE STATEMENT OF ACCOUNTS

The Statement of Accounts, which has been prepared in accordance with the Local Authority Code of Accounting Practice, is the source of information for this paper, which focuses on the following key areas:

Comprehensive Income and Expenditure Statement - Shows the net cost of Council services and the income received from fees and charges and specific grants from Central Government.

Balance Sheet - Shows the Council's assets and how they have been financed.

Pension Fund - Shows member contributions to the fund and the benefits paid from it, together with details of investment activity during the year. It excludes Pension Fund liabilities.

FINANCIAL HIGHLIGHTS 2017/18

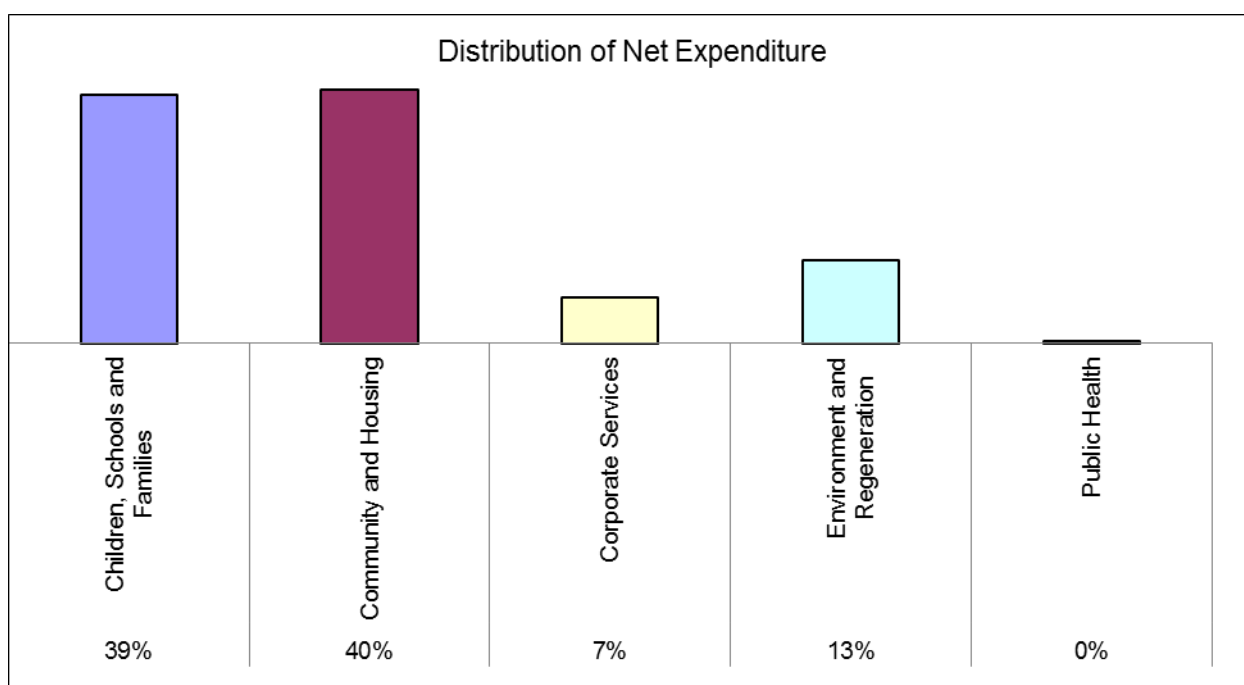
- The Council spent £33m (£31m in 2016/17) on capital schemes including a lease on the new Colliers Wood library valued at £0.5m.
- Total net assets increased by £57m, comprising a £63m increase in unusable reserves and a £6m reduction in usable reserves. The £63m increase in unusable reserves was due to a £52m increase in capital reserves and an £11m increase in the pensions reserve.
- Borrowing decreased from £128m at 31/03/17 to £113m at 31/03/18.
- The Council has a net underspend against £0.3m against its budget in 2017/18, which has been added to earmarked revenue reserves.

REVENUE SPENDING

Merton's net cost of services was £170.3m, attributable to services as shown below:

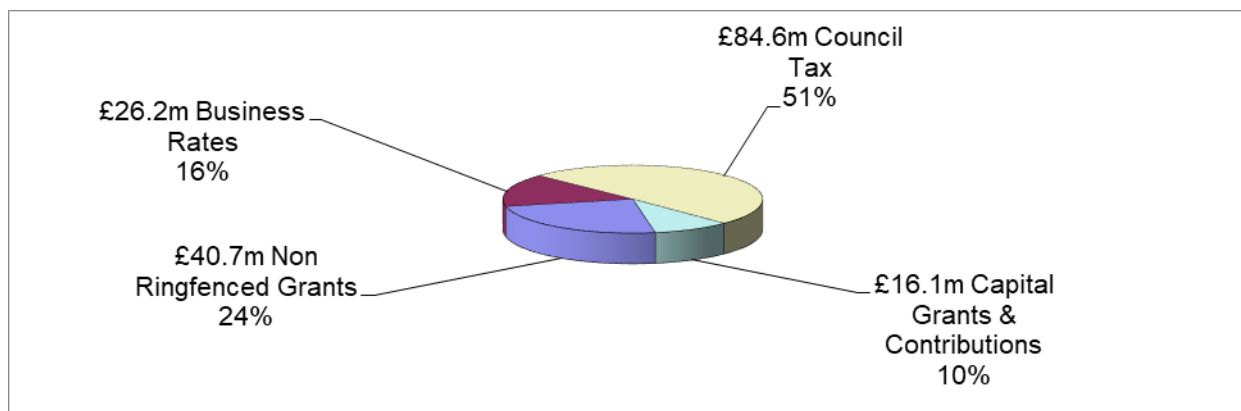
Service Areas	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Children, Schools and Families	231.2	(164.4)	66.8
Community and Housing	87.3	(18.9)	68.4
Corporate Services*	114.4	(102.1)	12.3
Environment and Regeneration	59.6	(37.3)	22.3
Public Health	11.5	(11.0)	0.5
Net Cost of Services	504.0	(333.7)	170.3

* Includes Housing Benefits



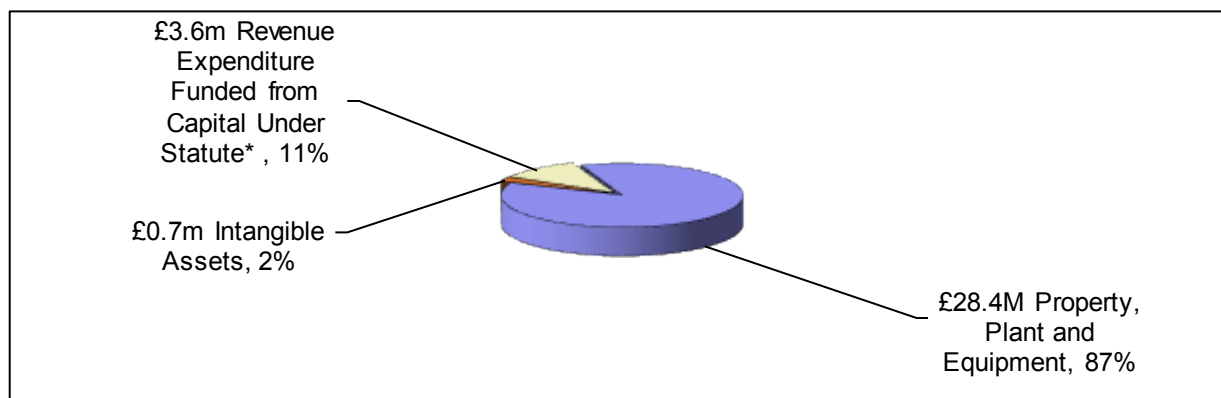
How was expenditure funded?

Other than income collected by departments from fees, charges and specific government grants, services are paid for from revenue support grant, which is money from Central Government, contributions from the business rates pool, council tax and special grants for specific purposes. The following chart shows the actual funding of the net cost of services from local taxation and non-specific grant income:



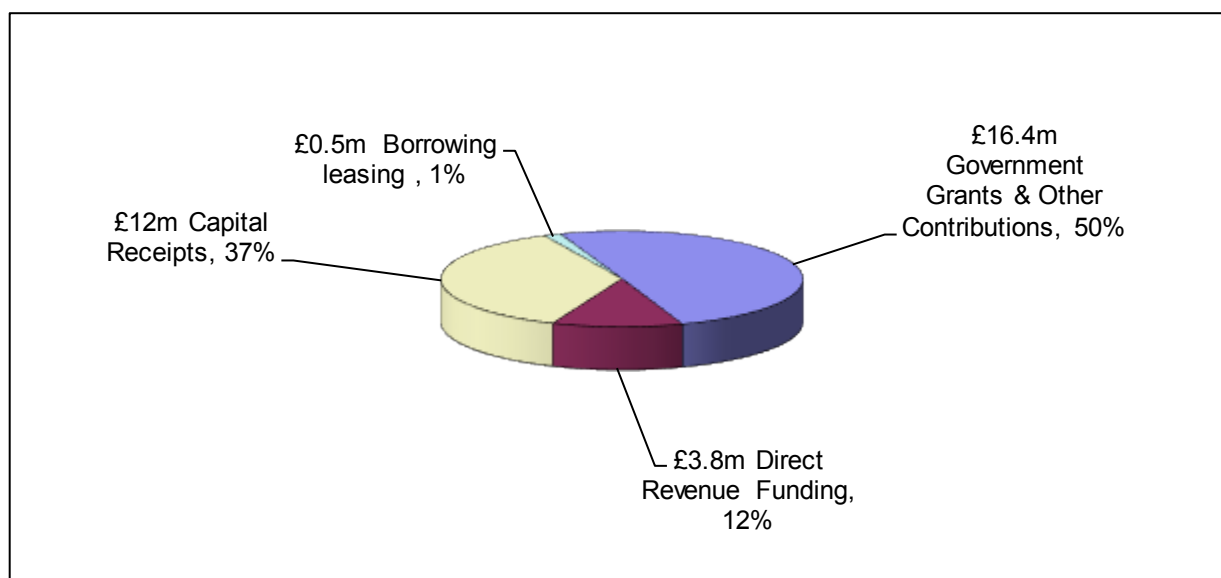
CAPITAL SPENDING

Capital expenditure relates to spending on fixed assets such as buildings and equipment where the benefits to the authority last for more than one year. The Council spent £32.7m in 2017/18 as shown below.



*This is revenue expenditure, which can be funded from capital resources under statutory requirements.

Capital spending was financed from a variety of resources as shown below.



Capital expenditure and the budget for the next four years, is shown by department in the following table. The budget is based upon the budget approved in February 2018 plus slippage.:

Department	Outturn 2017/18* £000s	Capital Budget			
		2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
Children, Schools & Families	6,036	16,082	8,107	3,202	650
Community and Housing	1,111	937	480	630	280
Corporate Services	8,244	28,533	15,818	3,945	3,862
Environment & Regeneration	16,840	22,772	9,060	5,017	4,052
Total	32,231	68,324	33,465	12,794	8,844

- Excludes the value of a new lease for the Colliers Wood library valued at £0.5m.

FINANCIAL HEALTH

The Balance Sheet gives a snapshot of the Council's financial position at the year-end (i.e. 31st March 2018). It shows what the Council owns (its assets) and what it owes (its liabilities) and the funds which support them.

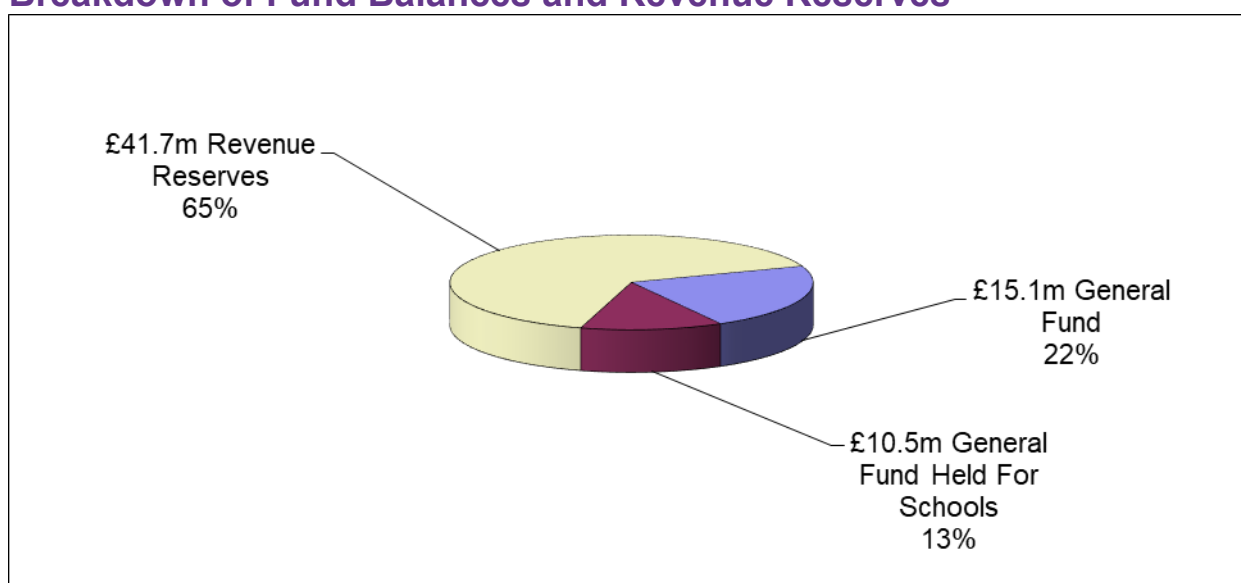
Summary Balance Sheet

Assets	As at 31 st March 2017 £m	As at 31 st March 2018 £m
Fixed and Other Long Term Assets	544	610
Current Assets including investments, cash and debtors	134	118
Current Liabilities including creditors and short term borrowing	(78)	(65)
Total Assets Less Current Liabilities	600	663
Long term borrowings	(113)	(113)
Other liabilities and provisions	(46)	(46)
Pension Fund Liability	(368)	(350)
Total Long Term Liabilities	(527)	(509)
Total Net Assets	73	154
Represented by:		
Reserves and balances which can be spent	(92)	(87)
Reserves and balances which cannot be spent	19	(67)
Total Net Worth	(73)	(154)

RESERVES AND FUND BALANCES

In total, the Council now has usable reserves and fund balances amounting to £87m, £26m capital receipts and grants, and £61m fund balances and revenue reserves which are broken down below.

Breakdown of Fund Balances and Revenue Reserves



PENSION FUND

The pension scheme is financed by contributions from employees and the employer, together with income and proceeds from investments administered by the Council. The Council is required to report where the assets and liabilities stand on an IAS19 commitment basis. On this basis, the assets in the scheme increased by £5m during the year to £604m and the estimated pension liability fell by £6m to £961m, leading to a £11m reduction in the pension deficit, which stands at a notional £357m. Although this is a significant notional liability, the basis on which the pension deficit is valued for funding purposes is determined by a separate triennial actuarial valuation. Under the latest actuarial valuation, the Council has a 12-year plan to eliminate the deficit.

CABINET REPORTING

The revenue outturn in the Statement of Accounts has been prepared in accordance with the CIPFA Code of Practice, which is based on IFRS accounting. A reconciliation of the Cabinet reporting, which is used for management purposes, to the CIPFA Code of Practice reporting is provided within the 2017/18 Statement of Accounts as disclosure note 1.

Disclaimer: - All of the figures in this summary have been compiled having due regard to proper accounting practice. In order to provide simplified and meaningful summary information, some figures have been combined.

Core Financial Statements

1. Comprehensive Income and Expenditure Statement

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

2016/17 (Restated)				2017/18		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
221,816	(160,665)	61,151	Continuing Operations	231,239	(164,367)	66,872
87,811	(18,345)	69,466	Children, Schools and Families	87,266	(18,914)	68,352
118,225	(105,962)	12,263	Community and Housing	114,421	(102,129)	12,292
62,634	(33,714)	28,920	Corporate Services	59,609	(37,356)	22,253
11,120	(11,356)	(236)	Environment and Regeneration	11,511	(11,002)	509
			Public Health			
501,606	(330,042)	171,564	Cost of services	504,046	(333,768)	170,278
		(992)	Other operating income and expenditure (Note 3)			(3,068)
		19,159	Financing and investment income and expenditure (Note 4)			17,009
		(168,743)	Taxation and non-specific grant income (Note 5)			(167,481)
		20,988	(Surplus) or Deficit on Provision of Services			16,738
		(15,050)	(Surplus) or deficit on revaluation of non-current assets (Note 17)			(55,366)
		4,070	Impairment losses on non-current assets (Note 17)			0
		92,839	Re-measurement of the net defined benefit liability/(asset) (Notes 17 & 32)			(41,898)
		81,859	Other Comprehensive Income and Expenditure			(97,264)
		102,847	Total Comprehensive Income and Expenditure			(80,526)

2. Movement in Reserves Statement

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

	General Fund Balances £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2016 (Restated)	(67,345)	(29,582)	(4,154)	(101,080)	(74,956)	(176,036)
<i>Movement in reserves during 2016/17</i>						
Total Comprehensive Income and Expenditure	20,988	0	0	20,988	81,859	102,847
Adjustments between accounting basis & funding basis under regulations (Note 18)	(15,772)	6,596	(3,098)	(12,274)	12,274	0
(Increase)/Decrease in Year	5,216	6,596	(3,098)	8,714	94,133	102,847
Balance at 31 March 2017 carried forward	(62,129)	(22,986)	(7,252)	(92,366)	19,177	(73,189)

	General Fund Balances 0	Capital Receipts Reserves 0	Capital Grants Unapplied 0	Total Usable Reserves 0	Unusable Reserves 0	Total Authority Reserves 0
Balance at 1 April 2017	(62,129)	(22,986)	(7,252)	(92,366)	19,177	(73,189)
<i><u>Movement in reserves during 2017/18</u></i>						
Total Comprehensive Income and Expenditure	16,738			16,738	(97,264)	(80,526)
Adjustments between accounting basis & funding basis under regulations (Note 18)	(15,329)	7,473	(3,226)	(11,082)	11,082	0
(Increase)/Decrease in Year	1,409	7,473	(3,226)	5,656	(86,182)	(80,526)
Balance at 31 March 2018 carried forward	(60,720)	(15,513)	(10,478)	(86,712)	(67,005)	(153,717)

3. Balance Sheet

The Balance Sheet shows the value of the Authority's assets and liabilities as at 31st March. The Authority's net assets (assets less liabilities) are matched by the Authority's reserves.

1 st April 2016 (Restated) £000	31 March 2017 (Restated) £000		Notes	31 March 2018 £000
523,361	528,027	Property, Plant & Equipment	19	592,812
669	802	Heritage Assets	21	802
5,000	5,000	Long Term Investments	9 & 10	4,500
1,291	1,379	Intangible Assets	20	4,301
8,095	8,510	Long Term Debtors	7	7,590
538,416	543,718	Long Term Assets		610,005
80,873	66,030	Short Term Investments	9 & 10	55,193
46	35	Inventories	36	1
30,225	30,049	Short Term Debtors	7	31,373
7,288	7,000	Assets Held for Sale	22	1,215
23,311	30,410	Cash and Cash Equivalents	14	30,434
141,743	133,524	Current Assets		118,216
(16,178)	(15,145)	Short Term Borrowing	9 & 10	(1,487)
(59,345)	(61,701)	Short Term Creditors	8	(62,964)
(1,445)	(757)	Current Provisions	11	(641)
(76,968)	(77,603)	Current Liabilities		(65,092)
(6,516)	(5,518)	Provisions	11	(5,368)
(116,976)	(113,010)	Long Term Borrowing	9 & 10	(113,010)
(32,346)	(30,940)	Other Long Term Liabilities	9	(29,778)
(263,154)	(368,108)	Pension Liability	32	(350,087)
(8,162)	(8,874)	Capital Grants Receipts in Advance	6	(11,169)
(427,154)	(526,450)	Long Term Liabilities		(509,412)
176,936	73,189	Net Assets		153,717
(101,080)	(92,366)	Usable Reserves	16	(86,712)
(74,956)	19,177	Unusable Reserves	17	(67,005)
(176,036)	(73,189)	Total Reserves		(153,717)

Signed

Caroline Holland
Director of Corporate Services
31st July 2018

4. Cash Flow Statement

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

2016/17		2017/18
£000		£000
20,988	Net (surplus) or deficit on the provision of services	16,738
(43,002)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 15a)	(49,203)
25,493	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 15b)	27,606
3,479	Net Cash flows from Operating Activities (note 15c)	(4,859)
(14,364)	Investing Activities (note 15d)	(8,764)
3,786	Financing Activities (note 15e)	13,599
(7,098)	Net (increase) or decrease in cash and cash equivalents	(24)
23,311	Cash and cash equivalents at the beginning of the reporting period	30,410
30,410	Cash and cash equivalents at the end of the reporting period (Note 14)	30,434

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CAPITAL

19. PROPERTY, PLANT AND EQUIPMENT

Prior Period Adjustment

The Accounting Code requires that the authority must restate material prior period errors. (Code of Practice paragraph 3.3.2.18).

The authority values specialised assets at Depreciated Replacement Cost (DRC) as an estimate of current value. These have a current value of £320m and form the majority of the authority's Property, Plant and Equipment (PPE) assets. During a review of audit working papers for 2017/18, these assets were found not to have been valued correctly. The authority has undertaken work to correct these valuations and this work has had a material effect on the authority's PPE valuation going back to financial year 2015/16.

The effect of these changes is to increase the value of assets valued at DRC by £31.5m at the end of the three years' period, as summarised in the two tables below. The first table , "Assets valued at DRC" shows the difference in each year between the unadjusted Net Book Value of DRC assets and the value following the revaluation exercise. The second table, "Content of Change" shows the content of this revaluation.

The Accounting Code requires that when an authority corrects for a prior period error, it should present an additional balance sheet at the beginning of the preceding period where those adjustments have a material effect on the information in the third balance sheet. The authority has therefore prepared restated balance sheets as at 1st April 2016 and also as at 31st March 2017. The information for 2016/17 in the other core statements- the Comprehensive Income and Expenditure Account, the Movement in Reserves Statement and the Cash Flow Statement - has also been restated. The 2016/17 comparative information in relevant disclosure notes have also been changed.

The £31.5m increase in the value of fixed assets valued at DRC has been matched by a corresponding net increase of £31.5m in Unusable Reserves. This net increase comprises an increase in the Revaluation Reserve (£29.6m) and a **increase** in the Capital Adjustment Account (£1.9m).

Assets valued at DRC -

	1/4/16 £000	31/3/17 £000	31/3/18 £000

Net Book Value - original	252,286	296,891	320,341
Net Book Value-restated	314,514	311,800	351,837
Change in net book value	62,228	14, 909	31,496

Content of change

Property, Plant and equipment- assets valued at DRC	15/16 £000	16/17 £000	1718 £000	Total £000
Revaluation	62,227	(44,116)	18, 389	36,500
Depreciation	0	(2,440)	(1,769)	(4,209)
Derecognition	0	(763)	0	(763)
Category transfer	0	0	(32)	(32)
Total change in Property Plant and Equipment (PPE)	62,227	(47,319)	16,588	31,496
Cumulative Change in PPE	62,227	14, 908	31,496	