

# **Merton Council**

## **General Purposes Committee**

**25 June 2015**

### **Supplementary agenda**

|    |   |           |
|----|---|-----------|
| 11 | 2014/15 Draft Revenue Outturn and Final Accounts<br>Appendix 1 & 2 (only) | 1 - 170   |
| 17 | Pension Fund Report   | 171 - 174 |

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# Summary Statement of Accounts

## 31<sup>st</sup> March 2015

### 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 also available on the Council's website at: [www.merton.gov.uk/council/finance](http://www.merton.gov.uk/council/finance).

### 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 2014/15

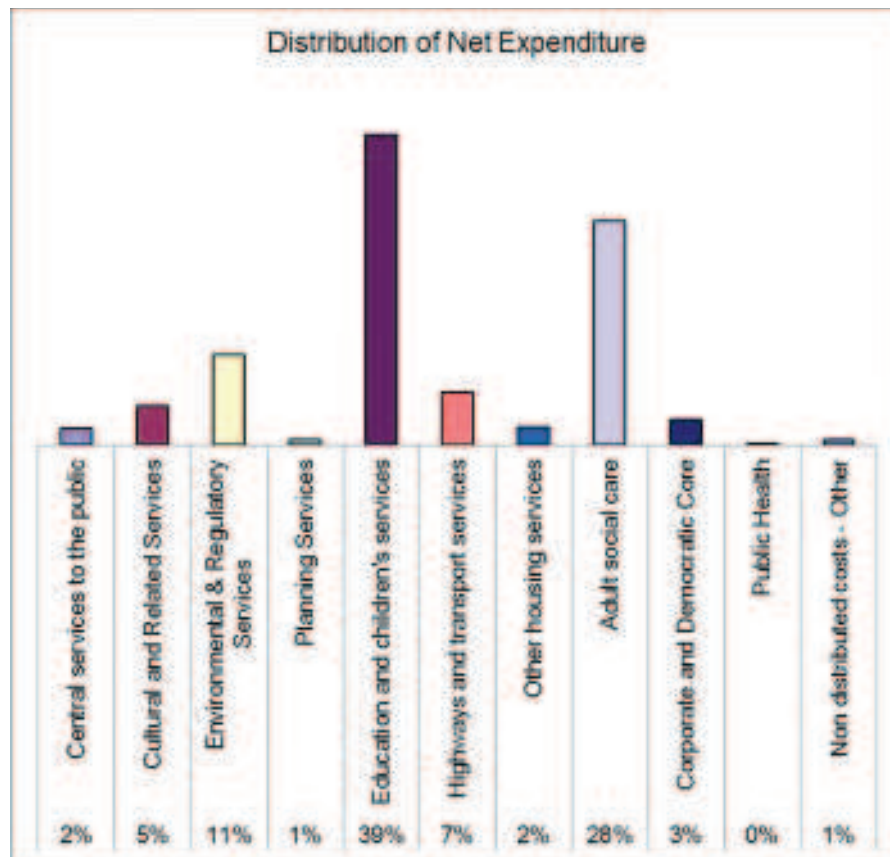
- The Council spent £37m on capital schemes, an increase of 16% from 2013/14.
- Total net assets decreased by £83m, with usable and unusable reserves decreasing by £10m and £73m respectively.
- Long Term borrowings remained at £117m.
- The Council had a net £3.7m over spend against its budget in 2014/15, which has been funded from the General Fund Balance.

**REVENUE SPENDING**

Merton's net cost of services was £189.5m, attributable to services as shown below:

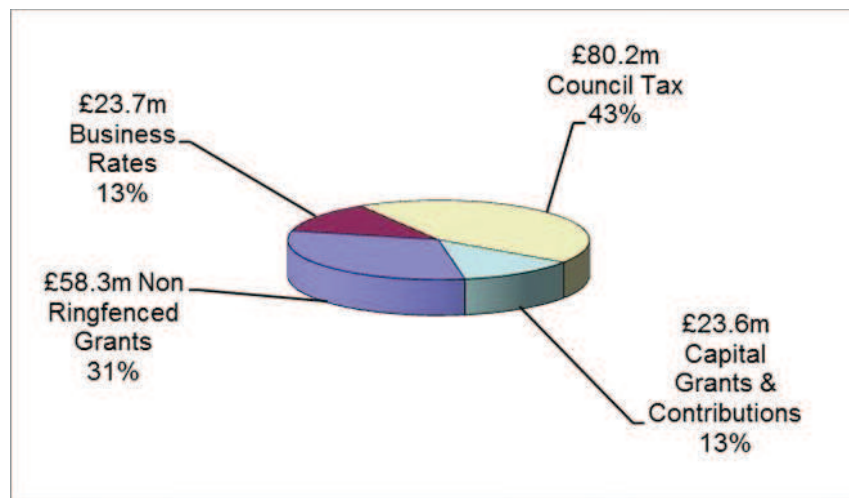
| Service Areas                       | Gross Expenditure<br>£m | Gross Income<br>£m | Net Expenditure<br>£m |
|-------------------------------------|-------------------------|--------------------|-----------------------|
| Central services to the public      | 7.4                     | (3.4)              | 4.1                   |
| Cultural and Related Services       | 11.8                    | (2.4)              | 9.4                   |
| Environmental & Regulatory Services | 26.1                    | (4.5)              | 21.6                  |
| Planning Services                   | 7.1                     | (5.8)              | 1.3                   |
| Education and children's services   | 238.6                   | (163.9)            | 74.7                  |
| Highways and transport services     | 27.4                    | (14.9)             | 12.5                  |
| Other housing services              | 109.9                   | (105.6)            | 4.3                   |
| Adult social care                   | 72.7                    | (18.8)             | 53.9                  |
| Corporate and Democratic Core       | 5.8                     | 0.1                | 5.9                   |
| Public Health                       | 10.0                    | (9.7)              | 0.4                   |
| Non distributed costs - Other       | 12.2                    | (10.8)             | 1.3                   |
| <b>Net Cost of Services</b>         | <b>529.1</b>            | <b>(339.6)</b>     | <b>189.5</b>          |

Note 1 - Includes Housing Benefits, Homelessness and Supporting People.



### How was expenditure funded?

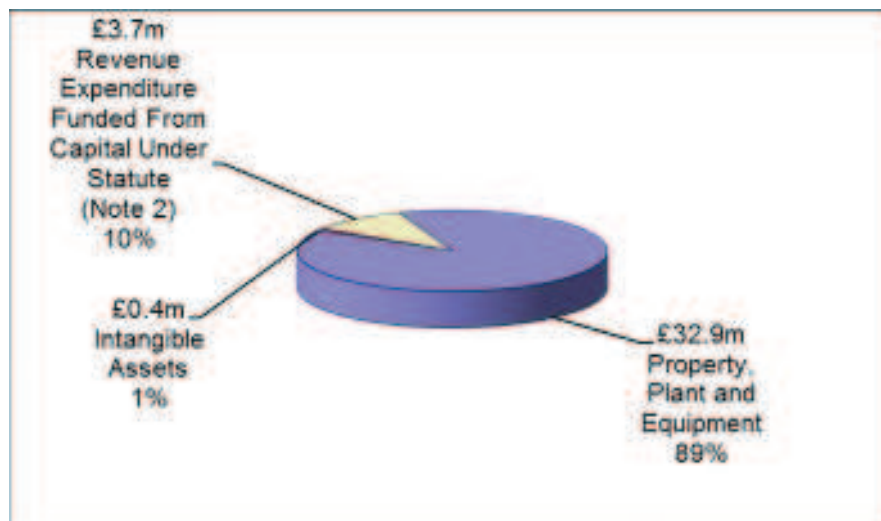
Other than income collected by departments from fees, charges and specific government grants, services are paid for from revenue support grant, which is money from Central Government, contributions from the business rates pool and Council Tax and special grants for specific purposes. The following chart shows the actual funding for 2014/15.



In 2014/15, Merton's Council Tax was the 10<sup>th</sup> lowest Council Tax (Band D) of the twenty outer London boroughs.

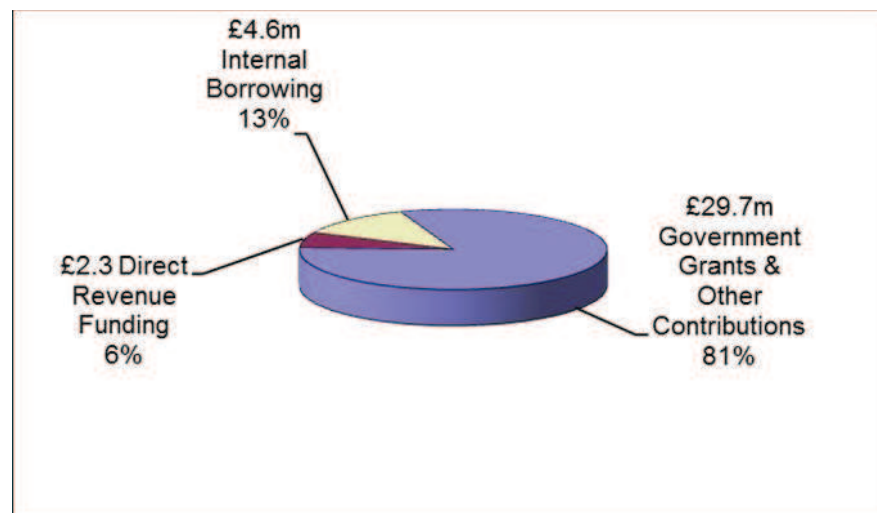
### CAPITAL SPENDING

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 £37m in 2014/15 as shown below.



Note 2 - This is expenditure which is classified as revenue expenditure but which can be funded from capital resources under statutory requirements.

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



## FINANCIAL HEALTH

The Council's Balance Sheet gives a snapshot of the Council's financial position at the year-end (i.e. 31<sup>st</sup> March 2015). It shows what the Council owns (its assets) and what it owes (its liabilities) and the funds which support them.

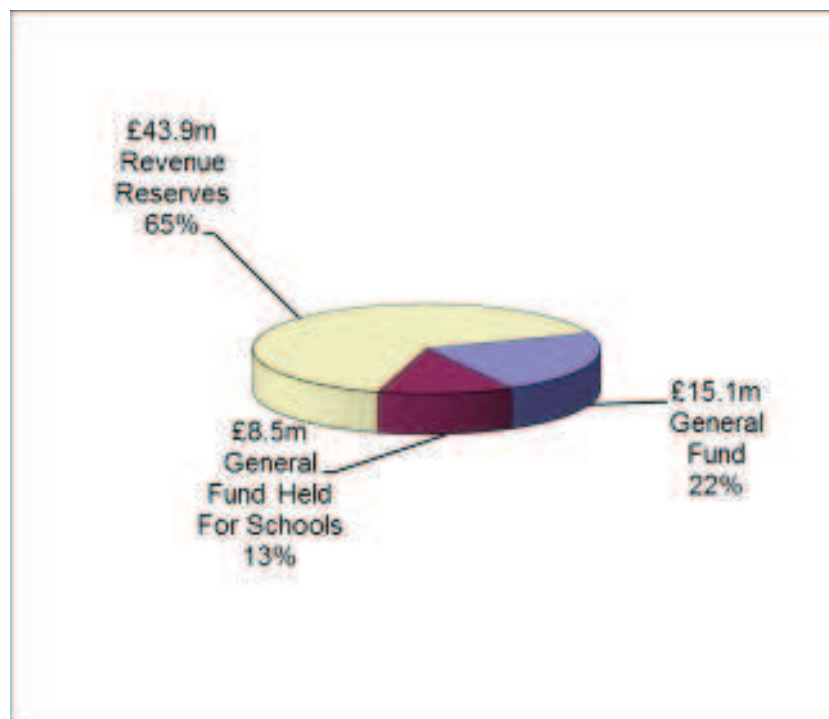
### Summary Balance Sheet

| Assets   | As at 31 <sup>st</sup><br>March 2014<br>£m | As at 31 <sup>st</sup><br>March 2015<br>£m |
|--|--|--|
| Fixed and Other Long Term Assets                                 | 463  | 457  |
| Current Assets including investments, cash and debtors           | 126  | 126  |
| Current Liabilities including creditors and short term borrowing | (64)                                       | (69)                                       |
| <b>Total Assets Less Current Liabilities</b>                     | <b>525</b>                                 | <b>514</b>                                 |
| Long term borrowings   | (117)                                      | (117)                                      |
| Other liabilities and provisions                                 | (50)                                       | (52)                                       |
| Pension Fund Liability   | (224)                                      | (294)                                      |
| <b>Total Long Term Liabilities</b>                               | <b>(391)</b>                               | <b>(463)</b>                               |
| <b>Total Net Assets</b>  | <b>134</b>                                 | <b>51</b>                                  |
| <b>Represented by:</b>   |  |  |
| Reserves and balances which can be spent                         | (115)                                      | (105)                                      |
| Reserves and balances which cannot be spent                      | (19)                                       | 54   |
| <b>Total Net Worth</b>   | <b>(134)</b>                               | <b>(51)</b>                                |

## RESERVES AND FUND BALANCES

In total, the Council now has usable reserves and fund balances amounting to £105m, £37m capital receipts and grants, and £68m 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 the assets and liabilities on a commitment basis (IAS19). On this basis the assets in the scheme increased by £51m during the year to £481m and the estimated pension liability increased by £121m to £775m, leading to a £70m increase in the pension deficit, which stands at a nominal £294m. Although this is a significant notional liability, it is not the basis on which the real deficit of the fund is valued and against which a deficit recovery plan has to be prepared. The fund was revalued on the real basis at the end of March 2013 and had a deficit of £53m. The

Council has a 12 year plan to eliminate the deficit, which included an additional £10m one-off payment made in 2014/15 and reported as part of the budget process.

### CABINET REPORTING

The revenue outturn in the statement of accounts has been prepared in accordance with the CIPFA Service Reporting Code of Practice which sets out a standard form for the reporting of services to enable this authority to compare the gross and net cost of its services with all other local authorities. A reconciliation of the Cabinet reporting, which is used for management purposes, to the CIPFA Service Reporting Code of Practice is provided below.

| 2014/15 Departmental Analysis                       | Corporate Services | Children, Schools & Families | Adult Social Care | Libraries      | Housing        | Public Health  | Environment & Regeneration | Total            |
|---|--------------------|------------------------------|-------------------|----------------|----------------|----------------|----------------------------|------------------|
|   | £000               | £000                         | £000              | £000           | £000           | £000           | £000                       | £000             |
| <b>INCOME</b>                                       |                    |                              |                   |                |                |                |                            |                  |
| Fees, charges and other service income              | (17,892)           | (8,550)                      | (17,948)          | (1,065)        | (324)          | (415)          | (27,295)                   | <b>(73,490)</b>  |
| Government grants                                   | (98,639)           | (153,284)                    | (348)             | (1,603)        | (2,156)        | (9,236)        | (854)                      | <b>(266,121)</b> |
| <b>Total Income</b>                                 | <b>(116,531)</b>   | <b>(161,834)</b>             | <b>(18,297)</b>   | <b>(2,669)</b> | <b>(2,480)</b> | <b>(9,651)</b> | <b>(28,149)</b>            | <b>(339,611)</b> |
| <b>EXPENDITURE</b>                                  |                    |                              |                   |                |                |                |                            |                  |
| Employee expenses                                   | 24,644             | 128,498                      | 13,943            | 3,178          | 1,446          | 858            | 23,370                     | <b>195,937</b>   |
| Other service expenses                              | 120,822            | 75,880                       | 61,491            | 1,577          | 2,589          | 9,048          | 21,890                     | <b>293,298</b>   |
| Depreciation & Impairment Losses                    | 2,036              | 27,654                       | 147               | 632            | 0              | 0              | 10,913                     | <b>41,382</b>    |
| Support service recharges                           | (16,590)           | 4,785                        | 3,958             | 1,023          | 282            | 110            | 4,893                      | <b>(1,539)</b>   |
| <b>Total Expenditure</b>                            | <b>130,912</b>     | <b>236,817</b>               | <b>79,538</b>     | <b>6,411</b>   | <b>4,317</b>   | <b>10,016</b>  | <b>61,066</b>              | <b>529,078</b>   |
| <b>Net Cost of Services (Statement of Accounts)</b> | <b>14,381</b>      | <b>74,983</b>                | <b>61,242</b>     | <b>3,742</b>   | <b>1,837</b>   | <b>365</b>     | <b>32,917</b>              | <b>189,467</b>   |
| Items in Cost of Services not in Cabinet Outturn    | (14,374)           | 27,780                       | 5,247             | 1,268          | (73)           | 110            | 11,092                     | 31,050           |
| <b>Total Cabinet Outturn</b>                        | <b>28,755</b>      | <b>47,203</b>                | <b>55,995</b>     | <b>2,474</b>   | <b>1,910</b>   | <b>255</b>     | <b>21,825</b>              | <b>158,417</b>   |

**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.



# Statement of Accounts

For the year ending 31<sup>st</sup> March 2015

## Index

|  |            |
|--|------------|
| <b>1. Explanatory Foreword</b>                   | <b>1</b>   |
| <b>2. Core Financial Statements</b>              | <b>6</b>   |
| <b>3. Notes to the Core Financial Statements</b> | <b>11</b>  |
| <b>4. Collection Fund</b>                        | <b>110</b> |
| <b>5. Pension Fund</b>                           | <b>120</b> |
| <b>6. Statements of Responsibilities</b>         | <b>148</b> |
| <b>7. Independent Auditor's Report</b>           | <b>N/A</b> |
| <b>8. Glossary</b>                               | <b>150</b> |

# Explanatory Foreword

## 1. Introduction

This is the Council's Statement of Accounts for 2014/15. This statement summarises the financial performance of the Council during 2014/15 showing expenditure on all services during the year and the financial position as at 31<sup>st</sup> March 2015.

The explanatory foreword provides a guide to the most significant matters reported in the Council's 2014/15 Statement of Accounts. The Statement of Accounts is comprised of the following statements:

- **The Movement in Reserves Statement (MIRS)** – shows the movement in the year on the different reserves held by the Council and is used to adjust the net surplus or deficit on the Comprehensive Income and Expenditure Statement (CIES) to the amount chargeable under statute to the Council's General Fund.
- **The Comprehensive Income and Expenditure Statement (CIES)** – shows the accounting cost in the year of providing services for the functions for which the Council is responsible and demonstrates how they have been financed.
- **The Balance Sheet** - summarises the Council's financial position at year-end.
- **The Cash Flow Statement** - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Notes to the Core Financial Statements** - provides additional information which supports and explains the figures in the Core Financial Statements.
- **Accounting Policies** - explains the basis for the recognition, measurement and disclosure of figures in the accounts.
- **The Collection Fund** - reflects the statutory requirement for billing authorities to maintain a separate account that shows the transactions of the Council in relation to Non-Domestic Rates and Council Tax.
- **Pension Fund Accounts** - shows the contributions to and the benefits paid from the Pension Fund and identifies the investments which make up the assets of the fund.
- **Statement of Responsibilities for the Statement of Accounts** – sets out the different responsibilities of the Council and the Director of Corporate Services.

## 2. Financial Performance

The Council's financial performance in 2014/15 is summarised by the table below, as reported to Cabinet in June 2015:

| Cabinet Outturn Report          | 2014/15                | 2014/15          | 2014/15          |
|---------------------------------|------------------------|------------------|------------------|
|                                 | Current Budget<br>£000 | Outturn<br>£000  | Variance<br>£000 |
| <b>Department</b>               |                        |                  |                  |
| Corporate Services              | 29,400                 | 29,128           | (272)            |
| Children, Schools & Families    | 44,755                 | 47,203           | 2,448            |
| Community & Housing             | 57,632                 | 60,379           | 2,747            |
| Public Health                   | 255                    | 255              | 0                |
| Environment & Regeneration      | 20,526                 | 21,825           | 1,299            |
| Recharges                       | (599)                  | (373)            | 226              |
| <b>Net Service Expenditure</b>  | <b>151,969</b>         | <b>158,417</b>   | <b>6,448</b>     |
| Corporate Provisions            | 17,037                 | 14,824           | (2,213)          |
| Transfers to Earmarked Reserves | (6,461)                | (6,860)          | (399)            |
| <b>Total General Fund</b>       | <b>162,545</b>         | <b>166,381</b>   | <b>3,836</b>     |
|                                 |                        |                  |                  |
| Grants                          | (49,710)               | (49,864)         | (154)            |
| Business Rates                  | (33,253)               | (33,253)         | 0                |
| Council Tax and Collection Fund | (79,578)               | (79,578)         | 0                |
| <b>Funding</b>                  | <b>(162,541)</b>       | <b>(162,695)</b> | <b>(154)</b>     |
|                                 |                        |                  |                  |
| <b>Net</b>                      | <b>4</b>               | <b>3,686</b>     | <b>3,682</b>     |

Net service expenditure was overspent by £6.448m due to a number of variances, the three largest being £2.595m in Adult Social Care (Community & Housing department), £1.440m in the area of Waste (Environment and Regeneration department), and £1.867m within Social Care, Youth Inclusion and Commissioning (Children, Schools and Families department).

Corporate Provisions, including earmarked reserve transfers, were underspent by £2.612m and grant income exceeded the budgeted figure by £0.154m.

This reduced the overall net overspend to £3.682m, against a net budget of £0.004m.

The resulting £3.686m net expenditure has been met by an appropriation from the General Fund balance.

Monthly financial monitoring reports to Cabinet and Council Committees have fully detailed these variances throughout the financial year and are available on the Council's website for review.

### 3. Fund Balances and Reserves

During 2014/15 the Council's Usable Reserves decreased by £10.500m.

This was composed of a £3.556m decrease in the Schools' General Fund balance, a £6.860m decrease in Earmarked Revenue Reserves offset by a £0.856m increase in the Dedicated Schools' Grant reserve, a £5.206m increase in the Capital Receipts Reserve and a £2.461m decrease in Capital Grants Unapplied. General Fund balances decreased by £3.686m.

| Usable Reserves                                     | 2013/14        | 2014/15        |
|---|----------------|----------------|
|   | £000           | £000           |
| General Fund Balances                               | 18,838         | 15,152         |
| General Fund Balances held by schools               | 12,090         | 8,534          |
| Earmarked Revenue Reserves                          | 49,892         | 43,889         |
| <b>Sub Total-Fund Balances and Revenue Reserves</b> | <b>80,820</b>  | <b>67,575</b>  |
| Capital Receipts Reserve                            | 26,058         | 31,264         |
| Capital Grants Unapplied                            | 8,176          | 5,715          |
| <b>Usable Reserves</b>                              | <b>115,054</b> | <b>104,554</b> |

### 4. Capital Summary

Capital investment amounted to £36.6m in 2014/15 (£31.6m in 2013/14). The programme was financed through internal borrowing (£4.6m), capital grants (£29.7m) and revenue contributions (£2.3m). Capital receipts received in year totalled £5.3m.

It is anticipated that capital expenditure will continue to be funded primarily from a mixture of grants, contributions, and unsupported borrowing. Suitable opportunities to utilise some direct revenue contributions and capital receipts will continue to be reviewed.

### 5. Investments and Borrowing

At 31<sup>st</sup> March 2015 the Council held short term and long term deposits totalling £73.4m and £13.0m respectively (£75.2m and £5.0m at 31/03/14). The Council generated £0.84m of investment income from these deposits.

Long term borrowing at 31<sup>st</sup> March 2015 remained unchanged at £117.0m. Short term borrowing increased to £13.1m, from £1.2m at 31<sup>st</sup> March 2014. The Council paid £6.7m in interest on these borrowings during 2014/15.

## 6. Pensions

The actuarial valuation of the pension fund, of which the Council is predominantly the largest employer, is carried out every three years. It determines the impact on Council Tax of the cost of paying for pensions.

The last applicable actuarial valuation for the whole fund was carried out as at 31<sup>st</sup> March 2013 with the assets of the Fund found to represent 89% of the accrued liabilities for the Fund; this compares with 84% at the 2010 actuarial valuation. The focus of the triennial valuation is the long-term financial health of the Pension Fund and to set a contribution rate to maintain this.

For accounting purposes a valuation under IAS19 is carried out to produce an accounting figure of surplus or deficit as at the date of the Balance Sheet. The methodology used is affected by current assumptions and short-term economic market conditions. The deficit attributable to the Council on an IAS19 basis increased from £224m to £294m, an increase of £70m. The authority's actuary estimated that as at 31<sup>st</sup> March 2015, future liabilities amount to £775m (£654m as at 31<sup>st</sup> March 2013) with assets of £481m (£430m as at 31<sup>st</sup> March 2013).

In 2014/15 the Council made an additional one-off payment of £10.0m from the General Fund into the Pension Fund, in accordance with its long term plan to reduce the deficit between the Pension Fund's assets and liabilities. The payment was made in consultation with the Authority's actuary and has been factored in to the above valuation.

## 7. CHAS 2013 Ltd

CHAS 2013 Ltd is a wholly owned subsidiary of LBM. It is a service offering health and safety pre-qualification assessments to nationally recognised standards.

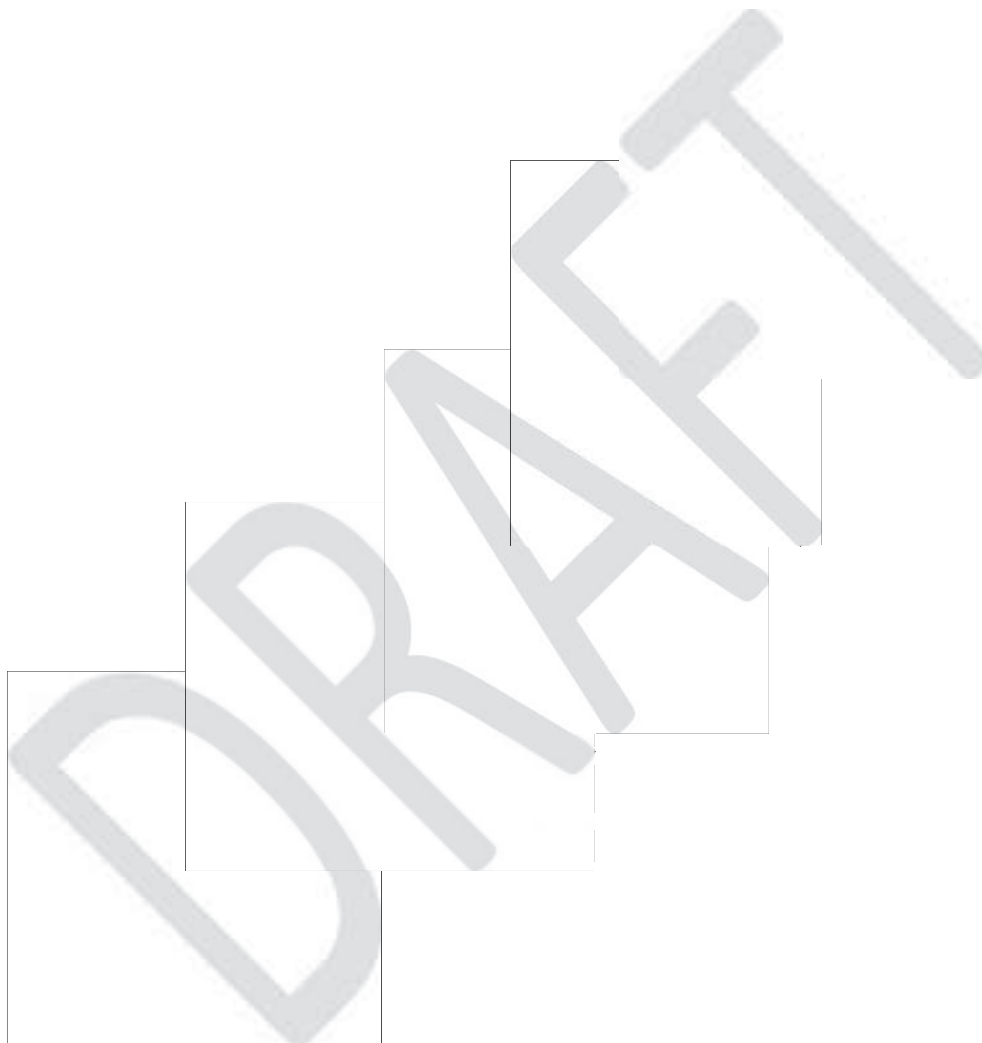
The Council has not published Group Accounts in 2014/15, on the grounds that they are not materially different to the Council's single entity statements, and therefore the CHAS 2013 Ltd reserve is not shown within the Council's Balance Sheet. Instead, the Council has published disclosure note 38 to present the key information regarding CHAS 2013 Ltd.

## 8. Future Developments

New Accounts and Audit Regulations 2015 have recently been published by the Government. The main change under the new regulations is the requirement for Local Authorities to publish, from 2017/18, draft and audited Statement of Accounts by 31<sup>st</sup> May and 31<sup>st</sup> July, respectively. Under current regulations, Local Authorities are required to publish draft and audited accounts by 30<sup>th</sup> June and 30<sup>th</sup> September, respectively.

Transport Infrastructure Assets – following guidance from Cipfa, the method for valuing Transport Infrastructure Assets, such as roads, footways and street lights, in Local Authority accounts will change from historical cost to depreciated replacement cost. This change will take effect from 2016/17. This new method is expected to

significantly increase the reported values of such assets and will therefore substantially impact on the Council's Balance Sheet. Merton has set up a cross departmental working party to implement this change.





# Core Financial Statements

## 1. Movement in Reserves Statement

This statement shows the movement in the year 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 reserves. The surplus or deficit on the provision of services represents the true economic cost of providing the authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts which are required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves represents the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the authority.

|  | General Fund Balance | Earmarked General Fund Reserves | Capital Receipts Reserves | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|--|----------------------|---------------------------------|---------------------------|--------------------------|-----------------------|-------------------|--------------------------|
|  | £000                 | £000                            | £000                      | £000                     | £000                  | £000              | £000                     |
| <b>Balance at 01 April 2013</b>  | (30,512)             | (48,300)                        | (22,752)                  | (4,393)                  | (105,957)             | (47,856)          | (153,813)                |
| <b><i>Movement in reserves during 2013/14</i></b>                                |                      |                                 |                           |                          |                       |                   |                          |
| (Surplus) or deficit on the provision of services                                | 15,092               | 0                               | 0                         | 0                        | 15,092                | 0                 | 15,092                   |
| Other Comprehensive Income and Expenditure                                       | 0                    | 0                               | 0                         | 0                        | 0                     | 4,540             | 4,540                    |
| <b>Total Comprehensive Income and Expenditure</b>                                | 15,092               | 0                               | 0                         | 0                        | 15,092                | 4,540             | 19,632                   |
| Adjustments between accounting basis & funding basis under regulations (Note 18) | (17,100)             | 0                               | (3,305)                   | (3,783)                  | (24,188)              | 24,188            | 0                        |
| <b>Net Increase/Decrease before Transfer to Earmarked</b>                        | (2,008)              | 0                               | (3,305)                   | (3,783)                  | (9,096)               | 28,728            | 19,632                   |
| Transfers to/from Earmarked Reserves (Note 16)                                   | 1,592                | (1,592)                         | 0                         | 0                        | 0                     | 0                 | 0                        |
| <b>Increase/Decrease in Year</b>   | (415)                | (1,592)                         | (3,305)                   | (3,783)                  | (9,096)               | 28,728            | 19,632                   |
| <b>Balance at 31 March 2014 carried forward</b>                                  | <b>(30,928)</b>      | <b>(49,892)</b>                 | <b>(26,057)</b>           | <b>(8,176)</b>           | <b>(115,053)</b>      | <b>(19,128)</b>   | <b>(134,182)</b>         |

|  | General Fund<br>Balance | Earmarked General<br>Fund Reserves | Capital Receipts<br>Reserves | Capital Grants<br>Unapplied | Total Usable<br>Reserves | Unusable Reserves | Total Authority<br>Reserves |
|--|-------------------------|------------------------------------|------------------------------|-----------------------------|--------------------------|-------------------|-----------------------------|
|  | £000                    | £000                               | £000                         | £000                        | £000                     | £000              | £000                        |
| <b>Balance at 01 April 2014</b>  | <b>(30,928)</b>         | <b>(49,892)</b>                    | <b>(26,057)</b>              | <b>(8,176)</b>              | <b>(115,054)</b>         | <b>(19,128)</b>   | <b>(134,182)</b>            |
| <b><i>Movement in reserves during 2014/15</i></b>                                |                         |                                    |                              |                             |                          |                   |                             |
| (Surplus) or deficit on the provision of services                                | 23,524                  | 0                                  | 0                            | 0                           | 23,524                   | 0                 | 23,524                      |
| Other Comprehensive Income and Expenditure                                       | 0                       | 0                                  | 0                            | 0                           | 0                        | 59,641            | 59,641                      |
| <b>Total Comprehensive Income and Expenditure</b>                                | <b>23,524</b>           | <b>0</b>                           | <b>0</b>                     | <b>0</b>                    | <b>23,524</b>            | <b>59,641</b>     | <b>83,165</b>               |
| Adjustments between accounting basis & funding basis under regulations (Note 18) | (10,278)                | 0                                  | (5,206)                      | 2,461                       | (13,023)                 | 13,023            | 0                           |
| <b>Net (Increase)/Decrease before Transfer to Earmarked</b>                      | <b>13,246</b>           | <b>0</b>                           | <b>(5,206)</b>               | <b>2,461</b>                | <b>10,501</b>            | <b>72,664</b>     | <b>83,165</b>               |
| Transfers to/from Earmarked Reserves (Note 16)                                   | (6,004)                 | 6,004                              | 0                            | 0                           | 0                        | 0                 | 0                           |
| <b>(Increase)/Decrease in Year</b>   | <b>7,242</b>            | <b>6,004</b>                       | <b>(5,206)</b>               | <b>2,461</b>                | <b>10,501</b>            | <b>72,664</b>     | <b>83,165</b>               |
| <b>Balance at 31 March 2015 carried forward</b>                                  | <b>(23,686)</b>         | <b>(43,889)</b>                    | <b>(31,263)</b>              | <b>(5,715)</b>              | <b>(104,553)</b>         | <b>53,536</b>     | <b>(51,018)</b>             |



## 2. 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 regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| 2013/14<br>Gross<br>Expenditure<br>£000 | 2013/14<br>Gross<br>Income<br>£000 | 2013/14<br>Net<br>Expenditure<br>Re-stated<br>£000 |  | 2014/15<br>Gross<br>Expenditure<br>£000 | 2014/15<br>Gross<br>Income<br>£000 | 2014/15<br>Net<br>Expenditure<br>£000 |
|---|------------------------------------|--|--|---|------------------------------------|---------------------------------------|
|   |                                    |  | <b>Continuing Operations</b>   |   |                                    |                                       |
| 6,843                                   | (3,619)                            | 3,225  | Central services to the public   | 7,405                                   | (3,353)                            | 4,052                                 |
| 11,318                                  | (1,901)                            | 9,417  | Cultural and Related Services  | 11,788                                  | (2,366)                            | 9,422                                 |
| 26,332                                  | (4,066)                            | 22,266   | Environmental & Regulatory Services  | 26,144                                  | (4,514)                            | 21,630                                |
| 7,349                                   | (5,740)                            | 1,609  | Planning Services  | 7,149                                   | (5,836)                            | 1,312                                 |
| 219,571                                 | (152,125)                          | 67,446   | Education and children's services  | 238,555                                 | (163,891)                          | 74,665                                |
| 26,634                                  | (14,611)                           | 12,024   | Highways and transport services  | 27,417                                  | (14,867)                           | 12,550                                |
| 98,722                                  | (94,731)                           | 3,991  | Other housing services   | 109,937                                 | (105,589)                          | 4,348                                 |
| 70,112                                  | (16,915)                           | 53,196   | Adult social care  | 72,709                                  | (18,812)                           | 53,896                                |
| 5,451                                   | (86)                               | 5,365  | Corporate and Democratic Core  | 5,808                                   | 115                                | 5,923                                 |
| 7,890                                   | (6,545)                            | 1,345  | Non distributed costs - Other  | 12,151                                  | (10,846)                           | 1,305                                 |
| 8,190                                   | (9,851)                            | (1,661)  | Public Health  | 10,016                                  | (9,651)                            | 365                                   |
| <b>488,413</b>                          | <b>(310,189)</b>                   | <b>178,223</b>                                     | <b>Cost of services</b>  | <b>529,078</b>                          | <b>(339,611)</b>                   | <b>189,467</b>                        |
|   |                                    | (2,716)  | Other operating income and expenditure re-stated (Note 3)                      |   |                                    | (1,187)                               |
|   |                                    | 23,205   | Financing and investment income and expenditure re-stated (Note 4)             |   |                                    | 21,060                                |
|   |                                    | (183,620)  | Taxation and non-specific grant income (Note 5)                                |   |                                    | (185,816)                             |
|   |                                    | <b>15,092</b>                                      | <b>(Surplus) or Deficit on Provision of Services</b>                           |   |                                    | <b>23,524</b>                         |
|   |                                    | (15,622)   | (Surplus) or deficit on revaluation of Property, Plant and equipment (Note 17) |   |                                    | (8,984)                               |
|   |                                    | 20,162   | Remeasurements of the net defined benefit liability/(asset) (Notes 17 & 35)    |   |                                    | 68,625                                |
|   |                                    | <b>4,540</b>                                       | <b>Other Comprehensive Income and Expenditure</b>                              |   |                                    | <b>59,641</b>                         |
|   |                                    | <b>19,632</b>                                      | <b>Total Comprehensive Income and Expenditure</b>                              |   |                                    | <b>83,165</b>                         |

### 3. Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

| 31 March 2014    |                                    |       | 31 March 2015    |
|------------------|------------------------------------|-------|------------------|
| £000             |                                    | Notes | £000             |
| 447,000          | Property, Plant & Equipment        | 19    | 433,619          |
| 669              | Heritage Assets                    | 22    | 669              |
| 0                | Investment Property                | 20    | 0                |
| 5,000            | Long Term Investments              | 9     | 13,000           |
| 1,896            | Intangible Assets                  | 21    | 1,639            |
| 231              | Assets Held for Sale               | 23    | 0                |
| 7,763            | Long Term Debtors                  | 7 & 9 | 8,234            |
| <b>462,558</b>   | <b>Long Term Assets</b>            |       | <b>457,161</b>   |
| 75,202           | Short Term Investments             | 9     | 73,422           |
| 211              | Inventories                        | 40    | 68               |
| 28,303           | Short Term Debtors                 | 7     | 25,756           |
| 0                | Assets Held for Sale               | 23    | 7,288            |
| 22,714           | Cash and Cash Equivalents          | 14    | 19,324           |
| <b>126,431</b>   | <b>Current Assets</b>              |       | <b>125,858</b>   |
| (1,170)          | Short Term Borrowing               | 9     | (13,069)         |
| (61,457)         | Short Term Creditors               | 8     | (56,054)         |
| (861)            | Current Provisions                 | 11    | (354)            |
| <b>(63,488)</b>  | <b>Current Liabilities</b>         |       | <b>(69,477)</b>  |
| (5,941)          | Provisions                         | 11    | (6,977)          |
| (116,976)        | Long Term Borrowing                | 9     | (116,976)        |
| (35,201)         | Other Long Term Liabilities        | 9     | (34,099)         |
| (224,327)        | Pension Liability                  | 35    | (293,820)        |
| (8,873)          | Capital Grants Receipts in Advance | 6     | (10,651)         |
| <b>(391,319)</b> | <b>Long Term Liabilities</b>       |       | <b>(462,523)</b> |
| <b>134,182</b>   | <b>Net Assets</b>                  |       | <b>51,018</b>    |
| (115,054)        | Usable Reserves                    | 16    | (104,554)        |
| (19,128)         | Unusable Reserves                  | 17    | 53,536           |
| <b>(134,182)</b> | <b>Total Reserves</b>              |       | <b>(51,018)</b>  |

#### 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.

| 2013/14  |   | 2014/15         |
|----------|---|-----------------|
| £000     |   | £000            |
| 15,092   | Net (surplus) or deficit on the provision of services   | 23,524          |
| (62,708) | Adjustments to net surplus or deficit on the provision of services for non cash movements (note 15)   | (43,856)        |
| 19,612   | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 15) | 32,053          |
| (28,004) | Net Cash flows from Operating Activities (note 15)  | 11,721          |
| 22,632   | Investing Activities (note 15)  | 3,639           |
| 6,740    | Financing Activities (note 15)  | (11,969)        |
| 1,368    | Net Increase or decrease in cash and cash equivalents   | 3,390           |
| (24,082) | Cash and cash equivalents at the beginning of the reporting period  | (22,714)        |
| (22,714) | <b>Cash and cash equivalents at the end of the reporting period (Note 14)</b>   | <b>(19,324)</b> |

## NOTES TO THE CORE FINANCIAL STATEMENTS

|   | <b>Page</b> |
|---|-------------|
| <b>1. Income and Expenditure</b>                | <b>12</b>   |
| <b>2. Debtors, Creditors and Cash Flows</b>     | <b>21</b>   |
| <b>3. Reserves</b>                              | <b>39</b>   |
| <b>4. Capital</b>                               | <b>50</b>   |
| <b>5. Schools</b>                               | <b>61</b>   |
| <b>6. Members, Officers and Related Parties</b> | <b>64</b>   |
| <b>7. Pension Fund</b>                          | <b>71</b>   |
| <b>8. Other Disclosure Notes</b>                | <b>79</b>   |
| <b>9. Technical Annex – Accounting Policies</b> | <b>86</b>   |

## INCOME AND EXPENDITURE

### 1. MATERIAL ITEMS OF INCOME AND EXPENSE

In 2014/15 the Council made an additional one-off payment of £10.0m from the General Fund into the Pension Fund, in accordance with its long term plan to reduce the deficit between the Pension Fund's assets and liabilities. The payment was made in consultation with the Authority's actuary and has been factored in to the 2014/15 valuation of the fund.

The payment is recognised in the Movement in Reserves Statement as part of 'Adjustments between accounting basis & funding basis under regulations (Note 18)'.

### 2. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

In the Comprehensive Income & Expenditure Statement (CIES), income and expenditure is presented by service as specified by CIPFA's Service Expenditure Reporting Code of Practice. In addition, the CIES includes the income and expenditure of the authority's maintained schools as if it were the expenditure of the Authority.

The Authority's Executive primarily takes decisions about resource allocation on the basis of budget reports, which are analysed across service departments. These budget reports are summarised by the revenue outturn report, which appears in the Explanatory Foreword.

Budget reports are prepared on a different basis from the accounting policies used in the CIES. In particular:

- Budget reports include some charges in relation to capital expenditure e.g. budgeted depreciation, but not the adjustment to depreciation following revaluation, or some impairment losses, which are all charged to services in the CIES.
- Dedicated Schools Grant is recorded as supplies and services expenditure in the budget reports, but as employee expenditure in the CIES. This distinction occurs because the budget reports to the Authority's Executive show expenditure from the Council-only perspective. The CIES, however, must consolidate schools' expenditure into the Council's single entity accounts, as stipulated by CIPFA's Code of Practice (see schools policy XXV on page 106). For the same reason, any DSG-funded income received by the Council from schools is included in budget reports, but removed on consolidation from the CIES.
- The cost of retirement benefits in budget reports is based on cash flows (employer's pension contributions), rather than the current service cost of benefits accrued in the year as in the CIES
- The adjusting accrual for absences is also excluded from budget reports

The income and expenditure of the Authority's service departments recorded in the CIES for the year is as follows:

| 2014/15 Departmental Analysis                         | Corporate Services | Children, Schools & Families | Community & Housing |                |                | Public Health  | Environment & Regeneration | Total            |
|---|--------------------|------------------------------|---------------------|----------------|----------------|----------------|----------------------------|------------------|
|   |                    |                              | Adult Social Care   | Libraries      | Housing        |                |                            |                  |
|   | £000               | £000                         | £000                | £000           | £000           | £000           | £000                       | £000             |
| <b>INCOME</b>   |                    |                              |                     |                |                |                |                            |                  |
| Fees, charges and other service income                | (17,892)           | (8,550)                      | (17,948)            | (1,065)        | (324)          | (415)          | (27,295)                   | (73,490)         |
| Government grants                                     | (98,639)           | (153,284)                    | (348)               | (1,603)        | (2,156)        | (9,236)        | (854)                      | (266,121)        |
| <b>Total Income</b>                                   | <b>(116,531)</b>   | <b>(161,834)</b>             | <b>(18,297)</b>     | <b>(2,669)</b> | <b>(2,480)</b> | <b>(9,651)</b> | <b>(28,149)</b>            | <b>(339,611)</b> |
| <b>EXPENDITURE</b>                                    |                    |                              |                     |                |                |                |                            |                  |
| Employee expenses *                                   | 24,644             | 128,498*                     | 13,943              | 3,178          | 1,446          | 858            | 23,370                     | 195,937          |
| Other service expenses                                | 120,822            | 75,880                       | 61,491              | 1,577          | 2,589          | 9,048          | 21,890                     | 293,298          |
| Depreciation & Impairment Losses                      | 2,036              | 27,654                       | 147                 | 632            | 0              | 0              | 10,913                     | 41,382           |
| Support service recharges                             | (16,590)           | 4,785                        | 3,958               | 1,023          | 282            | 110            | 4,893                      | (1,539)          |
| <b>Total Expenditure</b>                              | <b>130,912</b>     | <b>236,817</b>               | <b>79,538</b>       | <b>6,411</b>   | <b>4,317</b>   | <b>10,016</b>  | <b>61,066</b>              | <b>529,078</b>   |
| <b>Net Cost of Services (Statement of Accounts)</b>   | <b>14,381</b>      | <b>74,983</b>                | <b>61,242</b>       | <b>3,742</b>   | <b>1,837</b>   | <b>365</b>     | <b>32,917</b>              | <b>189,467</b>   |
| Items in Cost of Services not in Explanatory Foreword | (14,374)           | 27,780                       | 5,247               | 1,268          | (73)           | 110            | 11,092                     | 31,050           |
| <b>Total Explanatory Foreword (Cabinet Outturn)**</b> | <b>28,755**</b>    | <b>47,203</b>                | <b>55,995</b>       | <b>2,474</b>   | <b>1,910</b>   | <b>255</b>     | <b>21,825</b>              | <b>158,417</b>   |

\*Includes expenditure on staff employed at voluntary-aided and foundation schools as follows:

| Employee Expenditure    | 2013/14<br>£'000 | 2014/15<br>£'000 |
|-------------------------|------------------|------------------|
| Voluntary-Aided Schools | 25,901           | 27,166           |
| Foundation Schools      | 4,940            | 5,111            |

\*\* Corporate Services outturn includes net recharges, which are shown separately in Explanatory Foreword.



The table below shows a reconciliation between the Departmental Analysis, the Explanatory Foreword and the Surplus or Deficit on the provision of services:

| 2014/15   | Total Explanatory Foreword | Items in Departmental Analysis not in Explanatory Foreword | Total Cost of Services | Corporate Amounts | Total (Surplus)/ Deficit on the provision of services |
|---|----------------------------|--|------------------------|-------------------|---|
|   | £000                       | £000   | £000                   | £000              | £000  |
| <b>INCOME</b>                                     |                            |  |                        |                   |   |
| Fees, charges and other service income            | (90,598)                   | 17,109   | (73,489)               | 0                 | (73,489)  |
| Interest & investment income                      | 0                          | 0  | 0                      | (1,552)           | (1,552)   |
| Taxation & non-specific grant income (Note 5)     | 0                          | 0  | 0                      | (185,816)         | (185,816)   |
| Recharges   | (32,852)                   | 32,852   | 0                      | 0                 | 0   |
| Government grants                                 | (260,509)                  | (5,612)  | (266,121)              | 0                 | (266,121)   |
| Other   | (3,064)                    | 3,064  | 0                      | (1,206)           | (1,206)   |
| <b>Total Income</b>                               | <b>(387,023)</b>           | <b>47,413</b>  | <b>(339,610)</b>       | <b>(188,496)</b>  | <b>(528,183)</b>                                      |
| <b>EXPENDITURE</b>                                |                            |  |                        |                   |   |
| Employee expenses                                 | 96,299                     | 99,639   | 195,938                | 0                 | 195,938   |
| Other service expenses                            | 398,885                    | (105,588)  | 293,297                | 0                 | 293,297   |
| Depreciation & Impairment Losses                  | 17,768                     | 23,614   | 41,382                 | 0                 | 41,382  |
| Support Service Recharges                         | 32,488                     | (34,027)   | (1,539)                | 0                 | (1,539)   |
| Interest Payments                                 | 0                          | 0  | 0                      | 10,417            | 10,417  |
| Precepts & Levies                                 | 0                          | 0  | 0                      | 931               | 931   |
| Interest on net defined benefit liability (asset) | 0                          | 0  | 0                      | 9,477             | 9,477   |
| Gain or loss on disposal of fixed assets          | 0                          | 0  | 0                      | (2,138)           | (2,138)   |
| Gain or loss on disposal of academies             | 0                          | 0  | 0                      | 3,923             | 3,923   |
| Other   | 0                          | 0  | 0                      | 19                | 19  |
| <b>Total Expenditure</b>                          | <b>545,440</b>             | <b>(16,363)</b>  | <b>529,077</b>         | <b>22,630</b>     | <b>551,707</b>  |
| <b>Net Expenditure/(Income)</b>                   | <b>158,417</b>             | <b>31,050</b>  | <b>189,467</b>         | <b>(165,866)</b>  | <b>23,524</b>   |

## 2013/14 Comparative Figures

| 2013/14 Departmental Analysis Restated                | Corporate Services | Children, Schools & Families | Community & Housing |                |                | Public Health  | Environment & Regeneration | Total            |
|---|--------------------|------------------------------|---------------------|----------------|----------------|----------------|----------------------------|------------------|
|   |                    |                              | Adult Social Care   | Libraries      | Housing        |                |                            |                  |
|   | £000               | £000                         | £000                | £000           | £000           | £000           | £000                       | £000             |
| <b>INCOME</b>   |                    |                              |                     |                |                |                |                            |                  |
| Fees, charges and other service income                | (9,587)            | (6,770)                      | (16,370)            | (873)          | (175)          | (866)          | (25,754)                   | (60,396)         |
| Government grants                                     | (93,648)           | (143,326)                    | (132)               | (1,907)        | (1,179)        | (8,985)        | (616)                      | (249,793)        |
| <b>Total Income</b>                                   | <b>(103,235)</b>   | <b>(150,096)</b>             | <b>(16,502)</b>     | <b>(2,780)</b> | <b>(1,354)</b> | <b>(9,851)</b> | <b>(26,370)</b>            | <b>(310,189)</b> |
| <b>EXPENDITURE</b>                                    |                    |                              |                     |                |                |                |                            |                  |
| Employee expenses *                                   | 23,606             | 119,104*                     | 12,800              | 3,268          | 1,105          | 660            | 22,655                     | 183,199          |
| Other service expenses                                | 108,287            | 71,632                       | 60,427              | 1,527          | 2,059          | 7,431          | 21,972                     | 273,336          |
| Depreciation & Impairment Losses                      | 2,074              | 21,698                       | 132                 | 732            | 0              | 0              | 10,098                     | 34,734           |
| Support service recharges                             | (18,451)           | 5,109                        | 4,137               | 1,178          | 245            | 98             | 4,829                      | (2,856)          |
| <b>Total Expenditure</b>                              | <b>115,516</b>     | <b>217,543</b>               | <b>77,496</b>       | <b>6,705</b>   | <b>3,409</b>   | <b>8,190</b>   | <b>59,554</b>              | <b>488,413</b>   |
| <b>Net Cost of Services (Statement of Accounts)</b>   | <b>12,281</b>      | <b>67,447</b>                | <b>60,993</b>       | <b>3,925</b>   | <b>2,055</b>   | <b>(1,661)</b> | <b>33,184</b>              | <b>178,223</b>   |
| Items in Cost of Services not in Explanatory Foreword | (14,261)           | 19,774                       | 7,950               | 1,470          | 349            | (1,661)        | 11,021                     | 24,641           |
| <b>Total Explanatory Foreword (Cabinet Outturn)</b>   | <b>26,542</b>      | <b>47,673</b>                | <b>53,043</b>       | <b>2,455</b>   | <b>1,706</b>   | <b>0</b>       | <b>22,163</b>              | <b>153,582</b>   |



| 2013/14 Restated                                  | Total Explanatory Foreword | Items in Departmental Analysis not in Explanatory Foreword | Total Cost of Services | Corporate Amounts | Total (Surplus)/ Deficit on the provision of services |
|---|----------------------------|--|------------------------|-------------------|---|
|   | £000                       | £000   | £000                   | £000              | £000  |
| <b>INCOME</b>                                     |                            |  |                        |                   |   |
| Fees, charges and other service income            | (76,906)                   | 16,510   | (60,396)               | 0                 | (60,396)  |
| Interest & investment income                      | 0                          | 0  | 0                      | (1,468)           | (1,468)   |
| Taxation & non-specific grant income (Note 5)     | 0                          | 0  | 0                      | (183,620)         | (183,620)   |
| Recharges   | (35,741)                   | 35,741   | 0                      | 0                 | 0   |
| Government grants                                 | (250,061)                  | 268  | (249,793)              | 0                 | (249,793)   |
| Other   | (2,073)                    | 2,073  | 0                      | 0                 | 0   |
| <b>Total Income</b>                               | <b>(364,781)</b>           | <b>54,592</b>  | <b>(310,189)</b>       | <b>(185,088)</b>  | <b>(495,277)</b>                                      |
| <b>EXPENDITURE</b>                                |                            |  |                        |                   |   |
| Employee expenses                                 | 92,668                     | 90,531   | 183,199                | 0                 | 183,199   |
| Other service expenses                            | 375,512                    | (102,176)  | 273,336                | 0                 | 273,336   |
| Depreciation & Impairment Losses                  | 16,264                     | 18,470   | 34,734                 | 0                 | 34,734  |
| Support Service Recharges                         | 33,919                     | (36,774)   | (2,856)                | 0                 | (2,856)   |
| Interest Payments                                 | 0                          | 0  | 0                      | 10,244            | 10,244  |
| Precepts & Levies                                 | 0                          | 0  | 0                      | 914               | 914   |
| Interest on net defined benefit liability (asset) | 0                          | 0  | 0                      | 8,027             | 8,027   |
| Gain or loss on disposal of fixed assets          | 0                          | 0  | 0                      | (3,630)           | (3,630)   |
| Gain or loss on disposal of academies             | 0                          | 0  | 0                      | 6,102             | 6,102   |
| Other finance and investment expenditure          | 0                          | 0  | 0                      | 300               | 300   |
| Other   | 0                          | 0  | 0                      | 0                 | 0   |
| <b>Total Expenditure</b>                          | <b>518,363</b>             | <b>(29,950)</b>  | <b>488,413</b>         | <b>21,957</b>     | <b>510,370</b>  |
| <b>Net Expenditure/(Income)</b>                   | <b>153,582</b>             | <b>24,642</b>  | <b>178,223</b>         | <b>(163,131)</b>  | <b>15,092</b>   |

### 3. OTHER OPERATING EXPENDITURE

| 2013/14<br>Restated<br>£000 |  | 2014/15<br>£000 |
|-----------------------------|--|-----------------|
| 914                         | Precepts and Levies                                      | 931             |
| (3,630)                     | (Gains)/ losses on the disposal of non-current assets    | (2,138)         |
| 0                           | Payments to the Government Housing Capital Receipts Pool | 19              |
| <b>(2,716)</b>              | <b>Total</b>   | <b>(1,187)</b>  |

2013/14 CIES figures have been restated following the issuance of LAAP Bulletin 103 by CIPFA. The Bulletin clarifies that when a school transfers from Local Authority control to academy status, any gain or loss arising from the derecognition of the school assets from the Council's accounts should be recognised within the Financing and Investment Income and Expenditure line of the CIES. This loss on disposal, totalling £6.1m in 2013/14, had previously been recognised within Other Operating Expenditure. Disclosure notes 3 and 4 have also been restated to reflect this change.

### 4. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| 2013/14<br>Restated<br>£000 |   | 2014/15<br>£000 |
|-----------------------------|---|-----------------|
| 10,244                      | Interest payable and similar charges (Note 9)       | 10,417          |
| 8,027                       | Net interest on defined pension liability (Note 35) | 9,477           |
| (1,468)                     | Interest receivable and similar income (Note 9)     | (1,552)         |
| 300                         | Trading accounts not related to services (Note 39)  | (329)           |
| 6,102                       | Loss on the disposal of academies                   | 3,923           |
| 0                           | CHAS 2013 Ltd & other (income)/expenditure          | (877)           |
| <b>23,205</b>               | <b>Total</b>  | <b>21,060</b>   |

## 5. TAXATION AND NON-SPECIFIC GRANT INCOMES

| 2013/14<br>£000  |   | 2014/15<br>£000  |
|------------------|---|------------------|
| (76,123)         | Council tax income                            | (80,221)         |
| (23,841)         | Non domestic rates (see Note 6)               | (23,676)         |
| (67,622)         | Non-ringfenced government grants (see Note 6) | (58,333)         |
| (16,034)         | Capital grants and contributions (see Note 6) | (23,586)         |
| <b>(183,620)</b> | <b>Total</b>                                  | <b>(185,816)</b> |

## 6. GRANT INCOME

The London Borough of Merton credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

|  | 2013/14          | 2014/15          |
|--|------------------|------------------|
|  | £000             | £000             |
| <b><i>Credited to Taxation and Non Specific Grant Income</i></b> |                  |                  |
| Collection Fund  | (76,123)         | (80,221)         |
| Revenue Support Grant  | (47,470)         | (39,738)         |
| Business Rates   | (23,841)         | (23,676)         |
| Top-up Grant   | (7,547)          | (7,694)          |
| Capital Grant Income   | (16,034)         | (23,586)         |
| PFI Contribution   | (4,797)          | (4,797)          |
| New Homes Bonus Grant  | (2,724)          | (3,199)          |
| Section 31 Grant   | (347)            | (1,278)          |
| Council Tax Freeze Grant   | (848)            | (852)            |
| Education Services Grant   | (3,246)          | 0                |
| Total grants under £1 million                                    | (643)            | (774)            |
| <b>Total</b>   | <b>(183,620)</b> | <b>(185,816)</b> |
| <b><i>Credited to Services</i></b>                               |                  |                  |
| <b>Grants over £1million</b>                                     |                  |                  |
| Schools Delegated Budget   | (135,940)        | (144,350)        |
| Housing Benefits Subsidy   | (90,864)         | (96,042)         |
| Public Health Grant  | (8,985)          | (9,236)          |
| Benefits Administration  | (1,396)          | (1,311)          |
| Pupil Premium  | (4,959)          | (6,078)          |
| Bed & Breakfast Accommodation                                    | (1,179)          | (1,680)          |
| Adult Education Main   | (1,907)          | (1,603)          |
|  | (245,231)        | (260,301)        |
| <b>Total grants under £1million</b>                              | <b>(4,563)</b>   | <b>(5,820)</b>   |
| <b>Total Grants</b>  | <b>(249,794)</b> | <b>(266,121)</b> |
| <b>Contributions over £1million</b>                              |                  |                  |
| Contributions from CCG   | (1,542)          | (1,525)          |
| Registered Nursing Care Contribution                             | (1,386)          | (1,008)          |
| Local Taxation Services  | (1,285)          | (1,126)          |
| Shared Legal Service   | (2,851)          | (5,065)          |
| Non Delegated Statements   | (1,051)          | (1,338)          |
| Funding Transfer from NHS England to Social Care                 | (2,677)          | (3,428)          |
|  | (10,792)         | (13,489)         |
| <b>Total contributions under £1million</b>                       | <b>(8,605)</b>   | <b>(12,287)</b>  |
| <b>Total Contributions</b>                                       | <b>(19,397)</b>  | <b>(25,776)</b>  |
| <b>TOTAL GRANTS AND CONTRIBUTIONS</b>                            | <b>(269,191)</b> | <b>(291,897)</b> |

The authority has received a number of grants that have yet to be recognised as income as they have conditions attached to them, which if not met, will require the monies to be returned. The balances at the year end are as follows:

**Current Liabilities**

|   | 2013/14        | 2014/15        |
|---|----------------|----------------|
|   | £000           | £000           |
| <b>Capital Grants Receipts in Advance</b> |                |                |
| Total of grants under £1million           | (82)           | 0              |
| <b>Total</b>                              | <b>(82)</b>    | <b>0</b>       |
| <b>Revenue Grants Receipts in Advance</b> |                |                |
| Grants over £1million:                    | (7,551)        | 0              |
| Total grants under £1million              | (1,827)        | (1,664)        |
| <b>Total</b>                              | <b>(9,379)</b> | <b>(1,664)</b> |

**Long Term Liabilities - Capital Grants Receipts in Advance**

|   | 2013/14        | 2014/15         |
|---|----------------|-----------------|
|   | £000           | £000            |
| <b>1. Government Grants and other contributions</b> |                |                 |
| Standards Fund                                      | (902)          | 0               |
| Other Grants and Contributions                      | (654)          | (2,751)         |
|   | (1,556)        | (2,751)         |
| <b>2. Section 106</b>                               | (6,642)        | (7,044)         |
| <b>3. Schools Capital Grants</b>                    | (675)          | (855)           |
| <b>Total</b>  | <b>(8,873)</b> | <b>(10,651)</b> |

## DEBTORS, CREDITORS AND CASH FLOWS

### 7. DEBTORS

| 31 March<br>2014<br>£000 |                                       | 31 March<br>2015<br>£000 |
|--------------------------|---------------------------------------|--------------------------|
|                          | <b>Long Term Debtors</b>              |                          |
| 847                      | Other Local Authorities               | 811                      |
| 6,916                    | Bodies external to general government | 7,423                    |
| <b>7,763</b>             | <b>Total Long Term Debtors</b>        | <b>8,234</b>             |
|                          | <b>Short Term Debtors</b>             |                          |
| 5,842                    | Central government bodies             | 8,956                    |
| 22,461                   | Bodies external to general government | 16,800                   |
| <b>28,303</b>            | <b>Total short term debtors</b>       | <b>25,756</b>            |
| <b>36,066</b>            | <b>Total Debtors</b>                  | <b>33,989</b>            |

#### Financial Instruments in Debtors

| 31 March<br>2014<br>Re-stated<br>£000 |                                       | 31 March<br>2015<br>£000 |
|---------------------------------------|---------------------------------------|--------------------------|
|                                       | <b>Long Term Debtors</b>              |                          |
| 846                                   | Other Local Authorities               | 811                      |
| 6,729                                 | Bodies external to general government | 7,033                    |
| <b>7,575</b>                          | <b>Total Long Term Debtors</b>        | <b>7,844</b>             |
|                                       | <b>Short Term Debtors</b>             |                          |
| 15,193                                | Bodies external to general government | 16,653                   |
| <b>15,193</b>                         | <b>Total short term debtors</b>       | <b>16,653</b>            |
| <b>22,768</b>                         | <b>Total Debtors</b>                  | <b>24,497</b>            |

2013/14 figures for financial instruments had included prepayments totalling £4.523m, within 'Bodies external to general government'. Prepayments should not be classified as financial instruments, however, and 13/14 figures have been restated accordingly.

## 8. CREDITORS

| 31 March 2014   |                                       | 31 March 2015   |
|-----------------|---------------------------------------|-----------------|
| £000            |                                       | £000            |
|                 | <b>Short Term Creditors</b>           |                 |
| (10,184)        | Central government bodies             | (3,452)         |
| (1,779)         | Other local authorities               | (1,454)         |
| (310)           | NHS bodies                            | (199)           |
| (49,184)        | Bodies external to general government | (50,949)        |
| <b>(61,457)</b> | <b>Total Short Term Creditors</b>     | <b>(56,054)</b> |

### Financial Instruments in Creditors

| 31 March 2014   |  | 31 March 2015   |
|-----------------|--|-----------------|
| £000            |  | £000            |
|                 | <b>Short Term Creditors</b>                                |                 |
| (310)           | NHS bodies   | (199)           |
| (41,027)        | Bodies external to general government                      | (41,088)        |
| (579)           | Other local authorities                                    | (686)           |
| <b>(41,916)</b> | <b>Total Financial Instruments in Short Term Creditors</b> | <b>(41,973)</b> |

## 9. FINANCIAL INSTRUMENTS

Financial Instruments are contractual arrangements for the transfer of cash and include all debtors and creditors arising other than from statutory requirements. They do not include debtors and creditors that arise through statutory requirements such as local taxes and government grants.

The authority is required to disclose the risks inherent in its usage of financial instruments in its treasury activities, their significance, and how they are managed (Note 10). The following tables show the location of financial instruments within the authority's accounts.

## Categories of Financial Instruments

|   | Long-term      |                | Current       |               |
|---|----------------|----------------|---------------|---------------|
|   | 31 March 2014  | 31 March 2015  | 31 March 2014 | 31 March 2015 |
|   | £000           | £000           | £000          | £000          |
| <b>Investments</b>                            |                |                |               |               |
| Loans and receivables                         | 5,000          | 13,000         | 75,202        | 73,422        |
| <b>Total investments</b>                      | <b>5,000</b>   | <b>13,000</b>  | <b>75,202</b> | <b>73,422</b> |
| <b>Debtors</b>                                |                |                |               |               |
| Loans and receivables                         | 6,634          | N/A            | 19,865        | N/A           |
| <b>Total debtors</b>                          | <b>6,634</b>   | <b>N/A</b>     | <b>19,865</b> | <b>N/A</b>    |
| <b>Borrowings</b>                             |                |                |               |               |
| Financial liabilities at amortised cost       | 116,976        | 116,976        | 1,170         | 13,069        |
| <b>Total borrowings</b>                       | <b>116,976</b> | <b>116,976</b> | <b>1,170</b>  | <b>13,069</b> |
| <b>Other Long Term Liabilities</b>            |                |                |               |               |
| PFI and Finance Lease LT Liabilities          | 35,201         | 34,099         | N/A           | N/A           |
| <b>Total other long term liabilities</b>      | <b>35,201</b>  | <b>34,099</b>  | <b>0</b>      | <b>0</b>      |
| <b>Short Term Creditors</b>                   |                |                |               |               |
| PFI and Finance Lease ST Liabilities          | N/A            | N/A            | 1,553         | 1,597         |
| Other Financial liabilities at amortised cost | N/A            | N/A            | 40,363        | 40,376        |
| <b>Total creditors</b>                        | <b>N/A</b>     | <b>N/A</b>     | <b>41,916</b> | <b>41,973</b> |

The authority's policy is to undertake its treasury activities within the scope of the CIPFA Code of Practice for Treasury Management. The Annual Treasury Strategy, reported to cabinet and the authority is developed with recognition of treasury risks, and includes Prudential Indicator limits for the overall amount of borrowing. The term (maturity) and fixed/variable interest rate characteristics of borrowing and investment are also considered. The Treasury Strategy report also proposes for the authority's approval, criteria for the minimum creditworthiness required for investment counter parties.



## Income, Expense, Gains and Losses

|  | 2013/14 Re-stated                                |   |                                      |  |                | 2014/15  |   |                                      |  |                |
|--|--|---|--------------------------------------|--|----------------|--|---|--------------------------------------|--|----------------|
|  | Financial Liabilities measured at amortised cost | Financial Assets: Loans and Receivables | Financial Assets: Available for sale | Assets and Liabilities at fair value through profit and loss | Total          | Financial Liabilities measured at amortised cost | Financial Assets: Loans and Receivables | Financial Assets: Available for sale | Assets and Liabilities at fair value through profit and loss | Total          |
|  | £000   | £000                                    | £000                                 | £000   | £000           | £000   | £000                                    | £000                                 | £000   | £000           |
| Interest Expense - Borrowings  | 6,707  | 0                                       | 0                                    | 0  | 6,707          | 6,687  | 0                                       | 0                                    | 0  | 6,687          |
| Interest Expense - Finance Leases  | 3,527  | 0                                       | 0                                    | 0  | 3,527          | 3,711  | 0                                       | 0                                    | 0  | 3,711          |
| Fee Expenses   | 10   | 0                                       | 0                                    | 0  | 10             | 19   | 0                                       | 0                                    | 0  | 19             |
| <b>Total Expenses in Surplus or Deficit on the Provision of Services</b> | <b>10,244</b>                                    | <b>0</b>                                | <b>0</b>                             | <b>0</b>   | <b>10,244</b>  | <b>10,417</b>                                    | <b>0</b>                                | <b>0</b>                             | <b>0</b>   | <b>10,417</b>  |
| Interest Income - Investments  | 0  | (790)                                   | 0                                    | 0  | (790)          | 0  | (842)                                   |                                      |  | (842)          |
| Interest Income - Finance Leases   |  | (677)                                   | 0                                    | 0  | (677)          | 0  | (710)                                   |                                      |  | (710)          |
| <b>Total income in Surplus or Deficit on the Provision of Services</b>   | <b>0</b>   | <b>(1,468)</b>                          | <b>0</b>                             | <b>0</b>   | <b>(1,468)</b> | <b>0</b>   | <b>(1,552)</b>                          | <b>0</b>                             | <b>0</b>   | <b>(1,552)</b> |
| <b>Net gain/loss for the year</b>  | <b>10,244</b>                                    | <b>(1,468)</b>                          | <b>0</b>                             | <b>0</b>   | <b>8,777</b>   | <b>10,417</b>                                    | <b>(1,552)</b>                          | <b>0</b>                             | <b>0</b>   | <b>8,865</b>   |

## Investments

All short and long term investments are in compliance with the council's investment policy.

| Investment Profile                      | 31 March 2014<br>£000 | 31 March 2015<br>£000 |  |
|---|-----------------------|-----------------------|--|
| Long term                               | 5,000                 | 13,000                |  |
| Short term                              | 75,000                | 73,100                |  |
| Accrued Investment Income               | 202                   | 322                   |  |
| <b>Total</b>                            | <b>80,202</b>         | <b>86,422</b>         |  |
| Investments - Movement in year          |                       | £000                  |  |
| <b>Investments at 1 April 2014</b>      |                       | <b>80,202</b>         |  |
| Change in investment managed internally |                       | 6,100                 |  |
| Change in accrued investment income     |                       | 120                   |  |
| <b>Investment at 31 March 2015</b>      |                       | <b>86,422</b>         |  |
| Long term investment (book value)       |                       | 13,019                |  |
| Short term investment (book value)      |                       | 73,403                |  |
|   | Book Value<br>£000    | Market Value<br>£000  | Unrealised<br>Profits/(Losses)<br>£000 |
| Managed Internally                      | 81,403                | 81,403                | 0                                      |
| Managed Externally                      | 5,019                 | 4,751                 | (268)                                  |
| <b>Total</b>                            | <b>86,422</b>         | <b>86,154</b>         | <b>(268)</b>                           |

## Fair Value of Assets and Liabilities

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

The fair value of the authority's investment portfolio is not materially different to the book value, which is disclosed in the above table.

In line with FRS25 and IFRS7 on Financial Instruments, the authority has calculated the fair value of its borrowing portfolio in the following table. The calculation of fair value involves estimating the premium payable on each loan if it were redeemed at year end, and adding this to the outstanding principal. All loans are at fixed rates and do not include derivatives, to which the authority is directly exposed. The authority is not able to package its debt as a marketable security and no adjustment is required to the book value of these loans on the balance sheet.

The methods and assumptions used in the valuation technique were:

- For other market debt, Net Present Value (NPV) methodology has been used, which provides an estimate of the value of future payments in today's terms. The discount rate used in the NPV calculation is

usually equal to the current rate in relation to the same instrument from a comparable lender and would be the rate applicable in the market on the date of valuation, for an instrument with the same duration date to maturity.

- For PWLB (Public Works Loan Body) debt, fair values as at 31<sup>st</sup> March 2015 published by PWLB have been used.

| Borrowing at source - Fair Value | 31 March 2014<br>£000 | 31 March 2015<br>£000 |
|----------------------------------|-----------------------|-----------------------|
| Public Works Loan Board          | 64,224                | 75,209                |
| Market Loan                      | 78,940                | 95,804                |
| Temporary Loan                   | 0                     | 11,911                |
| Stock Loan                       | 2,605                 | 2,463                 |
| <b>Total</b>                     | <b>145,769</b>        | <b>185,387</b>        |

| Borrowing - Maturity Profile | 31 March 2014<br>£000 | 31 March 2015<br>£000 |
|------------------------------|-----------------------|-----------------------|
| Less than 1 year             | 0                     | 11,910                |
| Between 1 and 2 years        | 0                     | 0                     |
| Between 2 and 5 years        | 3,966                 | 3,966                 |
| Between 5 and 10 years       | 4,310                 | 30,510                |
| More than 10 years           | 108,700               | 82,500                |
| Total over 1 year            | <b>116,976</b>        | <b>116,976</b>        |
| <b>Total Borrowings</b>      | <b>116,976</b>        | <b>128,886</b>        |
| Accrued Interest             | 1,170                 | 1,159                 |
|                              | <b>118,146</b>        | <b>130,045</b>        |

Balance Sheet figures are based upon the maturity profile of borrowings.

## 10. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Credit Risk

Credit risk arises in the lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the authority's customers.

### Lending and Investments

In the case of lending/investing surplus funds, risk is minimised through the authority's credit policy that seeks to ensure that invested funds (deposits) are at relatively low risk of deposit-taker default. The policy sets a minimum level of creditworthiness for deposits in individual financial institutions, assessed by

reference to data from commercial credit rating agencies and credit default swap data. The minimum credit criteria for 2014/15 were as follows:

| Category                            | Fitch | Moody's | Standard & Poor's | Definition                                     |
|-------------------------------------|-------|---------|-------------------|--|
| <b>Banks and Building Societies</b> |       |         |                   |  |
| Short Term                          | F1    | P-1     | A-1               | Highest Credit Quality on a 12 month view      |
| Long Term                           | A-    | A3      | A-1               | Very low expectation of credit risk developing |
| Viability/Rating                    | bbb+  | c-      | n/a               | Adequate Institution with limited weakness     |
| Support                             | 1     | n/a     | n/a               | Expectation of Central Government Support      |
| Money Market Funds                  | AAAmf | Aaa-mf  | AAAm              |  |

In addition to deposits in higher rated deposit-takers, the authority may use an AAA rated Money Market Fund, (which spreads risk taking across deposit takers), and may also place deposits in UK public sector institutions, such as local authorities. At 31<sup>st</sup> March 2015 the disposition of investments was:

| Category                             | £000          | %              | Spread (number of counterparties) | Fitch Rating |
|--------------------------------------|---------------|----------------|-----------------------------------|--------------|
| UK Clearing Banks                    | 39,300        | 45.64%         | 2                                 | A, F1, a-,1  |
| UK Building Society                  | 18,800        | 21.84%         | 1                                 | A, F1, a,1   |
| Local Authority Pooled Property Fund | 23,000        | 26.71%         | 7                                 | n/a          |
|                                      | 5,000         | 5.81%          | 1                                 | n/a          |
| <b>Total</b>                         | <b>86,100</b> | <b>100.00%</b> | <b>11</b>                         |              |

A high credit standard increases concentration of deposits in fewer institutions than would ideally be the case. However, it is considered that in prevailing market circumstances high credit quality is crucial, and outweighs the alternative of a wider spread of deposits across less well-rated counterparties. As and when credit ratings allow, efforts will be made to spread investment across additional deposit-takers.

#### Current Deposits and Trade Debtors

No losses or impairments were incurred in 2014/15, nor are expected for the duration of current deposits. The authority does not generally allow credit for customers. The authority's maximum potential exposure to credit risk is with trade debtors, which are reviewed individually to assess risk of default and need for a provision. Factors taken into account in the assessment include the stability of the organisation, the size of the debt, the age of the debt and what, if any, security such as a charge on property has been provided. The past-due amount of trade debts can be analysed by age as follows:

|                | 31 March<br>2014 | 31 March<br>2015 |
|----------------|------------------|------------------|
|                | £000             | £000             |
| < 3 months     | 5,067            | 8,526            |
| 3 to 12 months | 2,417            | 1,731            |
| > 1 year       | 3,554            | 3,902            |
| <b>Total</b>   | <b>11,038</b>    | <b>14,159</b>    |

### Cash

The authority's cash balances are held in UK Clearing banks and when the balance is significant, deposits are spread across a number of institutions to reduce risk.

The authority's maximum potential exposure to credit risk is with its trade debtors for which prudent provision has been made.

### **Liquidity Risk**

The authority's ability to pay its financial commitments as and when due is supported by substantial resources. It plans a balanced annual budget that provides sufficient revenue to cover annual expenditure, and has access to borrowings from the Money Markets and the Public Works Loans Board.

The maturity profile is designed to limit the consequence of significant amounts of finance being required when market conditions are difficult or expensive. The maturity analysis of financial liabilities is set out in the following table:

|                 | 31 March 2014  |             | 31 March 2015  |             |
|-----------------|----------------|-------------|----------------|-------------|
|                 | £000           | %           | £000           | %           |
| Under 12 months | 0              | 0.0%        | 11,910         | 9.2%        |
| 1yr to 2yrs     | 0              | 0.0%        | 0              | 0.0%        |
| 2yrs to 5yrs    | 3,966          | 3.4%        | 3,966          | 3.1%        |
| 5yrs to 10yrs   | 4,310          | 3.7%        | 30,510         | 23.7%       |
| 10yrs and over  | 108,700        | 92.9%       | 82,500         | 64.0%       |
| <b>Total</b>    | <b>116,976</b> | <b>100%</b> | <b>128,886</b> | <b>100%</b> |

The above represents the nominal exposure to debt maturities, but some Lenders Option (LOBO) debt allows the Lender to prompt a repayment by requesting an interest rate change that is unacceptable to the authority. The risk of this occurring is limited by the current rate of interest on such debt, which is higher than current and forecast levels. The authority is therefore not exposed to immediate refinancing risk. In addition, if redemption were required, the authority has adequate resources to finance it, and its occurrence would currently offer the prospect of cost saving.



| LOBO debt Option exposure when market rates in range of: | Prospectively repayable / requiring Re-finance<br>£000 | Proportion of total debt<br>% |
|--|--|-------------------------------|
| 4.00 - 4.99%   | 5,000  | 3.9                           |
| 5.00 - 5.99%   | 34,000   | 26.4                          |
| 6.00 - 6.99%   | 15,500   | 12.0                          |
| 7.00 - 7.99%   | 2,000  | 1.6                           |
| 8.00 - 8.99%   | 6,500  | 5.0                           |

None of the above debt is reasonably in prospect of option exercise. Liquidity is supported by the significant funds the authority has under short-term cash investment. Fixed interest rate deposits (investments) are placed in maturities that balance the need to support liquidity for day-to-day cash flow needs with the spreading of investments over a range of periods to optimise investment return.

At 31<sup>st</sup> March 2015 the sources of potential borrowing appear unimpaired, and the maturity profile of investments, available to support liquidity going forward, is as follows:

|                             | £000          | %            |
|-----------------------------|---------------|--------------|
| April to June 2015          | 9,500         | 11.0         |
| July to September 2015      | 25,550        | 29.7         |
| October to December 2015    | 32,950        | 38.3         |
| January 2016 to March 2016  | 5,100         | 5.9          |
| April 2016 to June 2016     | 0             | 0.0          |
| June 2016 to September 2016 | 8,000         | 9.3          |
| October 2016 and over       | 5,000         | 5.8          |
|                             | <b>86,100</b> | <b>100.0</b> |

Given the resources available, the authority did not experience any significant liquidity problems in 2014/15 and does not anticipate any for 2015/16.

### Interest Rate Risk

The authority is exposed to interest rate movements on its borrowings and investments as follows:

- Borrowing at variable rates – the interest expense charged to the Income and Expenditure Account will rise or fall.
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise or fall accordingly.
- Borrowing at fixed rates – the fair value of the borrowing liability will fall if market rates rise and increase if they fall.
- Investments at fixed rates – the fair value of the assets will fall if rates rise and increase if rates fall.

If market interest rates move by 0.5% and 1.0%, with other variables held constant, the financial effect on the portfolio is estimated to be:

|                     | 2014/15<br>£000 | 0.5%<br>£000 | 1.0%<br>£000 | Mitigation  |
|---------------------|-----------------|--------------|--------------|---|
| Borrowings          | 128,886         | 285          | 570          | In the short term, a 0.5% or 1.0% rise in market interest rate is unlikely to have any impact on the existing debt portfolio because of the LOBO rates in the portfolio. On the other hand, should a 0.5% or 1.0% change in market interest rate be translated directly into a corresponding increase in investment rates, the existing investment portfolio will be affected to the extent by which the council is locked into its investments until maturity. A premium will be payable to unwind the fixed deposits. |
| Investment Deposits | (86,100)        | (129)        | (258)        |   |
| Impact on CIES      | N/A             | 156          | 312          |   |

### Borrowings

The authority's portfolio of borrowings is effectively on long-term fixed rates, and the consequence of exposure to short-term rate movements is very limited. Prudential Indicators, incorporated into Treasury Strategy, set limits to control exposure to this prospective risk and the policy of maintaining a spread of transaction maturities over time acts to average and moderate the consequences of interest rate movements.

### **Prudential Indicator Limits**

| Maximum % exposure to: | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|------------------------|---------|---------|---------|---------|
| Fixed rates            | 100     | 100     | 100     | 100     |
| Variable rates         | 50      | 50      | 50      | 50      |

At 31<sup>st</sup> March 2015 exposure to variable rates on borrowings is exclusively through future maturities and the risk of LOBO options being exercised. The prospect of the latter is currently not considered significant. The market risk is, therefore, through the spread of debt maturities, and an estimate of a possible financial consequence is shown in the following table. The prospective refinance rate is a normal level of Public Works Loans Board interest rate for long-term finance. This is considered an appropriate and cautious rate to use at present although this may change over time.

| Maturity in     | Actual at<br>31 March<br>2015<br>£000 | Current<br>average<br>interest<br>rate<br>% | Prospective<br>re-finance<br>rate<br>% | Margin<br>% | Effect<br>(Saving)<br>£000 pa |
|-----------------|---------------------------------------|---|--|-------------|-------------------------------|
| Under 12 months | 11,910                                | 0.4   | 0.4                                    | 0.0         | 0                             |
| 1 to 2 years    | 0                                     | 0.0   | 0.0                                    | 0.0         | 0                             |
| 2 to 5 years    | 3,966                                 | 9.6   | 0.6                                    | -9.0        | (134)                         |
| 5 to 10 years   | 30,510                                | 6.1   | 2.2                                    | -3.9        | (1,202)                       |
| 10 to 15 years  | 4,500                                 | 8.4   | 2.4                                    | -6.0        | (268)                         |
| 15 to 20 years  | 1,000                                 | 4.3   | 2.7                                    | -1.6        | (16)                          |
| 20 to 25 years  | 11,500                                | 4.6   | 2.8                                    | -1.8        | (303)                         |
| 25 to 30 years  | 13,500                                | 6.6   | 2.9                                    | -3.7        | (501)                         |
| 30 to 35 years  | 0                                     | 0.0   | 0.0                                    | 0.0         | 0                             |
| 35 to 40 years  | 17,000                                | 5.3   | 2.9                                    | -2.4        | (413)                         |
| 40 to 45 years  | 15,000                                | 4.0   | 2.9                                    | -1.1        | (159)                         |
| 45 to 50 years  | 20,000                                | 5.0   | 2.9                                    | -2.2        | (431)                         |
|                 | <b>128,886</b>                        | <b>5.2</b>                                  | <b>2.4</b>                             | <b>-2.8</b> | <b>(3,427)</b>                |

At the currently forecast re-financing rate, which is considered reasonable in an environment where the Bank of England effects efficient control over inflation, re-financing is expected to be at lower cost.

### Investments

Investment strategy seeks to exploit the forecast trend in interest rates. If rates are expected to rise, then investments tend to be placed on variable rate terms or short fixed period to allow early re-investment at higher rates. If they are expected to fall, an extended fixed period will maintain income at a higher rate for longer. However, interest rate forecasts do not imply certainty, and optimising investment returns has to be balanced with the need to maintain adequate liquidity. Against this background a Prudential Indicator controls the balance between short-term investments, influenced by liquidity, and longer strategic investment.

|   | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---------|---------|---------|---------|
| Maximum investment over 1 year as percentage of total investments | 50%     | 50%     | 50%     | 50%     |

At 31<sup>st</sup> March 2015, the investment portfolio's exposure to interest rate change is set out in the following table. The effective reduction of income relative to the interest rates being earned on the portfolio at 31<sup>st</sup> March 2015 is calculated in proportion to the period in 2014/15 over which it would apply, (i.e. investments maturing in the 0-3 month period would be re-invested at lower rates for 3 months).



| Deposit Maturity in: | Actual at 31 March 2015<br>£000 | Current average interest rate % | Prospective re-finance rate at 31 March 2015 % | Margin %   | Reduction of income relative to 31 March 2015<br>£000 pa |
|----------------------|---------------------------------|---------------------------------|--|------------|--|
| 0-3 months           | 9,500                           | 0.7                             | 0.4  | 0.3        | 0  |
| 3-6 months           | 25,550                          | 0.9                             | 0.5  | 0.4        | 34   |
| 6-9 months           | 32,950                          | 0.9                             | 0.7  | 0.2        | 41   |
| 9-12 months          | 5,100                           | 0.9                             | 0.8  | 0.1        | 3  |
| over 12 months       | 13,000                          | 1.1                             | 0.9  | 0.1        | 19   |
|                      | <b>86,100</b>                   | <b>0.9</b>                      | <b>0.7</b>                                     | <b>0.2</b> | <b>97</b>  |

Note: Time deposits incur penalties if called before the end date, while the pooled property would incur selling fees.

### PFI Borrowing

The PFI loans or liabilities and rate of interest payable are derived from the unitary payment schedule with NewSchools and do not change.

### **Price Risk**

The authority, (excluding its Pension Fund, which is subject to separate reporting), does not currently invest in financial instruments that are subject to market price volatility. If this were to change then the treasury strategy would be developed to manage these risks.

### **Foreign Exchange Risk**

The authority has no financial assets or liabilities denominated in foreign currencies (other than in respect of its Pension Fund), and thus has no exposure to loss arising from movements in exchange rates.

## **11. PROVISIONS**

|                                       | Injury and damage compensation claims<br>£000 | Other provisions<br>£000 | Total<br>£000  |
|---------------------------------------|---|--------------------------|----------------|
| <b>Balance at 1 April 2014</b>        | (4,063)                                       | (2,739)                  | (6,802)        |
| Additional provisions made in 2014/15 | (1,393)                                       | (1,598)                  | (2,992)        |
| Amounts used in 2014/15               | 1,444   | 1,019                    | 2,462          |
| <b>Balance at 31 March 2015</b>       | <b>(4,013)</b>                                | <b>(3,319)</b>           | <b>(7,331)</b> |

### Outstanding Legal Cases

The authority is not involved in any legal cases other than those already disclosed as contingent liabilities.

### Injury and Damage Compensation Claims:

- **Insurance Fund £4.013m**

The authority, in line with most other authorities, self-insures for claims up to a certain value. As part of this it maintains an Insurance Fund to cover claims. The authority tops up the fund at year end, so it is maintained within the limits recommended by the authority's actuaries.

### Other Provisions:

- **Housing £0.234m**

As part of the stock transfer agreement made on 22 March 2010, the authority paid £1.85m to Merton Priory Homes in order for them to complete the 2009/10 capital programme. Due to health and safety and various design issues, the cost of the programme increased by £0.24m. The work has been completed and a provision of £0.343m was made for final settlement of this and other outstanding housing contracts. As at 31/03/2015, £0.234m remains in the provision for settlement of outstanding contracts.

- **Single Status £0.298m**

Single Status is a national agreement reached in 1997 aimed at modernising pay and rewards in Local Government. The agreement covers the introduction of a single job evaluation (JE) scheme for all Council workers, a standardised working week and a pay and grading review which recognises equal pay for work of equal value. A further national implementation agreement was reached in 2004 under which local authorities would complete and implement local pay reviews. In 2014/15, the authority made payments totalling £0.292m against the provision. The remaining £0.298m provision is the estimated outstanding liability for single status allowances.

- **PFI contribution refund £0.056m**

The Council has received a claim from an Academy school, totalling £0.056m, for the partial refund of past contributions made under the Council's PFI scheme (see Note 29). The authority considers it probable that settlement will be reached and has made a provision of £0.056m.

The Council has received similar claims from three other maintained schools, totalling £0.4m, where settlement is considered probable. However, as the three maintained schools are within the Council's single entity reporting boundary, no provision has been made. Instead, the Council has set aside funds for these three claims in an earmarked reserve (see Note 16).

- **NDR Appeals £2.730m**

The authority has a provision of £2.730m for its share of appeals against NDR (Business Rates) charges. At 31<sup>st</sup> March 2014, the provision had totalled £1.644m. During 2014/15, additional provision of £1.542m was made and

£0.456m charged against the provision. The increased provision at 31<sup>st</sup> March 2015 reflects an updated estimate of the potential effects of appeals and proposals that may be settled in future years.

Of the above provisions, those for single status and the PFI contribution refund commitment scheme are classified as current provisions, expected to fall due within one year of the balance sheet date. The remainder of the provisions, totalling £6.977m are long-term provisions, expected to fall due more than one year after the balance sheet date.

## 12. CONTINGENT LIABILITIES

### Local Land Charges

LB Merton, along with many local authorities in the country, is a defendant in proceedings brought by a group of Property Search Companies for the refund of fees paid to councils for access to land charges data. The Council faces approximate claims of £200,000 plus interest and costs. The Local Government Association is co-ordinating the claims and the proceedings have been adjourned to see if settlement can be reached. Central Government may be willing to assist with reimbursement through a New Burdens payment.

### Employment Disputes

There are five current employment disputes where compensation and/or costs are involved. One of the cases could result in a payment of up to £120,000. The maximum liability in respect of the other four is estimated to be £50,000. However, due to the inherent uncertainties surrounding their outcome, the Council has not made a provision for these in the accounts.

### Education

There are two Special Educational Needs Tribunal cases of note. In both cases, the parents seeking a private special school place, the combined cost of which is approximately £65,000 a year. The hearings have not yet taken place. Costs are not generally awarded in Tribunal cases.

Due to the inherent uncertainties surrounding their outcome, the Council has not made a provision for these in the accounts.

### Social Services

There is a pending judicial review costs appeals application in the High Court where the applicants are appealing a no costs order.

### Civil Litigation

A High Court appeal has been received regarding a tree preservation order. There is a two day hearing in July, with counsel instructed. If the Council loses and has to pay the other side's costs, this could total £20,000.

There is a two day magistrates court hearing scheduled for July, regarding charitable relief for business rates. Both parties have exchanged evidence and at present there is no likelihood of settlement. Whichever side loses may wish to take the matter to the High Court for an authoritative determination on a point of law. The Council

estimates that its maximum liability would be approximately £320,000, although some of the costs may be reclaimable from central government.

There is a potential judicial review regarding cuts to the adult social care budget, although this is at the Letter Before Claim stage and proceedings have not yet been issued. A member of the public is seeking to quash a Council decision regarding proposed cuts to the adult social care budget for 2015/16 to 2018/19. There is no prospect of settlement.

### **CHAS**

CHAS 2013 Ltd is a wholly owned subsidiary of the London Borough of Merton. It formerly operated as part of the Council as a trading account. It is the established market leader for health and safety pre-qualification in the UK.

A dispute has arisen, pre-dating the formation of CHAS 2013 Ltd, which may result in a damages claim and potential injunction against a third party, in respect of the use of the Council's registered trademark and name "CHAS Contractors Health & Safety Assessment Scheme".

The Council itself has been served a Letter Before Action claiming an unsubstantiated sum exceeding £720,000 plus legal costs, arising from a contract to provide CHAS client details to a third party, for it to sell insurance products to those CHAS customers. In response, the Council had served a formal response alleging cross contractual claims for unpaid commission and potential fraud against the third party. It is unclear whether the Council's claim will outweigh the third party's claim.

CHAS have instructed solicitors and proceedings have been deferred by the parties to see if this matter can be resolved out of court. A pre action protocol is being agreed. Neither claim is reflected in the accounts.

## **13. CONTINGENT ASSETS**

### **Proceeds of Crime Act 2002 (POCA)**

The Council has a POCA Order following an LBM trading standards prosecution of a betting scam. A confiscation order of £6.1m was made in May 2014, to be paid by 14<sup>th</sup> November 2014, of which the Council would receive 37.5%, less the costs of the financial investigator. Payment has not been forthcoming and the court is now considering applications for more time to pay.

The assets are "hidden" and consequently not identifiable.

## 14. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

| 31 March<br>2014<br>£000 |   | 31 March<br>2015<br>£000 |
|--------------------------|---|--------------------------|
| (182)                    | Main bank account                               | (252)                    |
| 976                      | Cash in transit (held by agents)                | 1,439                    |
| 21,869                   | Cash advanced to schools                        | 18,101                   |
| 51                       | Cash advanced to establishments (Cash imprests) | 36                       |
| <b>22,714</b>            | <b>Total Cash and Cash Equivalents</b>          | <b>19,324</b>            |

## 15. CASH FLOWS

### Cash Flow Statement - Operating Activities

| 2013/14<br>£000 |  | 2014/15<br>£000 |
|-----------------|--|-----------------|
| (37,319)        | Employee and running costs less income | 2,743           |
| (1,402)         | Interest received                      | (1,432)         |
| 7,190           | Interest paid                          | 6,699           |
| 3,527           | Interest element of finance lease      | 3,711           |
| <b>(28,004)</b> |  | <b>11,721</b>   |



## Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements

| 2013/14         |  | 2014/15         |
|-----------------|--|-----------------|
| £000            |  | £000            |
|                 | <b>Non Cash Movements</b>  |                 |
| (15,761)        | Depreciation   | (17,075)        |
| (18,408)        | Impairment & downward valuations   | (24,147)        |
| (606)           | Amortisation   | (693)           |
| (6,652)         | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (6,930)         |
| (9,290)         | Movement in Pension Liability  | (868)           |
| (5,331)         | (Increase)/decrease in provision for the impairment of bad debts                                 | 1,080           |
| (670)           | (Increase)/decrease in Provisions  | (529)           |
| <b>(56,718)</b> |  | <b>(49,163)</b> |
|                 | <b>Accruals Adjustments</b>  |                 |
| (31)            | Increase/(decrease) in Inventories   | (143)           |
| 2,145           | Increase/(decrease) in Debtors   | (3,156)         |
| 65              | Increase/(decrease) in Interest Debtors  | 120             |
| (8,653)         | (Increase)/decrease in Creditors   | 8,475           |
| 484             | (Increase)/decrease in Interest Creditors  | 11              |
| <b>(5,990)</b>  |  | <b>5,307</b>    |
|                 |  |                 |
| <b>(62,708)</b> | <b>Total</b>   | <b>(43,856)</b> |

## Cash Flow Statement - Investing Activities

| 2013/14       |  | 2014/15      |
|---------------|--|--------------|
| Re-stated     |  | £000         |
| £000          |  | £000         |
| 26,434        | Purchase of property, plant and equipment, investment property and intangible assets               | 31,389       |
| 455,875       | Purchase of short-term and long-term investments   | 442,320      |
| (3,320)       | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (4,870)      |
| (440,775)     | Proceeds from short-term and long-term investments   | (436,220)    |
| (15,582)      | Other receipts from investing activities   | (28,980)     |
| <b>22,632</b> | <b>Net cash flows from investing activities</b>  | <b>3,639</b> |

### Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities

| 2013/14       |  | 2014/15       |
|---------------|--|---------------|
| £000          |  | £000          |
| 3,320         | Proceeds from the sale of PP&E, investment property and intangible assets        | 4,870         |
| 16,292        | Any other items for which the cash effects are investing or financing cash flows | 27,183        |
| <b>19,612</b> | <b>Total</b>   | <b>32,053</b> |

### Cash Flow Statement - Financing Activities

| 2013/14      |   | 2014/15         |
|--------------|---|-----------------|
| £000         |   | £000            |
| (2,373)      | Other receipts from financing activities                  | (11,910)        |
| 1,103        | Cash payments for the reduction of finance leases (PFI)   | (1,347)         |
| 8,000        | Repayment of short- and long-term borrowing               | 0               |
| 10           | Cash payments for the reduction of finance leases (Other) | 1,270           |
| 0            | Other payments  | 19              |
| <b>6,740</b> | <b>Net cash flows from investing activities</b>           | <b>(11,969)</b> |

## RESERVES

### 16. USABLE RESERVES

| Usable Reserves  | Balance at<br>31 March<br>2013<br>£000 | Transfers<br>out<br>2013/14<br>£000 | Transfers<br>in<br>2013/14<br>£000 | Balance at<br>31 March<br>2014<br>£000 | Transfers<br>out<br>2014/15<br>£000 | Transfers<br>in<br>2014/15<br>£000 | Balance at<br>31 March<br>2015<br>£000 |
|--|--|-------------------------------------|------------------------------------|--|-------------------------------------|------------------------------------|--|
| <b>General Fund:</b>                                     |  |                                     |                                    |  |                                     |                                    |  |
| Balances held by schools<br>under a scheme of delegation | (11,674)                               | 598                                 | (1,014)                            | (12,090)                               | 3,593                               | (37)                               | (8,534)                                |
| General Fund Balances                                    | (18,838)                               | 0                                   | 0                                  | (18,838)                               | 3,686                               | 0                                  | (15,152)                               |
| Earmarked reserves                                       | (48,300)                               | 4,605                               | (6,197)                            | (49,892)                               | 11,836                              | (5,833)                            | (43,889)                               |
| <b>Total General Fund</b>                                | <b>(78,812)</b>                        | <b>5,203</b>                        | <b>(7,211)</b>                     | <b>(80,820)</b>                        | <b>19,116</b>                       | <b>(5,870)</b>                     | <b>(67,575)</b>                        |
| <b>Capital:</b>  |  |                                     |                                    |  |                                     |                                    |  |
| Capital Receipts Reserves                                | (22,752)                               | 600                                 | (3,905)                            | (26,058)                               | 138                                 | (5,344)                            | (31,264)                               |
| Capital Grants Unapplied                                 | (4,393)                                | 2,162                               | (5,945)                            | (8,176)                                | 3,329                               | (868)                              | (5,715)                                |
| <b>Total Capital</b>                                     | <b>(27,145)</b>                        | <b>2,762</b>                        | <b>(9,850)</b>                     | <b>(34,234)</b>                        | <b>3,467</b>                        | <b>(6,212)</b>                     | <b>(36,979)</b>                        |
| <b>Total Usable Reserves</b>                             | <b>(105,957)</b>                       | <b>7,965</b>                        | <b>(17,061)</b>                    | <b>(115,054)</b>                       | <b>22,583</b>                       | <b>(12,083)</b>                    | <b>(104,554)</b>                       |



## Transfers to/from Earmarked Reserves

| Reserve   | Balance at<br>31st March<br>2013 | Net Transfer<br>to/from<br>Reserve | Balance at<br>31st March<br>2014 | Net<br>Transfer<br>to/from<br>Reserve | Balance at<br>31st March<br>2015 |
|---|----------------------------------|------------------------------------|----------------------------------|---------------------------------------|----------------------------------|
|   | £000                             | £000                               | £000                             | £000                                  | £000                             |
| Outstanding Council Programme Board                       | (9,789)                          | (1,317)                            | (11,105)                         | 1,590                                 | (9,515)                          |
| For use in future years' budgets                          | (9,752)                          | 1,500                              | (8,252)                          | 2,500                                 | (5,752)                          |
| Revenue Reserve for Capital/Revenuisation                 | (4,269)                          | (1,091)                            | (5,360)                          | (702)                                 | (6,062)                          |
| Energy renewable reserve                                  | (1,441)                          | 0                                  | (1,441)                          | 0                                     | (1,441)                          |
| Repairs and Renewals Fund                                 | (1,424)                          | 0                                  | (1,424)                          | 0                                     | (1,424)                          |
| Transforming families reserve                             | (1,318)                          | 534                                | (784)                            | 370                                   | (414)                            |
| Pension Fund additional contribution                      | (1,078)                          | 0                                  | (1,078)                          | 1,015                                 | (63)                             |
| Local Land Charges  | (1,075)                          | (185)                              | (1,260)                          | (159)                                 | (1,419)                          |
| Apprenticeships   | (1,000)                          | 51                                 | (949)                            | 301                                   | (648)                            |
| Community Care Reserve                                    | (1,791)                          | 58                                 | (1,733)                          | 347                                   | (1,386)                          |
| Local Welfare Support Reserve                             | 0                                | (315)                              | (315)                            | (299)                                 | (614)                            |
| Performance Reward Grant                                  | (651)                            | 386                                | (265)                            | 265                                   | (0)                              |
| Economic Development Strategy                             | (623)                            | (698)                              | (1,322)                          | 173                                   | (1,148)                          |
| Governor Support Reserve                                  | 0                                | 0                                  | 0                                | (52)                                  | (52)                             |
| Wimbledon Tennis Courts Renewal                           | (27)                             | (25)                               | (52)                             | (25)                                  | (77)                             |
| Merton Action Single Homelessness                         | (50)                             | 0                                  | (50)                             | 50                                    | 0                                |
| Corporate Services Reserves                               | (249)                            | 67                                 | (182)                            | 0                                     | (182)                            |
| Used or eliminated reserves                               | (7)                              | 7                                  | 0                                | 0                                     | 0                                |
| <b>Sub total earmarked reserves</b>                       | <b>(34,544)</b>                  | <b>(1,029)</b>                     | <b>(35,573)</b>                  | <b>5,376</b>                          | <b>(30,197)</b>                  |
| Adult social care contributions                           | (1,482)                          | 812                                | (670)                            | 245                                   | (425)                            |
| Culture & Environment contributions                       | (931)                            | (273)                              | (1,204)                          | 757                                   | (447)                            |
| Culture & Environment Grants                              | (852)                            | 105                                | (747)                            | 384                                   | (363)                            |
| Childrens & Education Grants                              | (780)                            | 72                                 | (708)                            | 58                                    | (650)                            |
| Adult social care Grants                                  | (101)                            | 101                                | 0                                | 0                                     | 0                                |
| Housing planning development Grants                       | (345)                            | 46                                 | (299)                            | 110                                   | (190)                            |
| Housing GF Grants   | (106)                            | 0                                  | (106)                            | 0                                     | (106)                            |
| Public Health Grant Reserve                               | 0                                | (1,664)                            | (1,664)                          | 510                                   | (1,154)                          |
| <b>Sub total IFRS earmarked reserves</b>                  | <b>(4,597)</b>                   | <b>(801)</b>                       | <b>(5,398)</b>                   | <b>2,063</b>                          | <b>(3,335)</b>                   |
| Insurance reserves  | (1,954)                          | 0                                  | (1,954)                          | 0                                     | (1,954)                          |
| <b>Sub total fixed to contract reserve</b>                | <b>(1,954)</b>                   | <b>0</b>                           | <b>(1,954)</b>                   | <b>0</b>                              | <b>(1,954)</b>                   |
| DSG Reserve   | (2,378)                          | (350)                              | (2,728)                          | (857)                                 | (3,585)                          |
| Probable refund of school PFI contributions (see Note 11) | 0                                | 0                                  | 0                                | (400)                                 | (400)                            |
| Schools Reserve   | (1,060)                          | 892                                | (168)                            | 116                                   | (52)                             |
| Schools PFI Fund  | (3,767)                          | (304)                              | (4,071)                          | (295)                                 | (4,366)                          |
| <b>Sub total Schools reserves</b>                         | <b>(7,205)</b>                   | <b>238</b>                         | <b>(6,967)</b>                   | <b>(1,436)</b>                        | <b>(8,403)</b>                   |
| <b>Grand Total</b>  | <b>(48,300)</b>                  | <b>(1,592)</b>                     | <b>(49,893)</b>                  | <b>6,004</b>                          | <b>(43,889)</b>                  |

## 17. UNUSABLE RESERVES

| 31 March<br>2014 |                                    | 31 March<br>2015 |
|------------------|------------------------------------|------------------|
| £000             |                                    | £000             |
| (71,054)         | Revaluation Reserve                | (73,934)         |
| (167,021)        | Capital Adjustment Account         | (161,566)        |
| 224,327          | Pensions Reserve                   | 293,820          |
| (5,555)          | Deferred Capital Receipts Reserve  | (5,547)          |
| (3,814)          | Collection Fund Adjustment Account | (2,854)          |
| 3,989            | Accumulated Absences Account       | 3,616            |
| <b>(19,129)</b>  | <b>Total Unusable Reserves</b>     | <b>53,536</b>    |

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the London Borough of Merton arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. 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<sup>st</sup> 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.

|                 | 2013/14<br>£000   |  | 2014/15<br>£000 |
|-----------------|---|--|-----------------|
| (57,840)        | <b>Balance at 1 April</b>   |  | <b>(71,054)</b> |
| (26,670)        | Upward revaluation of assets  |  | (12,486)        |
| 11,048          | Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services     |  | 3,503           |
| (15,622)        | Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services |  | (8,984)         |
| 807             | Difference between fair value depreciation and historical cost depreciation   |  | 4,225           |
| 1,601           | Accumulated gains on assets sold or scrapped  |  | 1,879           |
| 2,408           | Amount written off to the Capital Adjustment Account  |  | 6,104           |
| <b>(71,054)</b> | <b>Balance at 31 March</b>  |  | <b>(73,934)</b> |

## Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the authority 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 authority. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

| 2013/14   |               |   | 2014/15  |                  |
|-----------|---------------|---|----------|------------------|
| £000      |               |   | £000     |                  |
| (178,620) |               | <b>Balance at 1 April</b>   |          | (167,021)        |
| (2,408)   |               | Amounts written out of the Revaluation Reserve  |          | (6,104)          |
|           |               | <b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</b>                        |          |                  |
| 15,761    |               | Charges for depreciation and impairment of non-current assets   | 17,075   |                  |
| 18,407    |               | Revaluation losses on Property, Plant and Equipment   | 24,147   |                  |
| 606       |               | Amortisation of intangible assets   | 693      |                  |
| 3,334     |               | Revenue expenditure funded from capital under statute   | 3,768    |                  |
| 6,652     |               | Amounts of non-current assets written off on disposal or sale as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement | 6,930    |                  |
| 0         |               | Other   | 5        |                  |
|           | 44,760        |   |          | 52,619           |
|           | <b>42,352</b> | <b>Net written out amount of the cost of non-current assets consumed in the year</b>  |          | <b>46,514</b>    |
|           |               | <b>Capital financing applied in the year:</b>   |          |                  |
| (600)     |               | Use of Capital Receipts Reserve to finance new capital expenditure  | (119)    |                  |
| (14,976)  |               | Application of grants and contributions to capital financing from the Capital Grants Unapplied Account  | (29,676) |                  |
| (8,815)   |               | Statutory provision for the financing of capital investment charged against the General Fund  | (9,137)  |                  |
| (6,421)   |               | Capital expenditure charged against the General Fund  | (2,327)  |                  |
|           | (30,812)      |   |          | (41,258)         |
|           | 59            | Loan Repayments   |          | 200              |
|           | (167,021)     | <b>Balance at 31 March</b>  |          | <b>(161,565)</b> |

## 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 authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed, as the authority 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 authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2013/14        |   | 2014/15        |
|----------------|---|----------------|
| £000           |   | £000           |
| <b>194,875</b> | <b>Balance at 1 April</b>   | <b>224,327</b> |
| 20,162         | Remeasurements of the net defined benefit liability/asset   | 68,625         |
| 26,245         | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit in the Provision of Services in the Comprehensive and Expenditure Statement | 29,093         |
| (16,955)       | Employer's pensions contributions and direct payments to pensioners payable in the year   | (28,225)       |
| <b>224,327</b> | <b>Balance at 31 March</b>  | <b>293,820</b> |

## Deferred Capital Receipts Reserve

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

| 2013/14<br>Restated<br>£000 |   | 2014/15<br>£000 |
|-----------------------------|---|-----------------|
| (5,338)                     | <b>Balance at 1 April</b>   | (5,555)         |
| (236)                       | Correction of balance relating to previous years  | 0               |
| 8                           | Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement | 9               |
| 11                          | Transfer to the Capital Receipts Reserve upon receipt of cash   | 0               |
| <b>(5,555)</b>              | <b>Balance at 31 March</b>  | <b>(5,547)</b>  |

## Collection Fund Adjustment Account

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

| 2013/14<br>£000 |  | 2014/15<br>£000 |
|-----------------|--|-----------------|
| (4,986)         | <b>Balance at 1 April</b>  | (3,814)         |
| 1,172           | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 960             |
| <b>(3,814)</b>  | <b>Balance at 31 March</b>   | <b>(2,854)</b>  |



### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31<sup>st</sup> March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2013/14<br>£000 |   | 2014/15<br>£000 |
|-----------------|---|-----------------|
| <b>4,052</b>    | <b>Balance at 1 April</b>   | <b>3,989</b>    |
| (4,052)         | Settlement or cancellation of accrual made at the end of the preceding year   | (3,989)         |
| <b>3,989</b>    | <b>Amount accrued at 31 March</b>   | <b>3,616</b>    |
| (63)            | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (373)           |
| <b>3,989</b>    | <b>Balance at 31 March</b>  | <b>3,616</b>    |

## 18. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

The following tables detail the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

2014/15

|  | Usable Reserves      |                           |                          | Movement in Unusable Reserves |
|--|----------------------|---------------------------|--------------------------|-------------------------------|
|  | General Fund Balance | Capital Receipts Reserves | Capital Grants Unapplied |                               |
|  | £000                 | £000                      | £000                     | £000                          |
| <b>Adjustments primarily involving the Capital Adjustment Account:</b>   |                      |                           |                          |                               |
| <u>Reversal of items debited or credited to the</u>  |                      |                           |                          |                               |
| <u>Comprehensive Income and Expenditure Statement:</u>   |                      |                           |                          |                               |
| Charges for depreciation and impairment of non current assets  | (17,075)             |                           |                          | 17,075                        |
| Revaluation losses on Property Plant and Equipment   | (24,147)             |                           |                          | 24,147                        |
| Amortisation of intangible assets  | (693)                |                           |                          | 693                           |
| Revenue expenditure funded from capital under statute  | (3,768)              |                           |                          | 3,768                         |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (6,930)              |                           |                          | 6,930                         |
| Other  | (5)                  |                           |                          | 5                             |
| <u>Insertion of items not debited or credited to the</u>   |                      |                           |                          |                               |
| <u>Comprehensive Income and Expenditure Statement:</u>   |                      |                           |                          |                               |
| Statutory provision for the financing of capital investment  | 9,137                |                           |                          | (9,137)                       |
| Capital expenditure charged against the General Fund balance   | 2,327                |                           |                          | (2,327)                       |
| Revaluation gains charged direct to Revaluation Reserve  |                      |                           |                          |                               |
| <b>Adjustments primarily involving the Capital Grant Unapplied Account:</b>  |                      |                           |                          |                               |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement  | 27,215               |                           | (1,725)                  | (25,490)                      |
| Application of grants to capital financing transferred to the Capital Adjustment Account   |                      |                           | 4,186                    | (4,186)                       |
| <b>Adjustments primarily involving the Capital Receipts Reserve:</b>   |                      |                           |                          |                               |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement                       | 5,144                | (5,144)                   |                          |                               |

|   | Usable Reserves      |                           |                          | Movement in Unusable Reserves |
|---|----------------------|---------------------------|--------------------------|-------------------------------|
|   | General Fund Balance | Capital Receipts Reserves | Capital Grants Unapplied |                               |
|   | £000                 | £000                      | £000                     | £000                          |
| Use of the Capital Receipts Reserve to finance new capital expenditure  |                      | 119                       |                          | (119)                         |
| Use of Capital Receipts Reserve to finance debt premium   |                      |                           |                          |                               |
| Contribution to Housing Pool  | (19)                 | 19                        |                          |                               |
| Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals  |                      |                           |                          |                               |
| receipt of cash   |                      |                           |                          |                               |
| Repayment of debt   |                      | (200)                     |                          | 200                           |
| <b>Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):</b>   |                      |                           |                          |                               |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement  | (9)                  |                           |                          | 9                             |
| Correction of balance relating to previous years  |                      |                           |                          |                               |
| <b>Adjustments involving the Pensions Reserve:</b>  |                      |                           |                          |                               |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)   | (29,093)             |                           |                          | 29,093                        |
| Employer's pensions contributions and direct payments to pensioners payable in the year   | 28,225               |                           |                          | (28,225)                      |
| <b>Adjustments involving the Collection Fund Adjustments Account:</b>   |                      |                           |                          |                               |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements                | (960)                |                           |                          | 960                           |
| <b>Adjustment involving the Accumulated Absences Account</b>  |                      |                           |                          |                               |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 373                  |                           |                          | (373)                         |
| <b>Total Adjustments</b>  | <b>(10,278)</b>      | <b>(5,206)</b>            | <b>2,461</b>             | <b>13,023</b>                 |



## 2013/14 Comparative figures

|  | Usable Reserves      |                           |                          | Movement in Unusable Reserves |
|--|----------------------|---------------------------|--------------------------|-------------------------------|
|  | General Fund Balance | Capital Receipts Reserves | Capital Grants Unapplied |                               |
|  | £000                 | £000                      | £000                     | £000                          |
| <b>Adjustments primarily involving the Capital Adjustment Account:</b>   |                      |                           |                          |                               |
| <u>Reversal of items debited or credited to the</u>  |                      |                           |                          |                               |
| <u>Comprehensive Income and Expenditure Statement:</u>   |                      |                           |                          |                               |
| Charges for depreciation and impairment of non current assets  | (15,761)             |                           |                          | 15,761                        |
| Revaluation losses on Property Plant and Equipment   | (18,407)             |                           |                          | 18,407                        |
| Amortisation of intangible assets  | (606)                |                           |                          | 606                           |
| Revenue expenditure funded from capital under statute  | (3,334)              |                           |                          | 3,334                         |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (6,651)              |                           |                          | 6,651                         |
| Other  | 0                    |                           |                          | 0                             |
| <u>Insertion of items not debited or credited to the</u>   |                      |                           |                          |                               |
| <u>Comprehensive Income and Expenditure Statement:</u>   |                      |                           |                          |                               |
| Statutory provision for the financing of capital investment  | 8,815                |                           |                          | (8,815)                       |
| Capital expenditure charged against the General Fund balance   | 6,421                |                           |                          | (6,421)                       |
| <b>Adjustments primarily involving the Capital Grant Unapplied Account:</b>  |                      |                           |                          |                               |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement  | 18,759               |                           | (5,945)                  | (12,814)                      |
| Application of grants to capital financing transferred from the Capital Grants Unapplied reserve to the Capital Adjustment Account                       |                      |                           | 2,162                    | (2,162)                       |
| <b>Adjustments primarily involving the Capital Receipts Reserve:</b>   |                      |                           |                          |                               |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement                       | 3,835                | (3,835)                   |                          |                               |

|  | Usable Reserves      |                           |                          | Movement in Unusable Reserves |
|--|----------------------|---------------------------|--------------------------|-------------------------------|
|  | General Fund Balance | Capital Receipts Reserves | Capital Grants Unapplied |                               |
|  | £000                 | £000                      | £000                     | £000                          |
| Use of the Capital Receipts Reserve to finance new capital expenditure   |                      | 600                       |                          | (600)                         |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash   |                      | (11)                      |                          | 11                            |
| Repayment of debt  |                      | (59)                      |                          | 59                            |
| <b>Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):</b>  |                      |                           |                          |                               |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement   | (8)                  |                           |                          | 8                             |
| Correction of balance relating to previous years   | 236                  |                           |                          | (236)                         |
| <b>Adjustments involving the Pensions Reserve:</b>   |                      |                           |                          |                               |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)  | (26,245)             |                           |                          | 26,245                        |
| Employer's pensions contributions and direct payments to pensioners payable in the year  | 16,955               |                           |                          | (16,955)                      |
| <b>Adjustments involving the Collection Fund Adjustments Account:</b>  |                      |                           |                          |                               |
| Amount by which council tax and NDR income credited to the Comprehensive Income and Expenditure Statement is different from council tax and NDR income calculated for the year in accordance with statutory requirements | (1,172)              |                           |                          | 1,172                         |
| <b>Adjustment involving the Accumulated Absences Account</b>   |                      |                           |                          |                               |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements  | 63                   |                           |                          | (63)                          |
| <b>Total Adjustments</b>   | <b>(17,100)</b>      | <b>(3,305)</b>            | <b>(3,783)</b>           | <b>24,188</b>                 |

## CAPITAL

### 19. PROPERTY, PLANT AND EQUIPMENT

#### Movements on Balances

#### Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Other Land and Buildings 20 - 50 years
- Vehicles, Plant, Furniture & Equipment 5 - 10 years
- Infrastructure 25 years

#### Amortisation

Intangible Assets are amortised over 5 years

#### Capital Commitments

As at 31<sup>st</sup> March 2015, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years totalling an estimated £34m. Similar commitments for 2014/15 were approximately £24m.

#### Effects of Changes in Estimates

There are no material changes to the basis of estimation.

|   | Other Land and Buildings<br>£000 | Vehicles, Plant, Furniture &<br>Equipment<br>£000 | Infrastructure Assets<br>£000 | Community Assets<br>£000 | Surplus Assets<br>£000 | Assets under construction<br>£000 | Total Property, Plant and<br>Equipment<br>£000 | PFI Assets Included in<br>Property, Plant and<br>Equipment<br>£000 |
|---|----------------------------------|---|-------------------------------|--------------------------|------------------------|-----------------------------------|--|--|
| <b>Cost or Valuation</b>  |                                  |   |                               |                          |                        |                                   |  |  |
| At 1 April 2014   | 332,461                          | 23,078  | 150,417                       | 0                        | 2,000                  | 7,884                             | 515,840  | 54,002   |
| Additions   | 22,382                           | 1,886   | 7,029                         | 1,199                    | 0                      | 358                               | 32,854   | 223  |
| Revaluation increase/(decreases)<br>recognised in the Revaluation Reserve                             | 1,647                            | 0   | 0                             | 0                        | 0                      | 0                                 | 1,647  | 1,572  |
| Revaluation increase/(decreases)<br>recognised in the Surplus/Deficit<br>on the Provision of Services | (22,811)                         | 0   | 0                             | (1,336)                  | 0                      | 0                                 | (24,147)                                       | (872)  |
| Derecognition - Disposals   | 0                                | (401)   | 0                             | 0                        | 0                      | 0                                 | (401)  | 0  |
| Derecognition - Other   | (5,690)                          | 0   | 0                             | 0                        | 0                      | 0                                 | (5,690)  | 0  |
| Recognition   | 983                              | 0   | 0                             | 0                        | 0                      | 0                                 | 983  | 0  |
| Assets reclassified (to)/from held for<br>Sale  | (7,899)                          | 0   | 0                             | 0                        | 0                      | 0                                 | (7,899)  | 0  |
| Completed assets under construction   | 7,884                            | 0   | 0                             | 0                        | 0                      | (7,884)                           | ()   | 0  |
| Other   | 0                                | (1,782)   | 0                             | 137                      | 0                      | 0                                 | (1,644)  | 2,370  |
| <b>At 31 March 2015</b>   | <b>328,956</b>                   | <b>22,782</b>                                     | <b>157,446</b>                | <b>0</b>                 | <b>2,000</b>           | <b>358</b>                        | <b>511,542</b>                                 | <b>57,295</b>  |
| <b>Accumulated Depreciation and<br/>Impairment</b>  |                                  |   |                               |                          |                        |                                   |  |  |
| At 1 April 2014   | 2,436                            | 10,796  | 55,607                        | 0                        | 0                      | 0                                 | 68,839   | 2,446  |
| Depreciation Charge   | 7,702                            | 3,460   | 5,914                         | 0                        | 0                      | 0                                 | 17,075   | 1,185  |
| Depreciation written out to the Revaluation<br>Reserve  | (5,787)                          | 0   | 0                             | 0                        | 0                      | 0                                 | (5,787)  | (3,631)  |
| Derecognition - Disposals   | (163)                            | (129)   | 0                             | 0                        | 0                      | 0                                 | (293)  | 0  |
| Derecognition - Other   | (131)                            | 0   | 0                             | 0                        | 0                      | 0                                 | (131)  | 0  |
| Other changes   |                                  | (1,782)   | 0                             | 0                        | 0                      | 0                                 | (1,782)  | 0  |
| <b>At 31 March 2015</b>   | <b>4,056</b>                     | <b>12,345</b>                                     | <b>61,521</b>                 | <b>0</b>                 | <b>0</b>               | <b>0</b>                          | <b>77,922</b>                                  | <b>0</b>   |
| <b>Net Book Value</b>   |                                  |   |                               |                          |                        |                                   |  |  |
| At 31 March 2015  | <b>324,900</b>                   | <b>10,436</b>                                     | <b>95,925</b>                 | <b>0</b>                 | <b>2,000</b>           | <b>358</b>                        | <b>433,620</b>                                 | <b>57,295</b>  |
| At 31 March 2014  | <b>330,025</b>                   | <b>12,282</b>                                     | <b>94,809</b>                 | <b>0</b>                 | <b>2,000</b>           | <b>7,884</b>                      | <b>447,000</b>                                 | <b>51,557</b>  |

## Comparative Movements in 2013/14:

|   | Other Land and Buildings<br>£000 | Vehicles, Plant, Furniture & Equipment<br>£000 | Infrastructure Assets<br>£000 | Community Assets<br>£000 | Surplus Assets<br>£000 | Assets under construction<br>£000 | Total Property, Plant and Equipment<br>£000 | PFI Assets Included in Property, Plant and Equipment<br>£000 |
|---|----------------------------------|--|-------------------------------|--------------------------|------------------------|-----------------------------------|---|--|
| <b>Cost or Valuation</b>  |                                  |  |                               |                          |                        |                                   |   |  |
| At 1 April 2013   | 331,598                          | 21,926   | 143,307                       | 0                        | 2,000                  | 14,055                            | 512,886                                     | 53,340   |
| Additions   | 11,664                           | 1,775  | 7,082                         | 471                      | 0                      | 5,996                             | 26,988                                      | 0  |
| Revaluation increase/(decreases) recognised in the Revaluation Reserve                          | 1,996                            | 0  | 0                             | 0                        | 0                      | 0                                 | 1,996                                       | 897  |
| Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (17,872)                         | 0  | 0                             | (536)                    | 0                      | 0                                 | (18,408)                                    | (235)  |
| Derecognition - Disposals   | (6,363)                          | (165)  | 0                             | 0                        | 0                      | 0                                 | (6,528)                                     | 0  |
| Derecognition - Other   | (360)                            | (458)  | 0                             | 0                        | 0                      | 0                                 | (818)                                       | 0  |
| Recognition   |                                  |  |                               |                          |                        |                                   | 0   | 0  |
| Completed assets under construction   | 11,867                           | 0  | 28                            | 0                        | 0                      | (11,895)                          | 0   | 0  |
| Other   | (69)                             | 0  | 0                             | 65                       | 0                      | (272)                             | (276)                                       | 0  |
| <b>At 31 March 2014</b>   | <b>332,461</b>                   | <b>23,078</b>                                  | <b>150,417</b>                | <b>0</b>                 | <b>2,000</b>           | <b>7,884</b>                      | <b>515,840</b>                              | <b>54,002</b>  |
| <b>Accumulated Depreciation and Impairment</b>  |                                  |  |                               |                          |                        |                                   |   |  |
| At 1 April 2013   | 9,639                            | 7,800  | 49,957                        | 0                        | 0                      | 0                                 | 67,397                                      | 2,056  |
| Depreciation Charge   | 6,518                            | 3,595  | 5,651                         | 0                        | 0                      | 0                                 | 15,764                                      | 1,034  |
| Depreciation written out to the Revaluation Reserve   | (13,626)                         | 0  | 0                             | 0                        | 0                      | 0                                 | (13,626)                                    | (644)  |
| Derecognition - Disposals   | (81)                             | (142)  | 0                             | 0                        | 0                      | 0                                 | (223)                                       | 0  |
| Derecognition - Other   | (14)                             | (457)  | 0                             | 0                        | 0                      | 0                                 | (471)                                       | 0  |
| Other changes   | 0                                | 0  | 0                             | 0                        | 0                      | 0                                 | 0   | 0  |
| <b>At 31 March 2014</b>   | <b>2,436</b>                     | <b>10,796</b>                                  | <b>55,608</b>                 | <b>0</b>                 | <b>0</b>               | <b>0</b>                          | <b>68,841</b>                               | <b>2,446</b>   |
| <b>Net Book Value</b>   |                                  |  |                               |                          |                        |                                   |   |  |
| At 31 March 2014  | 330,025                          | 12,282   | 94,809                        | 0                        | 2,000                  | 7,884                             | 447,000                                     | 51,557   |
| At 31 March 2013  | 321,959                          | 14,126   | 93,350                        | 0                        | 2,000                  | 14,055                            | 445,489                                     | 51,285   |

## 20. INVESTMENT PROPERTIES

At 31<sup>st</sup> March 2015, the Council did not hold any investment properties.

## 21. INTANGIBLE ASSETS

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the London Borough of Merton. The useful life assigned to the major software suites used by the London Borough of Merton is 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.693m charged to revenue in 2014/15 (£0.607m in 2013/14) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

|   | 2013/14                   | 2014/15                   |
|---|---------------------------|---------------------------|
|   | Intangible Assets<br>£000 | Intangible Assets<br>£000 |
| <b>Balance at start of year:</b>            |                           |                           |
| Gross carrying amounts                      | 3,324                     | 4,027                     |
| Accumulated amortisation                    | (1,524)                   | (2,131)                   |
| <b>Net carrying amount at start of year</b> | <b>1,800</b>              | <b>1,896</b>              |
| <b>Additions:</b>                           |                           |                           |
| Purchases                                   | 703                       | 436                       |
| Amortisation for the period                 | (607)                     | (693)                     |
| <b>Net carrying amount at end of year</b>   | <b>1,896</b>              | <b>1,639</b>              |
| <b>Comprising:</b>                          |                           |                           |
| Gross carrying amounts                      | 4,027                     | 4,463                     |
| Accumulated amortisation                    | (2,131)                   | (2,824)                   |
|   | <b>1,896</b>              | <b>1,639</b>              |

## 22. HERITAGE ASSETS

The authority's collection of Heritage Assets consists of Regalia and Art. Much of the art is on display within the Civic Centre and Libraries. The Regalia is not generally accessible other than when in use and the higher value items are stored securely. All Heritage Assets are held on the Balance Sheet at insurance value, which is based on market values. The valuations were carried out during 2011/12 by qualified external valuers, Webb Valuations Fine Art Ltd, who specialise in Fine Art and Jewellery. There are four items within the Art collection and six items within the Regalia with a valuation of £20,000 or above. The highest value item is the Chain of Office of the Mayor of the former Borough of Wimbledon, which has been valued at £84,000.

The following table shows the carrying value of Heritage Assets held by the authority at the Balance Sheet date:

|                          | Art<br>Collection<br>£000 | Regalia &<br>Ceremonial<br>£000 | Total<br>Assets<br>£000 |
|--------------------------|---------------------------|---------------------------------|-------------------------|
| <b>Cost or Valuation</b> |                           |                                 |                         |
| 31 March 2011            | 197                       | 472                             | 669                     |
| 31 March 2012            | 197                       | 472                             | 669                     |
| 31 March 2013            | 197                       | 472                             | 669                     |
| 31 March 2014            | 197                       | 472                             | 669                     |
| 31 March 2015            | 197                       | 472                             | 669                     |



### 23. ASSETS HELD FOR SALE

|   | Non Current     |                 |
|---|-----------------|-----------------|
|   | 2013/14<br>£000 | 2014/15<br>£000 |
| <b>Balance outstanding at start of year</b>                                     | <b>231</b>      | <b>231</b>      |
| The balance related to Eastfields Road property, which was sold during 2014/15. |                 | (231)           |
| <b>Balance outstanding at year end</b>  | <b>231</b>      | <b>0</b>        |

|  | Current         |                 |
|--|-----------------|-----------------|
|  | 2013/14<br>£000 | 2014/15<br>£000 |
| <b>Balance outstanding at start of year</b>  | <b>0</b>        | <b>0</b>        |
| Recognition  | 0               | 425             |
| Assets reclassified (to)/from Other Land & Building  | 0               | 7,899           |
| Assets reclassified (to)/from Non Current Asset Held for Sale  | 0               | 231             |
| Derecognition - Disposals  | 0               | (1,267)         |
| The balance relates to property, plant and equipment- Car Parks at Wimbledon and Sibthorpe Road to be sold to developer. |                 |                 |
| <b>Balance outstanding at year end</b>   | <b>0</b>        | <b>7,288</b>    |

### 24. IMPAIRMENT LOSSES

The authority carried out an impairment review in 2014/15, the result of which was that there were no impairment losses recognised in 2014/15.

### 25. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), 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 London Borough of Merton, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the London Borough of Merton that has yet to be financed. The CFR is analysed in the following table:

|   | 2013/14        | 2014/15        |
|---|----------------|----------------|
|   | £000           | £000           |
| <b>Opening Capital Financing Requirement</b>  | 213,525        | 214,060        |
| <b>Capital Investment</b>   |                |                |
| Property, Plant and Equipment   | 26,987         | 32,854         |
| Intangible Assets   | 703            | 437            |
| Revenue Expenditure Funded from Capital Under Statute                                     | 3,334          | 3,768          |
| Loans to public sector organisations  | 600            | 59             |
| REFCUS Adjustment   | (277)          | 0              |
| <b>Sources of Finance</b>   |                |                |
| Capital receipts  | (600)          | (119)          |
| Government grants and other contributions   | (15,253)       | (29,676)       |
| REFCUS Adjustment   | 277            | 0              |
| <b>Sums set aside from revenue:</b>   |                |                |
| Direct revenue contributions  | (6,421)        | (2,327)        |
| MRP   | (8,815)        | (9,137)        |
| CFR Adjustment  | 0              | (2,094)        |
| <b>Closing Capital Financing Requirement</b>  | <b>214,060</b> | <b>207,826</b> |
| Increase in underlying need to borrowing (unsupported by government financial assistance) | 535            | (6,234)        |
| CFR Adjustment  | 0              | 2,094          |
| <b>Increase/(Decrease) in Capital Financing Requirement</b>                               | <b>535</b>     | <b>(4,141)</b> |

## 26. CAPITALISATION OF BORROWING COSTS

Borrowing costs are expensed as incurred and included in interest payable (Note 4).

## 27. LEASES

### Authority as Lessee

#### Finance Leases

In the past the Council has acquired a variety of assets, including operational buildings and IT equipment, under finance leases. The last such lease for IT equipment has now ended and current policy is not to enter into any more. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

| 31 March 2014<br>£000 |   | 31 March<br>2015<br>£000 |
|-----------------------|---|--------------------------|
| 2,616                 | Other Land and Buildings                    | 2,613                    |
| 59                    | Vehicles, Plant, Furniture and<br>Equipment | 48                       |
| <b>2,675</b>          | <b>Total</b>                                | <b>2,661</b>             |

The authority is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property acquired by the authority and finance costs that will be payable by the authority in future years while the liability remains outstanding.

The minimum lease payments are made up of the following amounts:

| 31 March 2014<br>£000 |   | 31 March<br>2015<br>£000 |
|-----------------------|---|--------------------------|
|                       | Finance lease liabilities (net present<br>value<br>minimum lease payments): |                          |
| 71                    | - current   | 140                      |
| 468                   | - non current   | 665                      |
| 1                     | Finance costs payable in future years                                       | 175                      |
| <b>540</b>            | <b>Total minimum lease payments</b>   | <b>980</b>               |

The minimum lease payments will be payable over the following periods:

|  | Minimum Lease Payments   |                          | Finance Lease Payments   |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
|  | 31 March<br>2014<br>£000 | 31 March<br>2015<br>£000 | 31 March<br>2014<br>£000 | 31 March<br>2015<br>£000 |
| Not later than one year                              | 72                       | 228                      | 71                       | 140                      |
| Later than one year and not later than<br>five years | 180                      | 483                      | 180                      | 397                      |
| Later than five years                                | 288                      | 269                      | 288                      | 268                      |
| <b>Total</b>   | <b>540</b>               | <b>980</b>               | <b>539</b>               | <b>805</b>               |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15 £0.064m contingent rents were payable by the authority (2013/14 £0.072m).

### Operating Leases

The authority has acquired Land, Buildings and Vehicles by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

| 31 March 2014<br>£000 |   | 31 March<br>2015<br>£000 |
|-----------------------|---|--------------------------|
| 172                   | Not later than one year                           | 205                      |
| 519                   | Later than one year and not later than five years | 736                      |
| 760                   | Later than five years                             | 1,265                    |
| <b>1,451</b>          | <b>Total</b>                                      | <b>2,206</b>             |

The expenditure charged to the Cultural, Environmental, Regulatory and Planning Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| 2013/14<br>£000 |                        | 2014/15<br>£000 |
|-----------------|------------------------|-----------------|
| 126             | Minimum lease payments | 172             |
| <b>126</b>      | <b>Total</b>           | <b>172</b>      |

### Authority as Lessor

#### Finance leases

The authority has leased out property at a number of sites across the borough on a finance lease basis. The authority has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the authority in future years whilst the debtor remains outstanding.

The gross investment is made up of the following:

| 31 March 2014 |   | 31 March 2015 |
|---------------|---|---------------|
| £000          |   | £000          |
|               | Finance lease debtor (net present value of minimum lease payments): |               |
| 10            | - current   | 10            |
| 5,340         | - non current   | 5,330         |
| 21,325        | Unearned finance income   | 21,015        |
| 2             | Unguaranteed residual value of property                             | 2             |
| <b>26,677</b> | <b>Gross investment in lease</b>                                    | <b>26,357</b> |

The gross investment in the lease and the minimum lease payments will be received over the following period:

|   | Gross investment in the Lease |               | Minimum Lease Payments |               |
|---|-------------------------------|---------------|------------------------|---------------|
|   | 31 March 2014                 | 31 March 2015 | 31 March 2014          | 31 March 2015 |
|   | £000                          | £000          | £000                   | £000          |
| Not later than one year                           | 338                           | 338           | 338                    | 338           |
| Later than one year and not later than five years | 1,357                         | 1,360         | 1,357                  | 1,360         |
| Later than five years                             | 24,982                        | 24,659        | 24,980                 | 24,657        |
| <b>Total</b>                                      | <b>26,677</b>                 | <b>26,357</b> | <b>26,675</b>          | <b>26,355</b> |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15, £0.346m contingent rents were receivable by the authority (£0.389m in 2013/14).

### Operating Leases

The authority leases out property and equipment under operating leases for the following purpose:

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

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

| 31 March 2014 |   | 31 March 2015 |
|---------------|---|---------------|
| £000          |   | £000          |
| 3,360         | Not later than one year                           | 3,225         |
| 10,650        | Later than one year and not later than five years | 9,830         |
| 31,205        | Later than five years                             | 28,874        |
| <b>45,215</b> |   | <b>41,929</b> |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

## SCHOOLS

### 28. DEDICATED SCHOOLS GRANT

The authority's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the Department for Children, Schools and Families. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2014/15 are as follows:

|   | Central Expenditure<br>£'000 | Individual Schools Budget<br>£'000 | Total Expenditure<br>£'000 |
|---|------------------------------|------------------------------------|----------------------------|
| Final DSG for 2014/15 before Academy recoupment       |                              |                                    | 137,407                    |
| Academy figure recouped for 2014/15                   |                              |                                    | (5,993)                    |
| Total DSG figure after Academy recoupment for 2014/15 |                              |                                    | 131,414                    |
| Plus: Brought forward from 2013/14                    |                              |                                    | 2,728                      |
| Less: Carry-forward to 2015/16 agreed in advance      |                              |                                    | (2,225)                    |
| Agreed initial budgeted distribution in 2014/15       | 16,919                       | 114,998                            | 131,917                    |
| <b>Final budgeted distribution for 2014/15</b>        | <b>16,919</b>                | <b>114,998</b>                     | <b>131,917</b>             |
| Less: Actual central expenditure                      | (17,222)                     |                                    | (17,222)                   |
| Less: Actual ISB deployed to schools                  |                              | (113,335)                          | (113,335)                  |
| Plus: Local authority contribution for 2014/15        | 0                            | 0                                  | 0                          |
| <b>Carry forward for 2015/16</b>                      | <b>(303)</b>                 | <b>1,663</b>                       | <b>1,360</b>               |
| Carry-forward to 2014/15 agreed in advance            |                              |                                    | 2,225                      |
| <b>Total carry forward 2014/15</b>                    |                              |                                    | <b>3,585</b>               |

The £3.585m balance is held in the DSG earmarked revenue reserve (see Note 16).

The following table shows a breakdown of the Authority's schools, by category, and the net surplus/(deficit) attributable to each.

| School Category         |           | 2013/14           |                              | 2014/15           |                              |
|-------------------------|-----------|-------------------|------------------------------|-------------------|------------------------------|
|                         |           | Number of Schools | Net surplus/ (deficit) £'000 | Number of Schools | Net surplus/ (deficit) £'000 |
| Maintained Schools      | Primary   | 32                | 6,410                        | 30                | 5,077                        |
|                         | Secondary | 2                 | 2,246                        | 2                 | 1,439                        |
| Voluntary Aided Schools | Primary   | 11                | 2,185                        | 11                | 1,265                        |
|                         | Secondary | 2                 | 131                          | 2                 | 183                          |
| Foundation              |           | 1                 | 489                          | 1                 | 133                          |
| Special Schools         |           | 4                 | 630                          | 4                 | 438                          |
| <b>Total</b>            |           | <b>52</b>         | <b>12,090</b>                | <b>50</b>         | <b>8,534</b>                 |



## 29. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

### Property, Plant and Equipment

The authority has a Private Finance Initiative (PFI) scheme under which six secondary schools were rebuilt by a PFI operator, NewSchools Ltd. Following a partial termination of the contract in 2006, two schools were transferred to academies. In 2013, a third school also became an academy, but remains within the PFI scheme. Under the PFI contract, which runs until 2030, NewSchools Ltd are contracted to provide soft services (caretaking and facilities maintenance) to the remaining three schools and one academy, in return for an annual payment. At the end of the arrangement, the authority will retain ownership of the school land and buildings.

### Value of Assets Held

The authority's accounts include school buildings constructed under the PFI scheme. In 2014/15, the school buildings were revalued upwards to £57.3m.

|                          | 31 March 2014 | 31 March 2015 |
|--------------------------|---------------|---------------|
|                          | £000          | £000          |
| Gross Value              | 54,002        | 57,295        |
| Accumulated Depreciation | (2,446)       | 0             |
| <b>Net</b>               | <b>51,556</b> | <b>57,295</b> |

### Value of Liabilities

The authority has two long term liabilities relating to the original PFI scheme of six schools. The first liability is in respect of the capital works on the two schools that became academies in 2006. The second liability is in respect of the capital works incurred on the remaining three schools and one academy within the PFI scheme.

|                                     | Capital<br>£000 | Interest<br>£000 | Services<br>£000 | Total<br>£000  |
|-------------------------------------|-----------------|------------------|------------------|----------------|
| Mar 2016                            | 1,457           | 3,494            | 3,845            | 8,796          |
| Mar 2017 - 2021                     | 8,236           | 17,891           | 22,279           | 48,405         |
| Mar 2022 - 2026                     | 11,289          | 16,838           | 26,147           | 54,273         |
| Mar 2027 - 2030                     | 13,752          | 16,637           | 23,068           | 53,457         |
| <b>Liability at 31st March 2015</b> | <b>34,734</b>   | <b>54,860</b>    | <b>75,339</b>    | <b>164,932</b> |
| <b>Liability at 31st March 2014</b> | <b>36,216</b>   | <b>58,326</b>    | <b>78,649</b>    | <b>173,190</b> |
| <b>Liability at 31st March 2013</b> | <b>37,286</b>   | <b>61,389</b>    | <b>81,914</b>    | <b>180,589</b> |

**Partial Termination**

|   | <b>Capital<br/>£000</b> | <b>Interest<br/>£000</b> | <b>Services<br/>£000</b> | <b>Total<br/>£000</b> |
|---|-------------------------|--------------------------|--------------------------|-----------------------|
| Mar 2016                                | 597                     | 1,062                    | 0                        | 1,659                 |
| Mar 2017 - 2021                         | 3,693                   | 4,602                    | 0                        | 8,295                 |
| Mar 2022 - 2026                         | 5,223                   | 3,072                    | 0                        | 8,295                 |
| Mar 2027 - 2030                         | 5,697                   | 939                      | 0                        | 6,636                 |
| <b>Liability at 31st<br/>March 2015</b> | <b>15,210</b>           | <b>9,675</b>             | <b>0</b>                 | <b>24,885</b>         |
|   |                         |                          |                          |                       |
| <b>Liability at 31st<br/>March 2014</b> | <b>15,767</b>           | <b>10,777</b>            | <b>0</b>                 | <b>26,544</b>         |
| <b>Liability at 31st<br/>March 2013</b> | <b>16,287</b>           | <b>11,916</b>            | <b>0</b>                 | <b>28,203</b>         |

**Three Schools and One Academy**

|   | <b>Capital<br/>£000</b> | <b>Interest incl.<br/>Contingent<br/>Rent<br/>£000</b> | <b>Services<br/>£000</b> | <b>Total<br/>£000</b> |
|---|-------------------------|--|--------------------------|-----------------------|
| Mar 2016                                | 860                     | 2,432  | 3,845                    | 7,137                 |
| Mar 2017 - 2021                         | 4,543                   | 13,289   | 22,279                   | 40,110                |
| Mar 2022 - 2026                         | 6,066                   | 13,766   | 26,147                   | 45,978                |
| Mar 2027 - 2030                         | 8,055                   | 15,698   | 23,068                   | 46,821                |
| <b>Liability at 31st<br/>March 2015</b> | <b>19,524</b>           | <b>45,185</b>  | <b>75,339</b>            | <b>140,047</b>        |
|   |                         |  |                          |                       |
| <b>Liability at 31st<br/>March 2014</b> | <b>20,449</b>           | <b>47,549</b>  | <b>78,649</b>            | <b>146,646</b>        |
| <b>Liability at 31st<br/>March 2013</b> | <b>20,999</b>           | <b>49,473</b>  | <b>81,914</b>            | <b>152,386</b>        |

## MEMBERS, OFFICERS AND RELATED PARTIES

### 30. MEMBERS' ALLOWANCES

The London Borough of Merton paid the following amounts to members of the authority during the year:

|              | 2013/14<br>£000 | 2014/15<br>£000 |
|--------------|-----------------|-----------------|
| Salaries     | 0               | 0               |
| Allowances   | 766             | 730             |
| Expenses     | 0               | 0               |
| <b>Total</b> | <b>766</b>      | <b>730</b>      |

### 31. OFFICERS' REMUNERATION

The following table shows the number of staff whose total remuneration, excluding pensions contribution but including gross salary, expense allowances, supplements, compensation for loss of office (i.e. redundancy) and benefits, exceed £50,000 in bands of £5,000.

Recent CIPFA guidance states that the disclosure should exclude all staff where the authority is not the employee i.e. teaching staff employed at voluntary aided and foundation schools. Therefore, 52 voluntary aided and foundation school employees have been excluded from 2014/15 figures and 45 voluntary aided and foundation school employees have been excluded in the restated 2013/14 figures.

| Remuneration Band<br>£ | 2013/14                       | 2013/14                    | 2014/15           | 2014/15        |
|------------------------|-------------------------------|----------------------------|-------------------|----------------|
|                        | Teaching<br>Staff<br>Restated | Other<br>Staff<br>Restated | Teaching<br>Staff | Other<br>Staff |
| 50,000 – 54,999        | 63                            | 41                         | 70                | 46             |
| 55,000 – 59,999        | 26                            | 23                         | 34                | 27             |
| 60,000 – 64,999        | 11                            | 14                         | 11                | 10             |
| 65,000 – 69,999        | 8                             | 5                          | 13                | 7              |
| 70,000 – 74,999        | 7                             | 18                         | 6                 | 17             |
| 75,000 – 79,999        | 7                             | 3                          | 7                 | 2              |
| 80,000 – 84,999        | 5                             | 2                          | 6                 | 4              |
| 85,000 – 89,999        | 2                             | 2                          | 3                 | 2              |
| 90,000 – 94,999        | 2                             | 3                          | 1                 | 0              |
| 95,000 – 99,999        | 0                             | 1                          | 0                 | 3              |
| 100,000 – 104,999      | 1                             | 0                          | 2                 | 0              |
| 105,000 – 109,999      | 1                             | 1                          | 0                 | 0              |
| 110,000 – 114,999      | 0                             | 0                          | 1                 | 0              |
| 115,000 – 119,999      | 1                             | 0                          | 0                 | 0              |
| 120,000 – 124,999      | 0                             | 0                          | 1                 | 1              |
| 125,000 – 129,999      | 0                             | 0                          | 0                 | 0              |
| 130,000 – 134,999      | 0                             | 0                          | 0                 | 0              |
| 135,000 – 139,999      | 0                             | 4                          | 0                 | 5              |
| 140,000 – 144,999      | 0                             | 0                          | 0                 | 0              |
| 145,000 – 149,999      | 0                             | 0                          | 0                 | 0              |
| 150,000 – 154,999      | 0                             | 0                          | 0                 | 0              |
| 155,000 – 159,999      | 0                             | 0                          | 0                 | 0              |
| 160,000 – 164,999      | 0                             | 0                          | 0                 | 0              |
| 165,000 – 169,999      | 0                             | 0                          | 0                 | 0              |
| 170,000 – 174,999      | 0                             | 0                          | 0                 | 0              |
| 175,000 – 179,999      | 0                             | 0                          | 0                 | 0              |
| 180,000 – 184,999      | 0                             | 0                          | 0                 | 0              |
| 185,000 – 189,999      | 0                             | 1                          | 0                 | 1              |
| <b>Total</b>           | <b>134</b>                    | <b>118</b>                 | <b>155</b>        | <b>125</b>     |

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below. In line with recent CIPFA guidance, 5 foundation school employees have been excluded from 2014/15 figures and one voluntary aided employee has been excluded in the restated 2013/14 figures.

| Exit package cost band<br>(including special<br>payments) | Number of<br>compulsory<br>redundancies |           | Number of other<br>departures agreed |           | Total number of<br>exit packages by<br>cost band |           | Total cost of exit<br>packages in each band |                  |
|---|---|-----------|--------------------------------------|-----------|--|-----------|---|------------------|
|   | 2013/14                                 | 2014/15   | 2013/14                              | 2014/15   | 2013/14  | 2014/15   | 2013/14<br>Restated                         | 2014/15          |
| £   |   |           | Restated                             |           |  |           | £   | £                |
| 0 - 20,000  | 21                                      | 48        | 26                                   | 15        | 47   | 63        | 358,554                                     | 400,409          |
| 20,001 - 40,000   | 4                                       | 11        | 10                                   | 7         | 14   | 18        | 390,909                                     | 494,960          |
| 40,001 - 60,000   | 1                                       | 2         | 3                                    | 1         | 4  | 3         | 187,732                                     | 157,939          |
| 60,001 - 100,000  | 0                                       | 0         | 0                                    | 1         | 0  | 1         | 0   | 100,000          |
| <b>TOTAL</b>  | <b>26</b>                               | <b>61</b> | <b>39</b>                            | <b>24</b> | <b>65</b>  | <b>85</b> | <b>937,195</b>                              | <b>1,153,308</b> |

In accordance with the Accounts and Audit Regulations, there is a legal requirement to increase transparency and accountability in Local Government for reporting the remuneration of senior employees.

- Senior employees whose salary is £150,000 or more per year must be identified by name
- Senior employees who meet the regulation's definition and whose salary is between £50,000 and £150,000 must be listed by job title. Current Directors have chosen to be named to aid transparency.

The following table provides this detail for 2014/15 and also the 2013/14 comparative year data with supporting sub-notes.

| 2014/15<br>Post holder information                              | Sub-<br>Notes | Remuneration<br>(Including<br>fees &<br>Allowances)<br>£ | Employer's<br>Pension<br>contributions<br>£ | Total<br>£ |
|---|---------------|--|---|------------|
| Chief Executive<br>Ged Curran                                   | 1             | 185,000  | 25,715                                      | 210,715    |
| Director of Corporate<br>Services<br>Caroline Holland           | 2             | 135,000  | 18,765                                      | 153,765    |
| Director of Community<br>and Housing<br>Simon Williams          | 3             | 136,096  | 18,917                                      | 155,013    |
| Director of Children,<br>Schools and Families<br>Yvette Stanley | 4             | 135,000  | 18,765                                      | 153,765    |
| Director of Environment &<br>Regeneration<br>Chris Lee          | 5             | 135,000  | 18,765                                      | 153,765    |

| 2013/14<br>Post holder information                              | Sub-<br>Notes | Remuneration<br>(Including<br>fees &<br>Allowances) £ | Employer's<br>Pension<br>contributions<br>£ | Total<br>£ |
|---|---------------|---|---|------------|
| Chief Executive<br>Ged Curran                                   | 6             | 185,000   | 26,085                                      | 211,085    |
| Director of Corporate<br>Services<br>Caroline Holland           | 7             | 135,000   | 19,035                                      | 154,035    |
| Director of Community<br>and Housing<br>Simon Williams          | 8             | 136,096   | 19,190                                      | 155,286    |
| Director of Children,<br>Schools and Families<br>Yvette Stanley | 9             | 135,000   | 19,035                                      | 154,035    |
| Director of Environment &<br>Regeneration<br>Chris Lee          | 10            | 135,000   | 19,035                                      | 154,035    |

### Sub-notes

#### 2014/15

1. Mr G. Curran, Chief Executive, remuneration for 2014/15 was a salary of £185,000. One additional separate payment of £514.26 was received for Local Authority Gold Team duties.
2. Ms C. Holland, Director of Corporate Services, remuneration for 2014/15 was a salary of £135,000.
3. Mr S. Williams, Director of Community and Housing, remuneration for 2014/15 was a salary of £136,096.
4. Ms Y. Stanley, Director of Children, Schools and Families, remuneration for 2014/15 was a salary of £135,000.
5. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2014/15 comprised of salary of £135,000. A separate payment of £514.26 was received for Local Authority Gold Team duties.

#### 2013/14

6. Mr G. Curran, Chief Executive, remuneration for 2013/14 was a salary of £185,000. Two additional separate payments were received, totalling £1,300, for Local Authority Gold Team duties.
7. Ms C. Holland, Director of Corporate Services, remuneration for 2013/14 was a salary of £135,000. Two additional separate payments were received, totalling £1,128, for Local Authority Gold Team duties.
8. Mr S. Williams, Director of Community and Housing, remuneration for 2013/14 was a salary of £136,096.
9. Ms Y. Stanley, Director of Children, Schools and Families, remuneration for 2013/14 was a salary of £135,000.
10. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2013/14 comprised of salary of £135,000. A separate payment of £172 was received for Local Authority Gold Team duties.



### 32. TERMINATION BENEFITS

The authority terminated the contracts of 85 employees in 2014/15, incurring liabilities of £1.153m (£0.937m and 65 employees in 2013/14) (Note 31).

### 33. RELATED PARTIES

During the year, transactions with related parties arose as follows:

#### Central Government

Central Government has significant influence over the operations of the authority. It provides the statutory framework within which the authority operates, the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the authority has with other parties (e.g. Council Tax bills, housing benefits). Details of grants received from government departments are set out in Note 6 as well as grant receipts outstanding at 31<sup>st</sup> March 2015. The following table provides a summary of the main amounts arising in the accounts:

|  | 2013/14<br>Payments /<br>(Receipts)<br>£000 | 2014/15<br>Payments /<br>(Receipts)<br>£000 |
|--|---|---|
| <b>Central Government</b>                      |   |   |
| - Revenue Support Grant                        | (47,470)                                    | (39,738)                                    |
| - Receipts from NNDR Pool/Business Rates       | (23,841)                                    | (23,956)                                    |
| - Levy by the Environment Agency               | 157   | 157   |
| <b>Precepting Authorities and Other Bodies</b> |   |   |
| - Greater London Authority precept             | 37,349                                      | 32,228                                      |
| <b>Levying Bodies – Levies paid</b>            |   |   |
| - London Pensions Fund Authority               | 268   | 267   |
| - Lee Valley Authority                         | 220   | 214   |
| - Wimbledon and Putney Commons Conservators    | 269   | 293   |

#### Members

Members of the authority have direct control over the financial and operating decisions of the authority. The total of members' allowances paid in 2014/15 is shown in Note 30.

This disclosure note has been prepared using the authority's Register of Members' Interest in addition to a specific declaration obtained in respect of related party transactions from Members and Senior Officers. The authority issued 60 standard letters to current Members and 22 letters to former Members who held office in 2014/15; to date, 56 and 22 current and former Members have responded respectively.



During 2014/15, members of the authority (or members of their immediate family or household) had links with the following organisations, which undertook related party transactions with LBM to the gross value of £0.969m (net £0.323m). The amounts disclosed below are those material to either party of the related party transaction (i.e. the London Borough of Merton (LBM) or the other entity) and therefore explains the large variance in the amounts identified for disclosure.

| Organisation                          | Nature of transaction   | 2014/15<br>£000 |
|---------------------------------------|---|-----------------|
| Deen City Farm                        | Grant Received from LBM   | 123             |
| Endeavour Youth Club                  | Grant Received from LBM   | 30              |
| Friends in St Helier                  | Grant Received from LBM   | 29              |
| Merton and Morden Guild               | Grant Received from LBM   | 83              |
| Merton Priory Homes (MPH)             | Capital receipts paid to LBM as part of VAT sharing agreements with MPH | (646)           |
| South Wimbledon Community Association | Funding received from LBM   | 6               |
| Merton Community Transport            | Grant Received from LBM   | 52              |
| <b>Total</b>                          |   | <b>(323)</b>    |

### Senior Officers

Senior officers of the authority also have direct control over the financial and operating decisions of the authority. Senior officers are required to make a specific declaration in respect of related party transactions. The authority issued 28 standard letters to current senior officers; there have been 28 responses to date.

One senior officer is director of CHAS 2013 Ltd (see note 38). One senior officer holds the positions of Governor at South Thames College and Director of London Grid for Learning. During 2014/15 the authority made payments and grants to these organisations of £416,000 and £675,000 respectively. One senior officer is a member of the NHS Merton CCG Board which made payments and grants of £3,971,000 in 2014/15. In all instances the grants were made with proper consideration of declarations of interest. Otherwise, senior officers within the authority did not hold any positions in other organisations which would enable them to significantly influence the policies of the authority and result in a related party transaction of a material nature.

### Voluntary Organisations

The authority made grants and payments totalling £0.323m to voluntary and other organisations whose senior management included members of the authority (or members of their immediate family or household). These payments are summarised in the above disclosure on members' related party transactions. In all instances the grants were made with proper consideration of declarations of interest. The

authority's Register of Members' Interest is open to public inspection on the authority's website.

**Pension Fund**

The Pension Fund is a separate entity from the authority with its own Statement of Accounts. In 2014/15 an administration fee of £0.332m was paid by the Fund to the authority (£0.426m in 2013/14, See Pension Fund, Note 11).



## PENSION FUND

### 34. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. In 2014/15, the employer's contribution was 14.1% (unchanged from 2013/14). Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. The Authority is not liable to the scheme for any other entities' obligations under the plan.

The Council also pays an employer's contribution of 14.0% (unchanged from 2013/14) to the NHS Pension Scheme, for staff who have transferred to the Council but remain in the NHS scheme. The NHS scheme is currently a defined benefit scheme; staff benefits are linked to their average earnings in the final ten years of employment. From 1<sup>st</sup> April 2015, it will become a Career Average Revalued Earnings scheme.

Contributions for the current and previous year are set-out in the table below:

|  | 2013/14<br>Restated<br>£000 | 2014/15<br>£000 |
|--|-----------------------------|-----------------|
| Council's contribution to DfE teacher's pension scheme | 7,152                       | 7,303           |
| Council's contribution to NHS pension scheme           | 143                         | 130             |

Assuming a 1% staff pay award in 2015/16, an estimate of the contributions to be paid in the next financial year would be:

DfE Teacher's Pension Scheme: £7.376m  
NHS Pension Scheme: £0.131m

### 35. DEFINED BENEFIT PENSION SCHEMES

#### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post employment benefits. Although the benefits will be payable in the future, (when employees retire), the authority is required to disclose current payments towards employees' future entitlements.

The authority participates in two post employment schemes:

- The Local Government Pension Scheme is administered locally by the London Borough of Merton, in accordance with the Local Government Pension Scheme Regulatory Framework 2014/15. This is a defined benefit, final salary scheme, whereby both the authority and employees make contributions into a fund. The contributions are calculated with the aim of balancing pension liabilities and investment assets. The scheme accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2014/15, which governs the preparation of financial statements for Local Government Pension Scheme funds.
- Discretionary post retirement benefits to fund early retirement. This is an unfunded defined benefit arrangement, liabilities are recognised when awards are made but there is no accompanying investment built-up to meet these pension liabilities, so cash has to be generated to meet actual pension payments as they fall due.

#### Transactions Relating to Post-employment Benefits

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.

The cumulative remeasurement of the net defined benefit liability/asset recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2015 is a loss of £68.625m (a loss of £20.162m in 2013/14).

|   | Local Government Pension Scheme |               |
|---|---------------------------------|---------------|
|   | 2013/14                         | 2014/15       |
|   | £000                            | £000          |
| <b>Comprehensive Income and Expenditure Statement</b>   |                                 |               |
| <b>Cost of Services:</b>  |                                 |               |
| Current Service Cost  | 17,760                          | 19,223        |
| <i>Finance and Investment Income and Expenditure</i>  |                                 |               |
| Net interest on defined liability   | 8,027                           | 9,477         |
| Administration  | 458                             | 393           |
| <b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>   | <b>26,245</b>                   | <b>29,093</b> |
| <i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>  |                                 |               |
| Remeasurement of the net defined benefit liability/asset  | 20,162                          | 68,625        |
| <b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>  | <b>46,407</b>                   | <b>97,718</b> |
| <b>Movement in Reserves Statement:</b>  |                                 |               |
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (26,245)                        | (29,093)      |
| <b>Actual amount charged against the General Fund Balance for pensions in the year:</b>   |                                 |               |
| Employers' contributions payable to scheme  | 16,955                          | 28,225        |

**Assets and Liabilities in Relation to Post-employment Benefits**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

|  | Local Government Pension Scheme |                |
|--|---------------------------------|----------------|
|  | 2013/14                         | 2014/15        |
|  | £000                            | £000           |
| <b>Opening Defined Benefit Obligation</b>            | <b>612,841</b>                  | <b>654,698</b> |
| Current Service Cost                                 |                                 |                |
| Interest Cost  | 25,987                          | 28,412         |
| Change in financial assumptions                      | 12,719                          | 90,061         |
| Change in demographic assumptions                    | 14,320                          | 0              |
| Experience loss/(gain) on defined benefit obligation | (11,226)                        | 1,048          |
| Liabilities extinguished on settlements              | (846)                           | (1,210)        |
| Estimated benefits paid net of transfers in          | (19,736)                        | (20,444)       |
| Past service costs including curtailments            | 702                             | 925            |
| Contributions by Scheme participants                 | 4,423                           | 4,942          |
| Unfunded pension payments                            | (1,849)                         | (1,919)        |
| <b>Defined Benefit Obligation at end of period</b>   | <b>654,698</b>                  | <b>775,379</b> |



## Reconciliation of fair value of the scheme (plan) assets:

|   | Local Government Pension Scheme |                |
|---|---------------------------------|----------------|
|   | 2013/14                         | 2014/15        |
|   | £000                            | £000           |
| <b>Opening fair value of Scheme assets</b>                | <b>417,967</b>                  | <b>430,372</b> |
| Interest on assets  | 17,960                          | 18,935         |
| Return on assets less interest                            | (2,707)                         | 22,484         |
| Other actuarial gains/(losses)                            | (1,642)                         | 0              |
| Actuarial gains (losses)                                  | -                               | -              |
| Administration expenses                                   | (458)                           | (393)          |
| Contributions by employer including unfunded              | 16,955                          | 28,225         |
| Contributions by Scheme participants                      | 4,423                           | 4,942          |
| Estimated benefits paid plus unfunded net of transfers in | (21,585)                        | (22,363)       |
| Settlement prices received/(paid)                         | (541)                           | (642)          |
| <b>Fair value of Scheme assets at end of period</b>       | <b>430,372</b>                  | <b>481,560</b> |

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

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The estimated asset allocation for LBM as at 31<sup>st</sup> March is as follows:

| LBM asset share - bid value | 2013/14        |            | 2014/15        |            |
|-----------------------------|----------------|------------|----------------|------------|
|                             | £000           | %          | £000           | %          |
| Equities                    | 314,172        | 73         | 348,588        | 72         |
| Gilts                       | 98,986         | 23         | 115,796        | 24         |
| Property                    | 12,911         | 3          | 13,577         | 3          |
| Cash                        | 4,303          | 1          | 3,599          | 1          |
| <b>Total</b>                | <b>430,372</b> | <b>100</b> | <b>481,560</b> | <b>100</b> |



## Scheme History

|  | 2010/11<br>£000 | 2011/12<br>£000 | 2012/13<br>£000 | 2013/14<br>£000 | 2014/15<br>£000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Present value of scheme liabilities        |                 |                 |                 |                 |                 |
| The Local Government Pension Scheme (LGPS) | (443,887)       | (529,492)       | (589,722)       | (630,064)       | (748,920)       |
| Unfunded Liabilities                       | (10,491)        | (23,447)        | (23,119)        | (24,634)        | (26,459)        |
| Fair value of assets in the LGPS           | 351,387         | 363,253         | 417,967         | 430,372         | 481,560         |
| Surplus / (Deficit) in the scheme          | (102,991)       | (189,686)       | (194,874)       | (224,326)       | (293,819)       |

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £293.8m 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 authority remains healthy. The authority, through the advice of the actuary, provides additional employers contributions to the fund in support of the recovery of past service deficiencies over a twelve year period. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

## Basis for Estimating Assets and Liabilities

|  | 2013/14 | 2014/15 |
|--|---------|---------|
| <b>Long Term expected rate of return on assets in the scheme:</b>        | %       | %       |
| <b>Mortality Assumptions</b>   | Years + | Years + |
| <b>Longevity at 65 for current pensioners retiring today at 65:</b>      |         |         |
| Men  | 22.3    | 22.4    |
| Women  | 25.5    | 25.7    |
| <b>Longevity at 65 for future pensioners retiring in 20 years at 65:</b> |         |         |
| Men  | 24.5    | 24.6    |
| Women  | 27.9    | 28.0    |
|  | %       | %       |
| <b>Rate of Inflation</b>   | 2.8     | 2.4     |
| <b>Rate of increase in salaries</b>                                      | 4.6     | 4.2     |
| <b>Rate of increase in pensions</b>                                      | 2.8     | 2.4     |
| <b>Rate for discounting scheme liabilities</b>                           | 4.4     | 3.3     |
| <b>Take up option to convert annual pension into retirement lump sum</b> | 50.0    | 50.0    |

The current estimate of the duration of the Council's liabilities is 18 years.

The following assumptions have also been made:

Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age.

10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

## Sensitivity Analysis

A sensitivity analysis on the major assumptions used in calculating the Fund liabilities is shown in the following table.

| Sensitivity Analysis  | £000    | £000    | £000    |
|---|---------|---------|---------|
| <b>Adjustment to discount rate</b>                              | +0.1%   | 0.0%    | -0.1%   |
| Present value of total obligation                               | 761,669 | 775,379 | 789,350 |
| Projected service cost  | 22,380  | 22,907  | 23,447  |
| <b>Adjustment to long term salary increase</b>                  | +0.1%   | 0.0%    | -0.1%   |
| Present value of total obligation                               | 777,240 | 775,379 | 773,530 |
| Projected service cost  | 22,918  | 22,907  | 22,896  |
| <b>Adjustment to pension increases and deferred revaluation</b> | +0.1%   | 0.0%    | -0.1%   |
| Present value of total obligation                               | 787,599 | 775,379 | 763,385 |
| Projected service cost  | 23,440  | 22,907  | 22,386  |
| <b>Adjustment to mortality age rating assumption</b>            | +1 Year | None    | -1 Year |
| Present value of total obligation                               | 748,014 | 775,379 | 802,997 |
| Projected service cost  | 22,121  | 22,907  | 23,700  |

The sensitivity analysis shows the impact of adjusting individual assumptions. The analysis does not show the impact of adjusting combinations of assumptions, as this cannot easily be measured.

## Estimation of Contributions to be paid 2015/16

The table below shows the estimated contributions to be paid to the plan during 2015/16, assuming a 1% staff pay award for 2015/16.

|  | 2014/15<br>Actual<br>£000 | 2015/16<br>Estimated<br>£000 |
|--|---------------------------|------------------------------|
| Employers contributions -normal                                      | 8,760                     | 8,847                        |
| Employers contributions - Deficit Funding Contributions (Additional) | 14,848                    | 4,896                        |
| Early Retirements (Additional)                                       | 144                       | 144                          |
| Employees Contributions  | 4,121                     | 4,162                        |
| <b>Total</b>   | <b>27,873</b>             | <b>18,050</b>                |

## Associated Risks

Participating in a defined benefit pension scheme means that the Council is exposed to a number of risks:

- **Investment risk.** The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- **Interest rate risk.** The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.

- **Inflation risk.** All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- **Longevity risk.** In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the London Borough of Merton Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Council e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.



## OTHER DISCLOSURE NOTES

### 36. EVENTS AFTER BALANCE SHEET DATE

To date, there have been no post balance sheet events.

### 37. ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during 2014/15.

### 38. INTEREST IN SUBSIDIARIES & JOINT VENTURES

#### Subsidiary

CHAS 2013 Ltd was established as a private company in June 2013. It provides businesses with health and safety pre-qualification assessments to nationally recognised standards.

CHAS 2013 Ltd is a wholly owned subsidiary of LB Merton, based in the council's offices at the Civic Centre in Morden. Its Board of Directors is chaired by LBM's Director of Corporate Services.

Prior to June 2013, CHAS had operated as a trading account within LB Merton (see Note 39).

LBM's investment in CHAS 2013 Ltd is recognised and measured at cost in the Council's Balance Sheet. LBM is exposed to variable returns from CHAS 2013 Ltd. In 2014/15, CHAS 2013 Ltd's profit after tax was £0.5m (£0.8m profit in 2013/14). Dividends received by LBM from CHAS 2013 Ltd will be recognised within the Council's Comprehensive Income and Expenditure Statement (CIES). No dividend was declared in either 2013/14 or 2014/15.

Separate from any dividends, CHAS 2013 Ltd also makes an annual licence fee payment to LBM, for use of intellectual property owned by the Council. In 2014/15, the licence fee was £0.8m, which has been recognised within Financing & Investment Income & Expenditure in the CIES.

Audited abbreviated accounts of CHAS 2013 Ltd are filed with Companies House and available on request from:

London Borough of Merton  
Civic Centre  
London Road  
Morden  
SM4 5DX

On the grounds of materiality, it is considered unnecessary to produce Group Accounts which consolidate CHAS 2013 Ltd with the single entity accounts of the Council. This is because they would not have a material effect on the overall

financial statements and therefore their inclusion would not provide any further benefit to the users of the Statement of Accounts.

Joint Venture

The Merton and Sutton Joint Cemetery Board (MSJCB) oversees the Merton and Sutton Joint Cemetery, which is situated on Garth Road in Morden.

MSJCB is jointly controlled by the London Boroughs of Merton and Sutton. Any cash balance belonging to MSJCB is held by LB Merton in its single entity Balance Sheet as a debtor. At 31/03/2015, there was a net debtor balance for MSJCB of £0.062m (net debtor balance of £0.176m at 31/03/2014).

On the grounds of materiality, consolidated Group Accounts for MSJCB and LB Merton have not been produced.

Audited accounts of MSJCB are available on request from:

London Borough of Merton  
Civic Centre  
London Road  
Morden  
SM4 5DX

### 39. TRADING OPERATIONS

The authority has established trading units where the service is required to operate in a commercial environment and balance its budget by generating income from other parts of the authority or from other organisations. A brief description is given below:

- Printing and Graphic Design: design and printing of official documents.
- Translation Services: provides translation and interpreting services.
- Transport: recharged income and expenditure for service department vehicles
- Contractors Health and Safety Assessment (CHAS) provides health and safety assessments for other local authorities and businesses. On 3<sup>rd</sup> June 2013, CHAS commenced trading as a private limited company (see Note 38). Both 2013/14 and 2014/15 CHAS turnover and expenditure relate to the period 1<sup>st</sup> April 2013 to 2<sup>nd</sup> June 2013. The 2014/15 figures are an adjustment to the prior year.

| Included within Financing and Investment Income and Expenditure |                          | 2013/14      | 2014/15      |          |
|---|--------------------------|--------------|--------------|----------|
|   |                          | £000         | £000         |          |
| Printing and Graphic Design                                     | Turnover                 | (359)        | (421)        |          |
|   | Expenditure              | 259          | 313          |          |
|   | <b>(Surplus)/Deficit</b> | <b>(99)</b>  | <b>(108)</b> |          |
| Translation Services  | Turnover                 | (422)        | (465)        |          |
|   | Expenditure              | 368          | 417          |          |
|   | <b>(Surplus)/Deficit</b> | <b>(55)</b>  | <b>(48)</b>  |          |
| Transport   | Turnover                 | (8,555)      | (10,109)     |          |
|   | Expenditure              | 9,184        | 9,948        |          |
|   | <b>(Surplus)/Deficit</b> | <b>630</b>   | <b>(162)</b> |          |
| Contractors Health and Safety Assessment Scheme (CHAS)          | Turnover                 | (689)        | 9            |          |
|   | Expenditure              | 514          | (20)         |          |
|   | <b>(Surplus)/Deficit</b> | <b>(175)</b> | <b>(11)</b>  |          |
| All trading operations  |                          | 2013/14      | 2014/15      |          |
|   |                          | £000         | £000         |          |
|   |                          | Turnover     | (10,025)     | (10,987) |
|   |                          | Expenditure  | 10,325       | 10,658   |
| <b>Total</b>  | <b>(Surplus)/Deficit</b> | <b>300</b>   | <b>(329)</b> |          |



#### 40. INVENTORIES

The stock balance of £0.068m in 2014/15 (£0.211m in 2013/14) represents the complete stock relating to the Partnership Agreement with the Merton Clinical Commissioning Group and Integrated Community Equipment Services (ICES).

|   | Consumable Stores |                 |
|---|-------------------|-----------------|
|   | 2013/14<br>£000   | 2014/15<br>£000 |
| <b>Balance outstanding at the start of the year</b> | <b>243</b>        | <b>211</b>      |
| Purchases   | 751               | 738             |
| Recognised as an expense in the year                | (782)             | (882)           |
| <b>Balance outstanding at year-end</b>              | <b>211</b>        | <b>68</b>       |

#### 41. POOLED BUDGETS – Partnerships - Section 75

During 2014/15 the authority has continued to operate the Partnership Agreements with the Merton Clinical Commissioning Group, under Section 75 of the National Health Service Act 2006, to provide integrated community equipment services (ICES). This includes the continued operation of the pooled funds in respect of these services.

| POOLED FUND FOR COMMUNITY EQUIPMENT SERVICES IN MERTON MEMORANDUM ACCOUNT | Total<br>2013/14<br>£000 | Total<br>2014/15<br>£000 |
|---|--------------------------|--------------------------|
| <b>INCOME</b>   |                          |                          |
| <b>PARTNERS' CONTRIBUTIONS</b>  |                          |                          |
| <b>Brought forward</b>  | <b>302</b>               | <b>310</b>               |
| LB Merton   | 341                      | 330                      |
| Merton CCG  | 255                      | 247                      |
| Additional From LB Merton   | 200                      | 200                      |
| <b>TOTAL CONTRIBUTIONS</b>  | <b>1,098</b>             | <b>1,086</b>             |
| <b>EXPENDITURE</b>  |                          |                          |
| Community Equipment Services  | 751                      | 738                      |
| Stock Adjustment  | 31                       | 143                      |
| Management & Support Costs  | 6                        | 6                        |
| <b>TOTAL EXPENDITURE</b>  | <b>788</b>               | <b>887</b>               |
| <b>NET (UNDER) / OVERSPEND CARRIED FORWARD</b>                            | <b>(310)</b>             | <b>(199)</b>             |

The pooled budget net underspend is included within Creditors.

## 42. EXTERNAL AUDIT COSTS

The authority 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 authority's external auditors:

|  | 2013/14<br>Re-stated<br>£000 | 2014/15<br>£000 |
|--|------------------------------|-----------------|
| Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year | 209                          | 191             |
| Rebate received from the Audit Commission  | (19)                         | 0               |
| <b>Sub total</b>   | <b>189</b>                   | <b>191</b>      |
| Fees payable to the External Auditor for the certification of grant claims and returns for the year                  | 63                           | 38              |
| Fees payable to the External Auditor for other services provided in year   | 10                           | 10              |
| <b>Total</b>   | <b>262</b>                   | <b>239</b>      |

In 2014/15, the Council received a £19,397 rebate from the Audit Commission, relating to the 2013/14 audit fee. This was offset by £22,000 additional audit fees, invoiced in 2014/15 but relating to the 2013/14 audit.

The 2013/14 figures have been restated to reflect the updated external audit costs.

**43. TRUST FUNDS**

Funds for which the authority acts as custodian trustee are displayed in the tables below.

| 2014/15   | Income<br>£000 | Expenditure<br>£000 | Assets<br>£000 | Liabilities<br>£000 |
|---|----------------|---------------------|----------------|---------------------|
| <b>LBM Funds</b>  |                |                     |                |                     |
| <b>Tamworth Recreation External Investments</b><br>The Investment with Black Rock Merrill Lynch investment managers held on behalf of Tamworth Recreation Grounds. This is the investment's market value.   |                |                     | 157            |                     |
| <b>Tamworth Recreation Ground &amp; Allotment</b><br>This Trust Fund was set up to fund works at Tamworth Recreation Ground and allotments. Amount shows all internal funds held by LBM on behalf of Tamworth. Established by the authority pre 1990s |                |                     | 15             |                     |
| <b>Maintenance of Graves</b><br>This Trust Fund was set up for the maintenance of graves in perpetuity. The amount shows all internal funds held in LBM bank accounts. Established pre 1990s from residence estates naming LBM as a beneficiary       |                |                     | 23             |                     |
| <b>Allotments for Working Men</b><br>Established in 1922 to provide allotment gardens for working men at the frontage to Cambridge Road situated in Cottenham Park, Wimbledon. The area covered being 10.5 acres.                                     |                |                     | 1              |                     |
| <b>Rock Terrace Trust</b><br>Established under the indenture dated 19th March 1925. LBM holds the premises "to the intent that the same shall be held used and enjoyed as an open space for the use and recreation of the public"                     | 1              |                     | 60             |                     |
| <b>Total</b>  | <b>1</b>       |                     | <b>256</b>     |                     |

The £256,000 total comprises £157,000 held in an external investment fund, which is shown at market value, and £99,000 cash held in the authority's bank account. The £99,000 is shown within Short Term Creditors on the Balance Sheet.

| 2013/14  | Income<br>£000 | Expenditure<br>£000 | Assets<br>£000 | Liabilities<br>£000 |
|--|----------------|---------------------|----------------|---------------------|
| <b>LBM Funds</b>   |                |                     |                |                     |
| <b>Tamworth Recreation External Investments</b>  |                |                     |                |                     |
| The Investment with Black Rock Merrill Lynch investment managers held on behalf of Tamworth Recreation Grounds. This is the investment's market value.   |                |                     | 148            |                     |
| <b>Tamworth Recreation Ground &amp; Allotment</b>  |                |                     |                |                     |
| This Trust Fund was set up to fund works at Tamworth Recreation Ground and allotments. Amount shows all internal funds held by LBM on behalf of Tamworth.<br>Established by the authority pre 1990s                |                |                     | 15             |                     |
| <b>Maintenance of Graves</b>   |                |                     |                |                     |
| This Trust Fund was set up for the maintenance of graves in perpetuity. The amount shows all internal funds held in LBM bank accounts.<br>Established pre 1990s from residence estates naming LBM as a beneficiary | 1              |                     | 23             |                     |
| <b>Allotments for Working Men</b>  |                |                     |                |                     |
| Established in 1922 to provide allotment gardens for working men at the frontage to Cambridge Road situated in Cottenham Park, Wimbledon. The area covered being 10.5 acres.                                       |                |                     | 1              |                     |
| <b>Rock Terrace Trust</b>  |                |                     |                |                     |
| Established under the indenture dated 19th March 1925. LBM holds the premises "to the intent that the same shall be held used and enjoyed as an open space for the use and recreation of the public"               | 1              |                     | 59             |                     |
| <b>Total</b>   | <b>2</b>       | <b>0</b>            | <b>246</b>     | <b>0</b>            |

## TECHNICAL ANNEX – ACCOUNTING POLICIES

### 44. ACCOUNTING POLICIES

#### i. General Principles

The Statement of Accounts summarises the authority's transactions for the 2014/15 financial year and its position at the year end of 31<sup>st</sup> March 2015. The authority is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2011, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### ii. Accruals of Income and Expenditure

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 authority 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 authority.
- Revenue from the provision of services is recognised when the authority 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 authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure 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. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

**iv. Exceptional 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 or in the notes to the accounts, depending on how significant the items are to an understanding of the authority's financial performance.

**v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

Changes to accounting policies are only made when required by proper accounting practices, or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

**vi. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding 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 non-current assets attributable to the service.

The authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to



make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the Minimum Revenue Provision (MRP) 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.

Depreciation is provided for on all non-current assets (other than land and investment properties) with a determinable finite life, and is calculated on a straight-line basis over the asset's estimated useful economic life.

## 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 benefits such as wages and salaries, paid annual and sick leave and non-monetary benefits in lieu of salary (e.g. nursery vouchers, bicycles), where material for current employees. They are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlement (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, if these are available, being the period in which the employee takes the benefit. If these are not available, the accrual is made at the wage and salary rates of the year of account. 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 authority 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 individual services, within the Cost of Services line in the Comprehensive Income and Expenditure Statement when the authority is demonstrably committed to the termination of the employment of an officer or group of officers or has made an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority 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*

Employees of the Authority are members of the following separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The National Health Service Pension Scheme, administered by NHS Pensions.
- The Local Government Pensions Scheme, administered by the London Borough of Merton.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

#### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – ie 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 3.3%.
- The assets of the Pension Fund attributable to the Authority are measured at fair value:
  - 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 a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities 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 Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – 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 (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

## Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as 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 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 Authority 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 transfers 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 Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) 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.

**viii. Events After Balance Sheet Date**

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 nature 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***Financial Liabilities*

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Where financial instruments are identified as impaired because of a likelihood arising from a past event that amounts due under the contract will not be made, the asset is written down and a charge made to the relevant service.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year according to the loan agreement.



*Financial Assets*

Financial assets are classified into two types:

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

*Loans and Receivables*

Loans and receivables are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans that the authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where premiums and discounts are charged to the Comprehensive Income and Expenditure Account, the Council charges the whole amount incurred in the year.

In respect of soft loans, where the interest foregone is material, the Council will recognise it in the CIES.

**x. Government Grants and Contributions**

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

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

Amounts recognised as due to the authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the revenue 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.

Sums advanced as revenue grants and contributions for which conditions have not been satisfied and are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are not satisfied but are expected to be met, these are classified as Receipts in Advance. When

conditions are satisfied, the revenue grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

#### *Business Improvement Districts*

A Business Improvement District (BID) is a precisely defined area within the local authority's boundaries within which the businesses have voted to invest collectively in local improvements to enhance their trading environment. The authority has two active BIDs and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

#### *Community Infrastructure Levy*

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

#### **xi. Heritage Assets**

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the authority in pursuit of its overall objectives in relation to the maintenance of heritage. The majority of the authority's heritage assets are held in the Civic Centre, with a number of paintings of minor value held in the authority's libraries around the borough. Heritage assets are measured at valuation in accordance with FRS30 but where it is not possible to obtain a valuation at a cost which is commensurate with the benefit to the users of the financial statements, heritage assets are measured at historical cost (less any depreciation, amortisation and impairment). Depreciation or amortisation is not required on assets with indefinite lives.



**xii. Intangible Assets**

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

Internally generated assets are capitalised where it can be demonstrated that the project is technically feasible and is intended to be completed (with adequate resources being available) and the authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Research expenditure cannot be capitalised. Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

**xiii. Interest in Subsidiaries and Other Entities**

The authority has reviewed its relationships with companies and external organisations in accordance with the Code guidelines. In 2014/15, the authority has one subsidiary and one joint venture. The authority has not published Consolidated Group Accounts on the grounds of materiality. Details of the subsidiary and jointly controlled entity are disclosed in Note 38.

**xiv. Inventories and Long Term Contracts**

The inventory balance is the Council and the Merton Clinical Commissioning Group's shared value of the aids and adaptations stock owned by the Pooled Account. The stock is maintained in partnership with Croydon Integrated Procurement Hub (IPH). Inventories are measured at the lower of cost and current replacement cost.

## xv. Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Authority 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 Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation. These arrangements are set out below:-

Shared Human Resources Service: this is a cost-sharing arrangement with the London Borough of Sutton which administers the service and recharges this authority. This recharged cost is accounted for as a rechargeable overhead in the Comprehensive Income and Expenditure Account.

South London Waste Partnership (SLWP): the SLWP is a joint operation with the Royal Borough of Kingston for the collection and disposal of waste. RB Kingston recharges the authority for its share of the cost and this is accounted for as part of the Cultural, Environmental and Planning Service in the Comprehensive Income and Expenditure Account. The SLWP is managed by a joint committee of officers which cannot contract on its own behalf but must do so through one of the participating boroughs.

South London Legal Partnership: this is a cost-sharing arrangement with the London Borough of Richmond, London Borough of Sutton, and the Royal Borough of Kingston-Upon-Thames. The London Borough of Merton administers the service and recharges the other authorities with their share of the cost.

Pooled Budget: this is a cost-sharing arrangement with the Merton Clinical Commissioning Group. The authority's contribution is accounted for in the Adult Social Care line in the Comprehensive Income and Expenditure Account. The Balance Sheet contains the value of the pooled aids and adaptations stock.

Greenwich Leisure Limited (GLL): the authority pays GLL to run its leisure centres but retains ownership of those assets. The contribution to GLL is accounted for in the Cultural and Related Services line in the Comprehensive Income and Expenditure Account and the assets are held in the Balance Sheet. The authority has no control over the strategic, financial or operating decisions of the entity.

NewSchools: This company is the authority's PFI provider for its school PFI project. This authority makes an annual unitary payment to NewSchools, which is recorded in the Children's and Education Services line in the Comprehensive Income and Expenditure Account (as payment for services) and in Financing and Investment Income and Expenditure (as payment for

loans taken out by NewSchools to finance the building of the schools under the scheme). The arrangement with NewSchools is purely contractual.

**Regulatory Services Partnership (RSP):** The RSP administers key public protection services including Environmental Health, Trading Standards and Licensing. The partnership is based on a cost-sharing arrangement with the London Borough of Richmond. London Borough of Merton administers the service and recharges Richmond with their share of the cost. The service is governed via a Management Board and a Joint Regulatory Committee.

#### **xvi. Leases**

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

The key consideration for classifying the authority's leases are as follows:-

- Whether the Present Value of the Minimum Lease Payments amounts to substantially all the fair value of the leased asset.
- The duration of the lease agreement in relation to the anticipated economic useful life of the asset.
- Terms in the lease relating to the transfer (or lack thereof) of risks and rewards in relation to the asset.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### ***The Authority as Lessee***

##### ***Finance Leases***

Property, Plant and Equipment (PPE) held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between :

- a charge for the acquisition of the interest in the PPE – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases 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 (where ownership of the asset does not transfer to the authority at the end of the lease period).

The authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction between the Capital Adjustment Account and the Movement in Reserves Statement for the difference between the two.

### *Operating Leases*

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

### ***The Authority as Lessor***

#### *Finance Leases*

Where the authority grants a finance lease over a property or an item of plant or equipment, 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 Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### **xvii. Overhead and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Code of Practice 2014/15 (SerCOP). The total absorption costing principle is used – the net cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the authority's status as a multifunctional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

#### **xviii. Plant, Property and Equipment**

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

##### *Recognition*

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

##### *De Minimis*

Capital expenditure of under £10,000 is charged directly to the Comprehensive Income and Expenditure account.

##### *Measurement*

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 the costs of dismantling and removing the item and restoring the site on which it is located.

The authority does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

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

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for 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 matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

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

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

### *Revaluations*

The revaluations of the authority's properties, which have been performed during the financial year, were carried out by an internal valuer who is a member of the Royal Institution of Chartered Surveyors.

Revaluations are undertaken as at 1<sup>st</sup> April. A review is then conducted at year-end to ensure the revaluations remain materially correct at 31<sup>st</sup> March. Where a material movement has occurred in-year, a further revaluation of affected properties is undertaken at 31<sup>st</sup> March.



Assets regarded by the authority as operational were valued on the basis of Existing Use Value (EUUV) or, where this could not be assessed because there was no market for the subject asset, by the Depreciated Replacement Cost method (DRC), subject to the prospect and viability of the occupation and use.

Parks, allotments, cemetery land and crematorium land, which are non-operational are classified as Community Assets. Community Assets are carried at fair value.

Assets regarded by the authority as non-operational such as Assets Held For Sale were valued on the basis of fair value as defined by The International Valuation Standard Council. Assumptions for fair value are similar if not identical to market value. Fair value represents the price that would be reasonably agreed between two specific parties for the exchange of an asset. Although the parties may be unconnected and negotiating at arm's length, the asset is not necessarily exposed in the wider market. In addition, the price agreed may be one that reflects the specific advantages (or disadvantages) of ownership to the parties involved rather than the market at large.

#### *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 as follows:

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

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

#### *Depreciation*

Depreciation is provided for on all non-current assets (other than land and assets under construction) with a determinable finite life, and is calculated on a straight-line basis over the asset's estimated useful economic life.

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, furniture and equipment – a percentage of the value of each class of asset in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where a Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

#### *Componentisation*

Componentisation is a method used for accounting and financial reporting purposes, to ensure assets are accurately included on the Balance Sheet and that the consumption of economic benefit of these assets is accurately reflected over their individual useful lives through depreciation charges.

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires the separate recognition of two or more significant components of an asset for depreciation purposes – i.e. as if each component was a separate asset in its own right.

The authority will follow these requirements where significant components of material items of assets have been identified.

A component is defined as such part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item, where the value of the component is 5% or more of the total gross carry value of the asset.

Even if the cost of a component is significant in relation to the total cost of an item of PPE, from an accounting perspective it is not necessary to identify the value of that component if its useful life and required method of depreciation is in line with the overall asset.

Where there are a number of parts of the same asset which have the same useful life and depreciation method, such parts will be grouped in determining the depreciation charge.

Componentisation has not been applied retrospectively. It will be considered only for new revaluations carried out after 1<sup>st</sup> April 2010, when enhancement and/or acquisition expenditure is incurred after that date.

Component accounting will only be considered and applied in cases where the omission to recognise and depreciate a separate component may result in material differences in the statement of accounts.

Componentisation will not be applied to items of PPE where the depreciation of the item as a single asset is unlikely to result in a material misstatement of either the depreciation charges or the carrying amount of the PPE.

The authority recognises two primary components of a property asset which will be accounted for separately namely:

- Land
- Buildings

Componentisation is not applicable to land as land is non-depreciable and has an infinite life.

The authority also recognises three secondary components of the buildings primary component; namely:

- Structure (including the building sub-elements of substructure, superstructure, finishes, sanitary-wares, disposal installation, but excluding fittings and furnishings)
- Services (including sub-elements of mechanical and electrical services installation such as plant and lifts)
- External Work (including sub-elements of hard landscaping, but excluding playground equipment and soft landscaping)
- In addition, there may be cases where the Valuer feels a particular asset contains unusual components that are deemed material. In these instances specific components would be created specifically for that asset.

On the grounds of materiality, the authority has determined that any building with a gross carry amount of less than £1,000,000 will not be recognised as having secondary components of the building.

At revaluation the basis for componentisation is fair value (EUV) for the relevant asset class.

Where a component is replaced or restored (i.e. enhancement) the carrying amount of the old component shall be derecognised before reflecting the enhancement (applicable from 1<sup>st</sup> April 2010). In respect of property, on grounds of materiality and practicality, this is applied where the new part of the component is greater than £100,000 or, in the case of lesser amounts, where the existing component is specifically identifiable. In respect of all infrastructure expenditure, the equivalent depreciated carrying amount is derecognised.

#### *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 carrying amount and the fair value less costs of sale, or recoverable amount. Where there is a subsequent reduction in fair value less costs of



sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying or recoverable amount. The carrying amount used is that before the assets 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. The recoverable amount of the asset is at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are credited to the Capital Receipts Reserve, and can only be used for new capital investment, to fund debt redemption premiums (or set aside to reduce the authority'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.

**xix. Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the authority at the end of the contracts for no additional charge, the authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the Property, Plant and Equipment) was balanced by the recognition

of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-Current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost - an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

## xx. Provisions, Contingent Liabilities and Contingent Assets

### *Provisions*

#### 1. General

The Council makes provision where it has a legal or constructive obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made of the amount of the obligation. The council does not normally create provisions for sums less than £250,000.

#### 2. Insurance Fund

The Insurance Fund provides an integral part of our risk management policy to meet claims excluding catastrophic losses, which are insured by an external provider. The level of the fund is based upon a statistical assessment of claims information. The authority makes provision for its legal obligations for claims as at the 31<sup>st</sup> March each year. Where there is a possibility of further claims for which at this stage the authority is not legally obligated, on grounds of prudence the authority sets aside further sums in a separate Insurance Reserve. The expected timing of a future transfer of economic benefit depends upon the settlement of claims and no assumption has been made in respect of these.

*Contingent Liabilities*

These are possible liabilities as a result of a past event that will only materialise as a result of an uncertain future event. The authority's policy is to disclose a contingent liability when this criterion has been met.

*Contingent Assets*

These are possible assets as a result of a past event that will only materialise as a result of an uncertain future event. The authority's policy is to disclose a contingent asset when this criterion has been met.

**xxi. Reserves**

The authority sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure from a Usable Reserve is incurred it is charged to the appropriate service in that year and forms part of the Surplus or Deficit 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 to Council Tax for the expenditure.

The authority has a protocol for setting up and managing usable reserves. Under this protocol usable revenue reserves require the approval of the Director of Corporate Services.

Unusable Reserves are kept to manage accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the authority.

**xxii. 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 Comprehensive Income & Expenditure Statement in the year. Where the authority 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.

**xxiii. VAT**

Income and expenditure are shown net of VAT. VAT is included in the Comprehensive Income and Expenditure account only where it is irrecoverable.

**xxiv. Acquired Operations**

Where the authority acquires an operation during the financial year, the gross income and expenditure for the acquired operation will be disclosed separately on the face of the Comprehensive Income & Expenditure Statement, where material.



In the following financial year, the operation will be consolidated into the relevant Comprehensive Income and Expenditure line, as directed by SeRCOP.

## xxv. LOCAL AUTHORITY SCHOOLS IN ENGLAND AND WALES

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

## 45. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The 2015/16 Code of Practice will include updates to reflect changes to the following seven accounting standards:

- IFRS 13 Fair Value Measurement (May 2011);
- IFRIC 21 Levies;
- IFRS 1 Meaning of effective IFRSs;
- IFRS 3 Scope exceptions for joint ventures;
- IFRS 13 Scope of paragraph 52 (portfolio exception); and
- IAS 40 Clarifying the interrelationship of IFRS 3 Business Combinations
- IAS 40 Investment Property when classifying property as investment property or owner-occupied property

The amendments are not expected to have a material impact on LBM's Statement of Accounts.

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

## 46. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying certain policies set out in Note 44, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- It is expected that future levels of funding will be reduced however this is not expected to influence the authority's ability as a going concern.

- CHAS 2013 Ltd and MSJCB excepted, the authority's relationships with other bodies does not fall within the scope of group accounts. The authority has not published consolidated group accounts on the grounds of materiality.
- The authority is party to a number of joint arrangements; these are set-out in Accounting Policy XV – Jointly Controlled Operations.
- Apart from those already declared there are no further service concessions.
- The potential outcomes from legal claims are not expected to be material to the authority's accounts.
- As part of the voluntary stock transfer agreement, which was reached with Merton Priory Homes (MPH) in March 2010, VAT that can be reclaimed from HM Revenue and Customs in respect of specific qualifying works is shared. This arrangement is unique to authorities and registered social landlords upon transfer. The authority's share of reclaimable VAT amounted to £1.2m in 2014/15 and following completion of delayed works from the 2014/15 programme an additional £2.0m could become due.
- The authority has agreed to share any proceeds of former house sales if they are subsequently sold by Merton Priory Homes. The agreement lasts until 31 March 2040 and the amount received will depend on the number of sales each year. The authority's share of the proceeds for each sale is treated as a capital receipt in the year that the property is sold.
- The authority has given a number of warranties to Merton Priory Homes and Circle Anglia Treasury, the Prudential Trustee Company Ltd and others in conjunction with the stock transfer. The warranties relate to various legal, property and other issues, including public liabilities in relation to exposure to asbestos up to 2050 with no financial limit. These warranties were taken into consideration in setting the level for the Council's insurance fund.
- Accounting for Schools – Consolidation. In line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the borough are considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.
- Accounting for Schools – Balance Sheet Recognition of Schools. The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Council, school or Governing Body then it is not included on the Council's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Council, school or school Governing Body.

#### 47. 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 London Borough of Merton 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 London Borough of Merton's Balance Sheet at 31<sup>st</sup> March 2015 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

**Item:**

Property, Plant and Equipment (PPE)

**Uncertainty:**

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate and funding position may have an impact on the levels of spending on repairs and maintenance, thus impacting on the useful lives assigned to assets.

**Effect if actual result differs from assumptions:**

PPE of £433.619m is included in the accounts. Therefore a 1% movement in value would result in a change of £4.336m. The average PPE depreciation period is 27 years. A difference of one year would result in a change in the depreciation charge of approximately £0.6m.

**Item:**

Provisions

**Uncertainty:**

The authority has made provisions of £4.013m for insurance claims. The fund is used to pay claims for which the authority is self insured. The level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the authority.

**Effect if actual result differs from assumptions:**

If the actuals differ from the assumptions then it is possible that the Insurance Fund would be insufficient to cover the liabilities of the authority and further demands would be made on the General Fund. If future claims exceeded the insurance fund provision by 1%, this would result in an additional £0.4m charge to the General Fund.

**Item:**

Provision for NDR appeals

**Uncertainty:**

The authority has made provision of £2.730m for its share of appeals against business rates charges. The amount represents an estimate of the potential effects of appeals and proposals that may be settled in future years. It is based upon the most recent outstanding Rating List proposals provided by the Valuation Office Agency. The potential effect of the proposals is an estimate based on changes in comparable properties, market trends and other valuation issues including the potential for certain proposals to be withdrawn.

**Effect if actual result differs from assumptions:**

If the actuals differ from the assumptions this will impact on the NDR surplus/deficit of the Collection Fund for following years, as the cash collected from NDR payers will be different to that anticipated in calculated estimates of NDR collection which are used to determine the Council's retained income. Similarly, there is a potential impact on possible future safety net and levy payments introduced in the business rate retention scheme, these are calculated by comparing actual amounts collected to the Council's NDR funding baseline.

**Item:**

Pension Liability

**Uncertainty:**

Estimation of the net £293.820m pension liability 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 authority with expert advice about the assumptions to be applied.

**Effect if actual result differs from assumptions:**

The assumptions interact in complex ways and changes in assumptions cannot be easily measured. Refer to Note 35 for further detail.



## Collection Fund

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The presentation of these accounts is based on the Collection Fund Regulations alone and does not take into account the requirement of the Code to show as a liability the shares of the fund balance relating to the Greater London Authority and to central government.

Note 5 to this statement contains this information and thus provides the link between the Collection Fund accounts and the core statements. The Collection Fund accounts for income from Council Tax and Non-Domestic Rates on behalf of the Council, the Greater London Authority and central government. The costs of administering collection are accounted for in the General Fund.

This statement reflects the changes to the Collection Fund resulting from the Business Rates Retention Scheme introduced in 2013/14. Prior to 2013/14 proceeds from rates collected from business ratepayers were paid into a pool administered by the Government for re-distribution to local authorities' General Funds. Since 2013/14, the Council is entitled to retain a share of the proceeds from business rates with precepts being paid to central government and the Greater London Authority, details are provided in Note 2.

| 2013/14        |               |                |   | 2014/15        |                |                |
|----------------|---------------|----------------|---|----------------|----------------|----------------|
| Business Rates | Council Tax   | Total          |   | Business Rates | Council Tax    | Total          |
| £000           | £000          | £000           |   | £000           | £000           | £000           |
|                |               |                | <b>A) INCOME</b>  |                |                |                |
| 0              | 99,225        | 99,225         | Council Tax Receivable  | 0              | 101,000        | 101,000        |
| 83,938         | 0             | 83,938         | Business Rates Receivable                                     | 84,448         | 0              | 84,448         |
| 2,600          | 0             | 2,600          | Business Rates Supplements Receivable                         | 2,551          | 0              | 2,551          |
| <b>86,538</b>  | <b>99,225</b> | <b>185,763</b> |   | <b>86,999</b>  | <b>101,000</b> | <b>187,999</b> |
|                |               |                | <b>B) EXPENDITURE</b>   |                |                |                |
|                |               |                | Apportionment of Previous Year Surplus/(Deficit):             |                |                |                |
| 0              | 0             | 0              | Central Government  | (620)          | 0              | (620)          |
| 0              | 2,545         | 2,545          | Billing Authority (LBM)                                       | (372)          | 4,608          | 4,236          |
| 0              | 739           | 739            | Greater London Authority                                      | (248)          | 1,266          | 1,018          |
| <b>0</b>       | <b>3,284</b>  | <b>3,284</b>   |   | <b>(1,240)</b> | <b>5,874</b>   | <b>4,634</b>   |
|                |               |                | <b>C) Precepts, Demands and Shares</b>                        |                |                |                |
| 40,787         | 0             | 40,787         | Central Government (DCLG): NDR                                | 42,131         | 0              | 42,131         |
| 24,472         | 74,119        | 98,591         | Billing Authority (LBM): NDR & Council Tax                    | 25,279         | 75,342         | 100,621        |
| 16,315         | 20,295        | 36,610         | Greater London Authority: NDR & Council Tax                   | 16,852         | 20,358         | 37,210         |
| 2,600          | 0             | 2,600          | Greater London Authority: Business Rates Supplement           | 2,551          | 0              | 2,551          |
| <b>84,174</b>  | <b>94,414</b> | <b>178,588</b> |   | <b>86,813</b>  | <b>95,700</b>  | <b>182,513</b> |
|                |               |                | <b>D) Charges to Collection Fund</b>                          |                |                |                |
| (1,294)        | 2,223         | 929            | Less: increase/(decrease) in bad debt provision               | 107            | (896)          | (789)          |
| 5,479          | 0             | 5,479          | Less: increase/(decrease) in provision for appeals            | 5,141          | 0              | 5,141          |
| 281            | 0             | 281            | Less: cost of collection                                      | 281            | 0              | 281            |
| <b>4,466</b>   | <b>2,223</b>  | <b>6,689</b>   |   | <b>5,529</b>   | <b>(896)</b>   | <b>4,633</b>   |
|                |               |                |   |                |                |                |
| <b>(2,102)</b> | <b>(697)</b>  | <b>(2,798)</b> | <b>Surplus/(Deficit) arising during the year (=A-(B+C+D))</b> | <b>(4,103)</b> | <b>322</b>     | <b>(3,781)</b> |
| <b>0</b>       | <b>6,365</b>  | <b>6,365</b>   | <b>Surplus/(Deficit) b/fwd 1st April</b>                      | <b>(2,102)</b> | <b>5,668</b>   | <b>3,566</b>   |
| <b>(2,102)</b> | <b>5,668</b>  | <b>3,567</b>   | <b>Surplus/(Deficit) c/fwd 31st March</b>                     | <b>(6,205)</b> | <b>5,990</b>   | <b>(215)</b>   |



## 1. Council Tax

Council Tax income is derived from charges on the value of residential properties. There are eight separate valuation bands. These bands are based on valuations taken in April 1991 for this specific purpose.

The Council tax base is the total number of properties in each of the eight valuation bands adjusted by a set proportion for each band to convert to the Band D equivalent for that band. The Band D charge is the required income from the Collection Fund divided by the Council Tax base. An individual amount due for each Band is calculated by multiplying the Band D charge by the proportion that is specified for each particular band. The Council Tax base in 2014/15 before adjustments for localisation of Council Tax Support, technical reforms to Council Tax, and allowance for non-collection is 70,913 (78,271 for 2013/14). The derivation of this is shown in the table above.

| Council Tax Band        | Number of Dwellings on Valuation Officers List |         | Number of Dwellings after Discounts, Exceptions and CTS scheme |         | Ratio to Band D | Equivalent Number of Band D Properties |               |
|-------------------------|--|---------|--|---------|-----------------|--|---------------|
|                         | 2013/14  | 2014/15 | 2013/14  | 2014/15 |                 | 2013/14                                | 2014/15       |
| A adjust                | 2  | 0       | 0  | 0       | 5/9             | 0                                      | 0             |
| A                       | 1,017  | 1,003   | 508  | 514     | 6/9             | 338                                    | 343           |
| B                       | 8,111  | 8,125   | 4,787  | 4,895   | 7/9             | 3,724                                  | 3,808         |
| C                       | 21,727   | 21,987  | 15,518   | 15,954  | 8/9             | 13,794                                 | 14,181        |
| D                       | 27,412   | 27,484  | 21,994   | 22,135  | 9/9             | 21,994                                 | 22,135        |
| E                       | 12,903   | 12,933  | 11,287   | 11,264  | 11/9            | 13,795                                 | 13,768        |
| F                       | 5,112  | 5,153   | 4,632  | 4,671   | 13/9            | 6,690                                  | 6,747         |
| G                       | 3,924  | 3,936   | 3,626  | 3,663   | 15/9            | 6,043                                  | 6,105         |
| H                       | 1,591  | 1,620   | 1,513  | 1,551   | 18/9            | 3,027                                  | 3,102         |
| <b>Total</b>            |  |         |  |         |                 | <b>69,405</b>                          | <b>70,188</b> |
| Defence properties      |  |         |  |         |                 | 5                                      | 5             |
| <b>Council Tax Base</b> |  |         |  |         |                 | <b>69,410</b>                          | <b>70,193</b> |

The average Council Tax charge for a Band D property (including the GLA) was £1,401.25 in 2014/15 compared to £1,405.55 in 2013/14. From this an income yield of £95.7m was expected (£94.4m in 2013/14). In 2014/15 the income generated was £101m (£99.225m in 2013/14) and includes changes to liabilities, exemptions, discounts and the council tax support scheme incurred in the current year but which relate to previous years. This income is received from council taxpayers and prior to 2013/14 also through council tax benefit transferred to the Collection Fund.

## 2. Non-Domestic Rates (NDR)

The Council is responsible for collecting rates due from the business ratepayers in its area. Her Majesty's Revenue and Customs (HMRC) sets the rateable value. These values are then multiplied by a Uniform Business Rate, which is set by Central Government. Under the Business Rates Retention Scheme introduced in 2013/14 as part of the Local Government Finance Act 2012, the Council now retains a 30% share of NDR Income. Precepts are also paid from NDR Income to the Greater London Authority (20%) and central government (50%) as shown in the Collection Fund statement.

|   | 31 <sup>st</sup> March<br>2014 | 31 <sup>st</sup> March<br>2015 |
|---|--------------------------------|--------------------------------|
| Non-domestic rateable value at year end | £204m                          | £201m                          |
| Number of Hereditaments                 | 5,428                          | 5,396                          |
| Uniform Business Rate (in the £)        | 47.1p                          | 48.2p                          |

The amounts included in the Collection Fund in respect of non-domestic rates were as follows:

|  | 2013/14<br>£000 | 2014/15<br>£000 |
|--|-----------------|-----------------|
| Gross Rates payable (including net amounts for previous years) | 94,372          | 97,066          |
| Mandatory and discretionary reliefs                            | (10,604)        | (12,006)        |
| Transitional Protection Payments                               | 170             | (612)           |
| <b>Business Rates Receivable</b>                               | <b>83,938</b>   | <b>84,448</b>   |
| Provision for bad and doubtful debts                           | 1,294           | (107)           |
| Provision for losses on appeals                                | (5,479)         | (5,141)         |
| Cost of collection   | (281)           | (281)           |
| <b>Net Income</b>  | <b>79,472</b>   | <b>78,919</b>   |

Business Rate Supplements (BRS) were introduced by the Business Rate Supplements Act 2009 and related regulations and statutory guidance. The Act confers powers on relevant local authorities 'to impose a levy on non-domestic

ratepayers to raise money for expenditure on projects expected to promote economic development.'

LBM have a duty under the BRS Act to collect and enforce the Crossrail BRS on behalf of the GLA. All properties with a rateable value greater than £55,000 pay an additional 2p in the pound.

The amounts included in the Collection Fund in respect of National Business Rate Supplements were as follows:

|                                     | 2013/14<br>£000 | 2014/15<br>£000 |
|-------------------------------------|-----------------|-----------------|
| Gross Rates payable                 | 2,849           | 2,813           |
| Mandatory and discretionary reliefs | (249)           | (262)           |
| <b>Net contribution to GLA</b>      | <b>2,600</b>    | <b>2,551</b>    |

### 3. Provisions for Impairment of Bad Debts and Losses on Appeals

The movements in the provisions for impairments of bad debts and for losses on appeals were as below. Following the introduction of the Business Rates Retention Scheme in April 2013, the Council is liable for its proportionate share of successful appeals against NDR charges made in the period to 2014/15. A provision based on best information available has been made for appeals that are outstanding with the Valuation Office Agency (VOA).

|  | Balance at 1 <sup>st</sup><br>April 2014 | Allowance for<br>Impairment | Amounts<br>charged<br>against<br>Allowance | Balance at<br>31 <sup>st</sup> March<br>2015 |
|--|--|-----------------------------|--|--|
|  | £000                                     | £000                        | £000                                       | £000   |
| Council Tax: Impairment of<br>Bad Debts        | 6,800                                    | (896)                       | (620)                                      | 5,284  |
| Non-Domestic Rates:<br>Impairment of Bad Debts | 2,954                                    | 107                         | (788)                                      | 2,273  |
| Non-Domestic Rates:<br>Losses on Appeals       | 5,479                                    | 5,141                       | (1,520)                                    | 9,100  |
| <b>TOTAL</b>                                   | <b>15,233</b>                            | <b>4,352</b>                | <b>(2,928)</b>                             | <b>16,657</b>                                |

## 4. Collection Fund Surpluses and Deficits

### Council Tax

There is an accumulated surplus of £5.990m on the Collection Fund (£5.668m in 2013/14). This surplus is attributable to the London Borough of Merton and to the Greater London Authority (GLA) and is based on their respective demands upon the Collection Fund. The estimated shares of the fund are shown in the following table.

|  | 2013/14      | 2014/15      | Change in the Year |
|--|--------------|--------------|--------------------|
|  | £000         | £000         | £000               |
| London Borough of Merton Council Tax surplus | 4,446        | 4,716        | 270                |
| Greater London Authority Council Tax surplus | 1,222        | 1,274        | 52                 |
| <b>Total</b>                                 | <b>5,668</b> | <b>5,990</b> | <b>322</b>         |

In the Council's Balance sheet, the Collection Fund balance contains the Council's share only. The share owed to the Greater London Authority is included in a net balance owed to the Greater London Authority. This treatment is in accordance with the Code. A detailed analysis of the balances is given below.

|  | Greater London Authority | London Borough of Merton | Total          |
|--|--------------------------|--------------------------|----------------|
|  | £000                     | £000                     | £000           |
| Accumulated surplus as at 1 <sup>st</sup> April 2014 | (1,222)                  | (4,446)                  | (5,668)        |
| Paid to GLA in 2014/15                               | 1,266                    | 0                        | 1,266          |
| Transfer to General Fund in 2014/15                  | 0                        | 4,608                    | 4,608          |
| Surplus/Deficit in 2014/15                           | (1,318)                  | (4,878)                  | (6,196)        |
| <b>Total</b>   | <b>(1,274)</b>           | <b>(4,716)</b>           | <b>(5,990)</b> |

### NDR

There is a deficit of £6.205m on the Collection Fund (£2.102m in 2013/14). This deficit is attributable to the London Borough of Merton, the Greater London Authority and central government; it is based on their respective demands upon the Collection Fund. The estimated shares of the fund are shown in the following table.

|  | 2013/14      | 2014/15      | Change in the Year |
|--|--------------|--------------|--------------------|
|  | £000         | £000         | £000               |
| London Borough of Merton NDR (surplus)/deficit | 631          | 1,862        | 1231               |
| Greater London Authority NDR (surplus)/deficit | 420          | 1,241        | 821                |
| DCLG NDR (surplus)/deficit                     | 1,051        | 3,102        | 2,051              |
| <b>Total</b>                                   | <b>2,102</b> | <b>6,205</b> | <b>4,103</b>       |

In the Council's Balance sheet, the Collection Fund balance contains the Council's share only. The shares owed to the Greater London Authority and central government are included in net balances owed to the Greater London Authority and central government. This treatment is in accordance with the Code. A detailed analysis of the balances is given below.

|  | Greater London Authority | DCLG         | London Borough of Merton | Total        |
|--|--------------------------|--------------|--------------------------|--------------|
|  | £000                     | £000         | £000                     | £000         |
| Accumulated (surplus)/deficit as at 1 <sup>st</sup> April 2014 | 420                      | 1,051        | 631                      | 2,102        |
| Payments to/(from) preceptors in 2014/15                       | (248)                    | (620)        | 0                        | (868)        |
| Transfer to/(from) General Fund in 2014/15                     | 0                        | 0            | (372)                    | (372)        |
| (Surplus)/deficit in 2014/15                                   | 1,069                    | 2,671        | 1,603                    | 5,343        |
| <b>Total</b>   | <b>1,241</b>             | <b>3,102</b> | <b>1,862</b>             | <b>6,205</b> |

## 5. Link to Core Statements

This note provides the link between the Collection Fund accounts, which are based on the Collection Fund Regulations, and the relevant Core Statements, which are based on the Code.

### CIES

The £80.221m Council Tax income and the £23.676m NDR income in the CIES show the Council's share of Council Tax and NDR income received in the year according to normal accounting rules. The Council Tax and NDR income which ultimately is credited to the General Fund includes the Council's share of the Collection Fund surplus or deficit generated from the previous year's income.

| Income and Expenditure Council Tax   | 2013/14       | 2014/15       |
|--|---------------|---------------|
|  | £000          | £000          |
| Demand on the Fund   | 74,119        | 75,342        |
| Transfer of Surplus  | 2,545         | 4,608         |
| <b>Total included in CIES under Collection Fund Regulations</b>  | <b>76,664</b> | <b>79,950</b> |
| Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement) | (541)         | 271           |
| <b>Council Taxation Fund Income</b>  | <b>76,123</b> | <b>80,221</b> |
| Movement in Reserves Statement   | 2013/14       | 2014/15       |
|  | £000          | £000          |
| Reversal of adjustment of Collection Fund Surplus under 2011 Code                                      | 541           | (271)         |
| <b>Net charge to General Fund, which is based on statutory requirements</b>                            | <b>76,664</b> | <b>79,950</b> |

| Income and Expenditure: NDR  | 2013/14       | 2014/15       |
|--|---------------|---------------|
|  | £000          | £000          |
| Retained Business Rates: London Borough of Merton  | 24,472        | 25,279        |
| Transfer of Surplus/(Deficit)  | 0             | (327)         |
| <b>Total included in CIES under Collection Fund Regulations</b>  | <b>24,472</b> | <b>24,907</b> |
| Adjustment of Collection Fund Deficit under 2011 Code (Reversed in the Movement in Reserves Statement) | (631)         | (1,231)       |
| <b>NDR Fund Income</b>   | <b>23,841</b> | <b>23,676</b> |
| Movement in Reserves Statement: NDR  | 2013/14       | 2014/15       |
|  | £000          | £000          |
| Reversal of adjustment of Collection Fund Deficit under 2011 Code                                      | 631           | 1,231         |
| <b>Net charge to General Fund, which is based on statutory requirements</b>                            | <b>24,472</b> | <b>24,907</b> |

## Balance Sheet

The cash collected by the Council for Council Tax and NDR belongs proportionately to the Council and its major preceptors (the GLA and the DCLG). There will therefore be a debtor/creditor position at the end of year to be recognised between the Council



and each of its major preceptors since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Tax and NDR payers. The amounts paid to preceptors are based on estimates made prior to the financial year as required by statute.

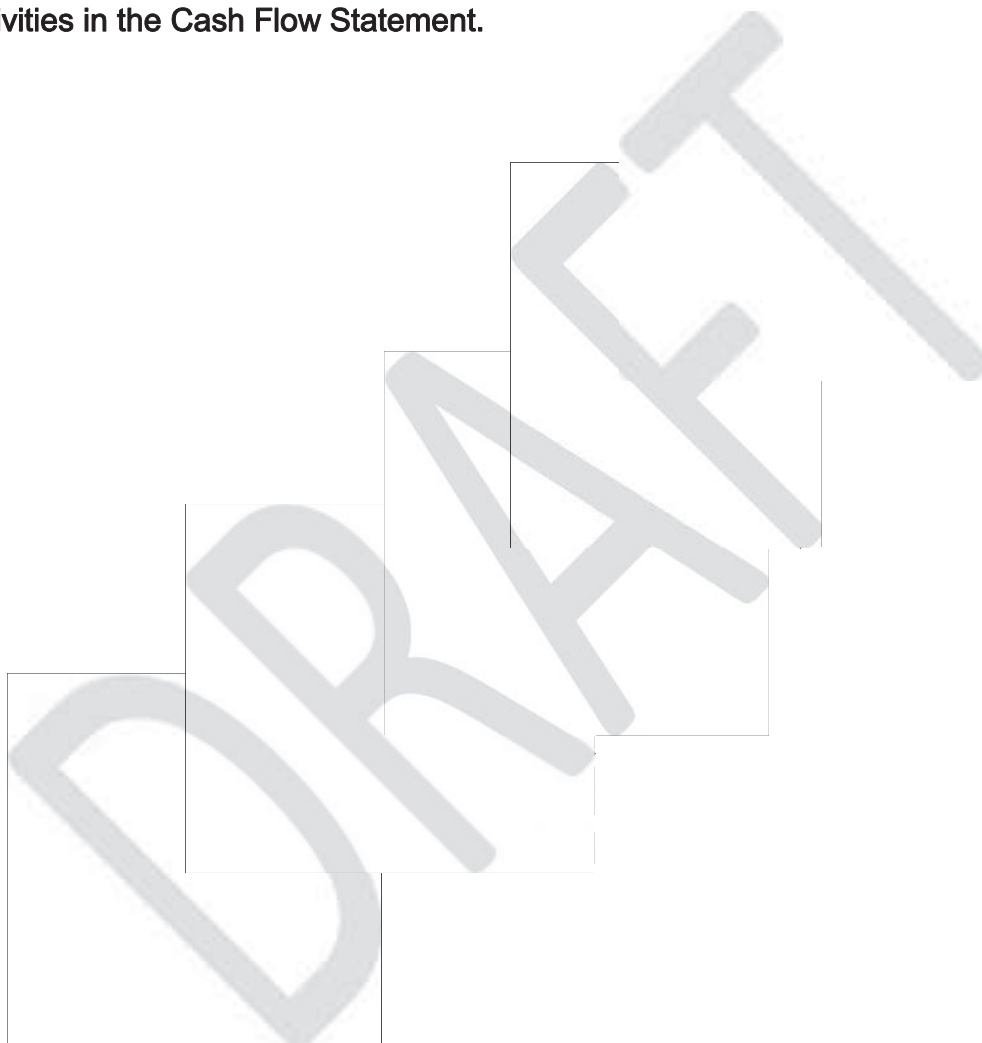
In 2014/15, the net cash paid to major preceptors was less than their proportionate share of net cash collected from Council Tax and NDR debtors/creditors in the year. The Council has therefore recognised a credit adjustment for the amount underpaid to its major preceptors in the year.

The following table summarises the Council Tax and NDR cash balances for the Collection Fund and the Council's Balance Sheet. In the Collection Fund column the balance relating to each preceptor is their proportionate share of the surplus/deficit. In the Balance Sheet column the balance relating to each preceptor is a consolidated figure of proportionate share of the surplus/deficit and their proportionate share of arrears, provisions and receipts in advance.

| <b>Balance Sheet</b>                    | <b>Collection Fund 2014/15</b> | <b>Balance Sheet 2014/15</b> |
|---|--------------------------------|------------------------------|
|   | <b>£000</b>                    | <b>£000</b>                  |
| <b>Council Tax</b>                      |                                |                              |
| Arrears                                 | 8,951                          | 7,067                        |
| Impairment Allowance for Doubtful Debts | (5,284)                        | (4,326)                      |
| Receipts in Advance                     | (5,479)                        | (4,172)                      |
| Collection Fund (Surplus) / Deficit     | (4,716)                        | (4,716)                      |
| GLA                                     | (1,274)                        | (1,655)                      |
| <b>Cash</b>                             | <b>(7,802)</b>                 | <b>(7,802)</b>               |
| <b>Business Rates</b>                   |                                |                              |
| Arrears                                 | 4,039                          | 1,211                        |
| Impairment Allowance for Doubtful Debts | (2,273)                        | (682)                        |
| Impairment for Loss on Appeals          | (9,100)                        | (2,730)                      |
| Receipts in Advance                     | (3,287)                        | (986)                        |
| Collection Fund (Surplus) / Deficit     | 1,862                          | 1,862                        |
| GLA                                     | 1,241                          | (883)                        |
| DCLG                                    | 3,102                          | (2,208)                      |
| <b>Cash</b>                             | <b>(4,416)</b>                 | <b>(4,416)</b>               |

### Cash Flow Statement

The Cash Flow Statement of the Council, includes within operating activities only its own share of Council Tax net cash collected from Council Tax and NDR debtors in the year; and excludes amounts paid to major preceptors. The difference between the major preceptors' share of the net cash collected from Council Tax and NDR debtors and net cash paid to major preceptors as precepts and settlement of the previous year's surplus or deficit on the Collection Fund is included within financing activities in the Cash Flow Statement.



## Pension Fund Accounts

| Fund Account   | Notes | 2013/14<br>£000 | 2014/15<br>£000 |
|--|-------|-----------------|-----------------|
| <b>Dealings with members, employers and others directly involved in the fund</b>               |       |                 |                 |
| Contributions  | 7     | (20,863)        | (34,340)        |
| Transfers in from other pension funds  | 8     | (765)           | (983)           |
| <b>Total Income</b>  |       | <b>(21,628)</b> | <b>(35,323)</b> |
| Benefits   | 9     | 20,265          | 22,080          |
| Payments to and on account of leavers  | 10    | 1,524           | 1,143           |
| <b>Total Expenditure</b>   |       | <b>21,789</b>   | <b>23,223</b>   |
| Net (additions)/withdrawals from dealing with members  |       | <b>161</b>      | <b>(12,100)</b> |
| <b>Management expenses (2013/14 restated)</b>  | 11/14 | <b>1,499</b>    | <b>856</b>      |
| <b>Returns on Investments</b>  |       |                 |                 |
| Investment and other income  | 12    | (9,512)         | (10,954)        |
| Taxes on Income  | 13    | 296             | 316             |
| Gains and losses on disposal and change in the market value of investments: (2013/14 restated) | 15.3  | (8,475)         | (48,464)        |
| <b>Net Returns on Investments</b>  |       | <b>(17,691)</b> | <b>(59,102)</b> |
| <b>Net (increase)/decrease in the net assets available for benefits during the year</b>        |       | <b>(16,031)</b> | <b>(70,346)</b> |

**Note:** As at 31<sup>st</sup> March 2014, the net assets totalled £472.2m. During 2014/15, the fund's net assets increased by £70.4m to £542.6m at 31<sup>st</sup> March 2015.

### Net Assets Statement

| 2013/14<br>£000 |  | Notes | 2014/15<br>£000 |
|-----------------|--|-------|-----------------|
| 469,578         | Investment assets  | 15    | 528,108         |
| 2,535           | Cash deposits  | 15    | 2,145           |
| <b>472,113</b>  |  |       | <b>530,253</b>  |
| 0               | Cash Deposits (Internally managed funds)                               | 15    | 13,000          |
| (2,163)         | Investment liabilities   | 15    | (1,681)         |
| 3,170           | Current assets   | 20    | 1,586           |
| (877)           | Current liabilities  | 21    | (568)           |
| <b>472,243</b>  | <b>Net assets of the fund available to fund benefits at period end</b> |       | <b>542,590</b>  |

**Note:** The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.

## Notes to the Pension Fund Accounts

### 1. Description of Fund

The London Borough of Merton Pension Fund (“the fund”) is part of the Local Government Pension Scheme and is administered by the London Borough of Merton (“the Council”). The Council is the reporting entity for this Pension Fund.

The Local Government Pension Scheme Regulations require the authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Body for these arrangements.

#### (a) General

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended), and;
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

A Pension Fund Advisory Committee (PFAC) oversees and advises on investment of the Fund. This Committee comprises Council Members, a pensioner representative, staff side representative and officers, with the Director of Corporate Services responsible for administration. The authority takes independent professional advice on investment policy and strategy. The Committee is not a full Committee and is ordinarily referred to as a Panel.

#### (b) Membership

Certain associated organisations, known as Admitted and Scheduled Bodies, may also participate in the Pension Scheme. The Scheduled Bodies have a right to be incorporated, whereas Admitted Bodies require the agreement of the Administering Body. In addition to the Council, the Admitted and Scheduled Bodies that currently contribute to the fund are:

| Admitted Bodies  | Scheduled Bodies  |
|--|---|
| <ul style="list-style-type: none"> <li>• Greenwich Leisure</li> <li>• Merton Priory Homes</li> </ul> | <ul style="list-style-type: none"> <li>• Wimbledon and Putney Commons Conservators</li> <li>• Harris Academy Merton</li> <li>• Harris Academy Morden</li> <li>• Harris Academy Primary</li> <li>• St Mark’s Academy</li> <li>• Benedict Academy</li> <li>• Park Community School</li> <li>• CHAS (Contractors Health and Safety Assessment Scheme)</li> </ul> |

The following table summarises the membership numbers of the scheme.

| 2013/14<br>Restated |                            | 2014/15      |
|---------------------|----------------------------|--------------|
|                     | <b>Active Members</b>      |              |
| 2,984               | London Borough of Merton   | 3,390        |
| 174                 | Scheduled Bodies           | 215          |
| 107                 | Admitted Bodies            | 89           |
| <b>3,265</b>        |                            | <b>3,694</b> |
|                     | <b>Pensioners</b>          |              |
| 3,183               | London Borough of Merton   | 3,264        |
| 139                 | Scheduled Bodies           | 148          |
| 86                  | Admitted Bodies            | 97           |
| <b>3,408</b>        |                            | <b>3,509</b> |
|                     | <b>Deferred Pensioners</b> |              |
| 3,710               | London Borough of Merton   | 3,943        |
| 193                 | Scheduled Bodies           | 226          |
| 108                 | Admitted Bodies            | 114          |
| <b>4,011</b>        |                            | <b>4,283</b> |

**Note:** The figure for Deferred Pension has been restated for 2013/14 to include 'Undecided' and 'Frozen' members, who do not contribute to the Fund.

### (c) Funding

The Pension Scheme is financed by contributions from employees and employers, together with income and proceeds from investment of a Pension Fund administered by the Council in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2013.

The rates of contribution paid by employees and employers are determined by national regulations, as are the scheme's benefits. The Pension Scheme is financed by contributions from employees and employers, together with income and proceeds from investments. Contributions are made by active members of the fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31<sup>st</sup> March 2015. The Employee contributions are matched by the employer contributions which are set based on triennial actuarial funding valuations. The latest valuation occurred in 2013. Currently, employer contribution rates range from 12.0% to 24.2%. Employers pay a monetary contribution towards past service costs.

### (d) Benefits

The Defined Benefits Scheme provides payment of benefits in the form of retirement pensions, ill health provision and death grants where death occurs either in service or in retirement.

The benefits payable in respect of service from 1 April 2014 are based on career average revalued earnings rather than final salary. The detail of the changes to retirement pensions are shown in the following table:



| Pre 1st April 2014  | Post 1st April 2014  |
|---|--|
| Each year worked is worth $1/60 \times$ final pensionable salary. Pensionable pay excludes non-contractual overtime and non-pensionable additional hours. | Each year worked is worth $1/49 \times$ Career Average Revalued Earnings (CARE). Pensionable pay includes non-contractual overtime and additional hours. |

Normal Pension Age is no longer assumed to be 65, but rather the State Pension Age, which is subject to change. This would affect survivor benefits and ill health provision.

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its financial position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is disclosed in Note 19.

The Fund Account is operated on an accruals basis except where otherwise stated.

## 3. Summary of Significant Accounting Policies

### Fund account – revenue recognition

#### 3.1 Contributions

Normal contributions, both from members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due date on which they are payable in accordance with the recovery plan under which they are paid. Employers' deficit funding contributions are made on the advice of the authority's actuary. Their purpose is to finance the recovery of past service deficiencies over an agreed period (currently twelve years).

Refunds of contributions have been brought into the accounts on the basis of all valid claims paid during the year rather than the date of leaving or date of retirement.

Where members of the pension scheme have no choice but to receive a refund or single cash sum on retirement, these accounts have included any material amounts as accruals.



### 3.2 Transfers

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of payments made or receipts received in the case of individual transfers and on an accruals basis for bulk transfers, which are considered material to the accounts.

### 3.3 Investment income

Investment income is reported gross of taxation, regardless of whether tax may be payable on a portion of that income. Tax paid is reported separately.

The figure shown as investment income is made up of different types of income (dividend income for equity, rental income for property, interest income for the bond yields).

### 3.4 Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

### 3.5 Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

### Revenue account – expense items

#### 3.6 Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

#### 3.7 Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

By virtue of the Council being the Administering authority, VAT input tax is generally recoverable on all fund activities.

#### 3.8 Management Expenses

All management expenses are accounted for on an accruals basis.

### (a) Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. They are deducted from fund assets by the fund managers.

A proportion of the council's costs representing management time spent by officers on investment management are charged to the fund.

### (b) Oversight and Governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

## 3.9 Administrative Expenses

All administrative expenses are accounted for on an accruals basis. Pension administration has been carried out by the London Borough of Wandsworth on a shared service basis since 1<sup>st</sup> December 2013.

## Net Asset Statement

### 3.10 Investment Assets

The Pensions SORP requires that investments should be included at their market value at the date of the Net Assets Statement, where such a value is available. Changes in market value are debited or credited to the Fund Account. The SORP promotes the use of bid values for market values but only where they are quoted prices in an active market. If a market is not active or has not been active since significant change in economic circumstances, then fund managers may provide an alternative valuation, which in their professional opinion provides a more reliable basis for market value. Based upon these principles, investments are valued as follows:-

- Quoted securities are valued at current market "bid" price.
- Unquoted securities are valued using professional estimates of fair value provided by investment managers, or otherwise at the lower of estimate or book value where considered more prudent.
- Pooled investment vehicles are valued at bid price where available in an active market or otherwise at a single closing price.
- The two UBS Property Holdings are valued as follows: The UBS Triton Property Unit Trust (UBS Triton Trust) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, tax, income and cash balances. The UBS Life Triton Property Fund (UBS Life Triton) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, income and cash balances. UBS Life Triton Is valued at Bid Price.

- Property investments are in pooled vehicles rather than direct investments in property. Property investments (i.e. managed funds) are valued at bid prices where available and representative, or at a single price provided by the fund manager where there are no representative bid/offer spreads and the chosen single price better represents fair value.
- Derivatives are used to effect efficient management of the investment portfolio, and not as an investment class nor for speculative purposes. These are valued from prices set by independent participants in the market, with variance margins calculated against published FTSE indices. The value of futures is determined using fair value for the asset and book cost for the liability.

### **3.11 Financial liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

### **3.12 Movement in the net market value of investment**

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

### **3.13 Foreign currency**

Foreign currency transactions are converted into Sterling by the investment managers. This is done at London rates prevailing at close of business on the 31 March 2015.

### **3.14 Cash**

Cash comprises cash in hand and demand deposits.

### **3.15 Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

### **3.16 Provisions**

Provisions are liabilities of uncertain timing or amount. Provision is made for unusual items which meet the definition of a provision but only when these are judged to be material to the accounts.

### **3.17 Additional Voluntary Contributions**

Merton Pension fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund now only uses one provider, the Prudential PLC. The Bank

of Ireland has ceased to exist as a provider and any outstanding accounts with them have been transferred to the Prudential PLC.

AVC's are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 22).

### 3.18 Going Concern

The Pension Fund Accounts have been prepared on a going concern basis.

## 4. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 3 above, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

### 4.1 Pension Fund Liability

An actuarial valuation of the Fund is carried out every three years and there are annual updates in the intervening years. These valuations determine the pension fund liability at a given date. There are various assumptions used by the actuary that underpin the valuations, therefore the valuations are subject to significant variances dependent on the assumptions used.

## 5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The main item in the Fund's Net Asset Statement at 31 March 2015 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

| Item   | Uncertainties   | Effect if actual results differ from assumptions   |
|--|---|--|
| Actuarial present value of promised retirement benefits. | Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age. | The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £13.7m and a -0.1% reduction would increase the obligation by £14.0m. An adjustment to the mortality age rating assumption of -1 yr would increase the obligation by £27.6m. |

## 6. Events After The Reporting Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:



- a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and;  
 b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

## 7. Contributions Receivable

| 2013/14<br>£000 |                                 | 2014/15<br>£000 |
|-----------------|---------------------------------|-----------------|
| 16,069          | <b>By Category</b><br>Employers | 29,005          |
| 4,794           | Members                         | 5,335           |
| <b>20,863</b>   | <b>Total</b>                    | <b>34,340</b>   |

**Note:** Central and Cecil Housing Trust ceased to participate in the fund 31 March 2014. A full cessation payment of £1,593k is included in 2014/15 employer figures (Admitted Body).

| 2013/14<br>£000 |                                      | 2014/15<br>£000 |
|-----------------|--------------------------------------|-----------------|
| 19,591          | <b>By Authority</b><br>Administering | 31,248          |
| 604             | Scheduled                            | 876             |
| 668             | Admitted                             | 2,216           |
| <b>20,863</b>   | <b>Total</b>                         | <b>34,340</b>   |

| 2013/14<br>£000 |                                    | 2014/15<br>£000 |
|-----------------|------------------------------------|-----------------|
| 10,490          | <b>By Type</b><br>Employers Normal | 12,860          |
| 4,794           | Employees Normal                   | 5,335           |
| 4,800           | Deficit Funding                    | 15,097          |
| 779             | Employers Additional               | 1,048           |
| <b>20,863</b>   | <b>Total</b>                       | <b>34,340</b>   |

## 8. Transfers In From Other Pension Funds

| 2013/14<br>£000 |                      | 2014/15<br>£000 |
|-----------------|----------------------|-----------------|
| 765             | Individual Transfers | 983             |
| <b>765</b>      | <b>Total</b>         | <b>983</b>      |



## 9. Benefits Payable

| 2013/14<br>£000 |   | 2014/15<br>£000 |
|-----------------|---|-----------------|
| 17,582          | <b>By Category</b><br>Pensions                | 18,473          |
| 2,301           | Commutations and lump sum retirement benefits | 2,939           |
| 382             | Lump sum death benefits                       | 668             |
| <b>20,265</b>   | <b>Total</b>                                  | <b>22,080</b>   |

| 2013/14<br>£000 |                                      | 2014/15<br>£000 |
|-----------------|--------------------------------------|-----------------|
| 19,218          | <b>By Authority</b><br>Administering | 20,276          |
| 607             | Scheduled                            | 1,066           |
| 440             | Admitted                             | 738             |
| <b>20,265</b>   | <b>Total</b>                         | <b>22,080</b>   |

## 10. Payments to and on Account of Leavers

| 2013/14<br>£000 |                         | 2014/15<br>£000 |
|-----------------|-------------------------|-----------------|
| 1,517           | Individual Transfers    | 1,109           |
| 7               | Refunds of Contribution | 40              |
| 0               | State Scheme Premiums   | (6)             |
| <b>1,524</b>    | <b>Total</b>            | <b>1,143</b>    |

## 11. Management Expenses

| 2013/14<br>£000<br>Restated |                                | 2014/15<br>£000 |
|-----------------------------|--------------------------------|-----------------|
| 426                         | Administrative Costs           | 332             |
| 892                         | Investment management expenses | 329             |
| 181                         | Oversight and governance costs | 195             |
| <b>1,499</b>                | <b>Total</b>                   | <b>856</b>      |

**Note:** Investment management expenses includes £131k transaction costs (2013/14: £124k), and indirect costs incurred through the purchase and sales of investments. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15.3).

## 12. Investment Income

| 2013/14<br>£000 |                             | 2014/15<br>£000 |
|-----------------|-----------------------------|-----------------|
| 1,054           | Fixed Interest Securities   | 2,697           |
| 7,438           | Equity dividends            | 6,839           |
| 84              | Pooled Investments          | 184             |
| 470             | Pooled Property Investments | 518             |
| 466             | Other                       | 716             |
| <b>9,512</b>    | <b>Total</b>                | <b>10,954</b>   |

### 13. Taxes on Income

| 2013/14<br>£000 |                     | 2014/15<br>£000 |
|-----------------|---------------------|-----------------|
| 269             | Non-Recoverable Tax | 268             |
| 27              | Withholding Tax     | 48              |
| <b>296</b>      | <b>Total</b>        | <b>316</b>      |

### 14. Investment Expenses

| 2013/14<br>£000 |                 | 2014/15<br>£000 |
|-----------------|-----------------|-----------------|
| 887             | Management Fees | 300             |
| 5               | Custody Fees    | 29              |
| <b>892</b>      | <b>Total</b>    | <b>329</b>      |

**Notes:** (1) Management Fees include a rebate of £257k for a retrospective VAT claim for the years 2010 to 2012. (2) The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments.

### 15. Investment

#### 15.1 Asset management arrangements

The management of Pension Fund investments is delegated to external investment managers. The table below shows the market value of the assets (including accrued dividends) by fund manager and the proportion managed by each manager as at 31 March 2015. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

| 2013/14        |            | Fund Manager    | 2014/15        |            |
|----------------|------------|-----------------|----------------|------------|
| £000           | %          |                 | £000           | %          |
| 202,683        | 43         | Aberdeen        | 231,570        | 44         |
| 261,859        | 56         | UBS             | 290,829        | 55         |
| 5,408          | 1          | RREEF/Blackrock | 6,173          | 1          |
| <b>469,950</b> | <b>100</b> | <b>Total</b>    | <b>528,572</b> | <b>100</b> |

**Note:** £13m internally managed funds is not included above.

#### 15.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2015 is over page below. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

| Market Value<br>31 March 2014<br>£000 |   | Market Value<br>31 March 2015<br>£000 |
|---------------------------------------|---|---------------------------------------|
|                                       | <b>Investment Assets</b>                        |                                       |
| 108,064                               | Fixed Interest Securities                       | 127,116                               |
| 189,623                               | Equities  | 200,755                               |
| 155,516                               | Pooled Investments                              | 181,736                               |
| 13,197                                | Pooled Property Investments                     | 15,391                                |
| 2,159                                 | Derivative Contracts - Futures                  | 1,682                                 |
| 2,535                                 | Cash Deposits                                   | 2,145                                 |
| 1,019                                 | Investment income due                           | 1,428                                 |
| <b>472,113</b>                        | <b>Total Investment Assets</b>                  | <b>530,253</b>                        |
|                                       | <b>Investment Liabilities</b>                   |                                       |
| (2,163)                               | Derivative Contracts - Futures                  | (1,681)                               |
| <b>(2,163)</b>                        | <b>Total Investments liabilities</b>            | <b>(1,681)</b>                        |
| <b>0</b>                              | <b>Cash Deposits (Internally Managed Funds)</b> | <b>13,000</b>                         |
| <b>469,950</b>                        | <b>Net Investment assets</b>                    | <b>541,572</b>                        |

### 15.3 Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2014/2015. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

|  | Market Value<br>1 April 2014<br>£000 | Purchases<br>during the<br>year and<br>derivative<br>payments<br>£000 | Sales during<br>the year and<br>derivative<br>receipts<br>£000 | Change in<br>Market Value<br>during the<br>year<br>£000 | Market Value<br>31 March 2015<br>£000 |
|--|--------------------------------------|---|--|---|---------------------------------------|
| <b>Fixed Interest Securities</b>             | <b>108,064</b>                       | 5,068   | (2,639)  | 16,623  | <b>127,116</b>                        |
| <b>Equities</b>                              | <b>189,623</b>                       | 30,550  | (24,221)   | 4,803   | <b>200,755</b>                        |
| <b>Pooled Investments</b>                    | <b>155,516</b>                       | 54,498  | (53,235)   | 24,957  | <b>181,736</b>                        |
| <b>Pooled Property</b>                       | <b>13,197</b>                        | 220   | (12)   | 1,986   | <b>15,391</b>                         |
|  | <b>466,400</b>                       | <b>90,336</b>   | <b>(80,107)</b>  | <b>48,369</b>   | <b>524,998</b>                        |
| <b>Derivatives (Futures)</b>                 |                                      |   |  |   |                                       |
| Future contracts                             | 2,159                                | 9,468   | (10,068)   | 123   | 1,682                                 |
| Cash Liability                               | (2,163)                              | 0   | 0  | 482   | (1,681)                               |
|  | <b>466,396</b>                       | <b>99,804</b>   | <b>(90,175)</b>  | <b>48,492</b>   | <b>524,999</b>                        |
| <b>Other Investment Balances</b>             |                                      |   |  |   |                                       |
| Cash UK (Fund Managers)                      | 2,535                                |   |  | (482)   | 2,145                                 |
| Investment Income Due                        | 1,019                                |   |  |   | 1,428                                 |
| Realised Loss on FX                          | 0                                    |   |  | (28)  | 0                                     |
|  | <b>3,554</b>                         |   |  |   | <b>3,573</b>                          |
| <b>Total Investments at<br/>Market Value</b> | <b>469,950</b>                       |   |  | <b>48,464</b>   | <b>528,572</b>                        |
| <b>Cash Deposits</b>                         | <b>0</b>                             | <b>13,000</b>   |  |   | <b>13,000</b>                         |
| <b>Net Investment Assets</b>                 | <b>469,950</b>                       |   |  |   | <b>541,572</b>                        |

Note: (1) Transaction costs have been reported separately for the first time this year. See Note 14. (2) Cash deposits of £13m have been internally managed.

### Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2013/2014. Future contracts have been restated to account for Purchases and Sales within the Future contract rather than the cash liability.

|  | Market Value<br>1 April 2013<br>£000 | Purchases<br>during the<br>year and<br>derivative<br>payments<br>£000 | Sales during<br>the year and<br>derivative<br>receipts<br>£000 | Change in<br>Market Value<br>during the<br>year<br>£000 | Market Value<br>31 March 2014<br>£000 |
|--|--------------------------------------|---|--|---|---------------------------------------|
| <b>Fixed Interest Securities</b>             | <b>113,623</b>                       | <b>30,845</b>   | <b>(30,121)</b>  | <b>(6,283)</b>  | <b>108,064</b>                        |
| <b>Equities (restated)</b>                   | <b>177,106</b>                       | <b>26,681</b>   | <b>(20,584)</b>  | <b>6,420</b>  | <b>189,623</b>                        |
| <b>Pooled Investments</b>                    | <b>147,737</b>                       | <b>5,311</b>  | <b>(4,815)</b>   | <b>7,283</b>  | <b>155,516</b>                        |
| <b>Pooled Property (restated)</b>            | <b>11,681</b>                        | <b>545</b>  | <b>0</b>   | <b>971</b>  | <b>13,197</b>                         |
|  | <b>450,147</b>                       | <b>63,382</b>   | <b>(55,520)</b>  | <b>8,391</b>  | <b>466,400</b>                        |
| <b>Derivatives (Futures)</b>                 |                                      |   |  |   |                                       |
| Future contracts (restated)                  | 1,461                                | 9,547   | (8,938)  | 89  | 2,159                                 |
| Cash Liability (restated)                    | (1,479)                              | 0   | 0  | (684)   | (2,163)                               |
|  | <b>450,129</b>                       | <b>72,929</b>   | <b>(64,458)</b>  | <b>7,796</b>  | <b>466,396</b>                        |
| <b>Other Investment Balances</b>             |                                      |   |  |   |                                       |
| Cash UK (Fund Managers)                      | 2,226                                |   |  | 679   | 2,535                                 |
| Investment Income Due                        | 974                                  |   |  |   | 1,019                                 |
|  | <b>3,200</b>                         |   |  |   | <b>3,554</b>                          |
| <b>Total Investments at<br/>Market Value</b> | <b>453,329</b>                       |   |  | <b>8,475</b>  | <b>469,950</b>                        |

Note: Transaction costs have been reported separately and subsequently 13/14 figures for equities and property purchases restated.



### 15.4 Detail analysis of investments (excluding derivative contracts)

The table below shows an analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'. The analysis excludes derivatives.

| Market Value<br>31 March 2014<br>£000 |  | Market Value<br>31 March 2015<br>£000 |
|---------------------------------------|--|---------------------------------------|
|                                       | <b>Fixed Interest Securities</b>         |                                       |
| 81,495                                | Public Sector : UK quoted                | 95,765                                |
| 26,569                                | : Overseas quoted                        | 31,351                                |
| <b>108,064</b>                        |  | <b>127,116</b>                        |
|                                       | <b>Equities (Direct)</b>                 |                                       |
| 167,425                               | UK quoted                                | 185,369                               |
| 21,769                                | Other European quoted                    | 15,386                                |
| 139                                   | American                                 | 0                                     |
| 290                                   | Other Overseas                           | 0                                     |
| <b>189,623</b>                        |  | <b>200,755</b>                        |
|                                       | <b>Pooled Investments</b>                |                                       |
| 32,376                                | UK (Equities)                            | 39,917                                |
| 15,116                                | Other European (Equities)                | 28,203                                |
| 36,011                                | American (Equities)                      | 54,064                                |
| 12,944                                | Japanese (Equities)                      | 23,063                                |
| 45,688                                | Other Overseas (Equities)                | 20,336                                |
| 13,381                                | Developing Markets (Equities)            | 16,153                                |
| 5,105                                 | Property Managed Fund/Units quoted       | 6,131                                 |
| 8,092                                 | Property Managed Fund/Units un-quoted    | 9,260                                 |
| 3,554                                 | Other Investment Balances                | 3,573                                 |
| <b>172,267</b>                        |  | <b>200,700</b>                        |
| 0                                     | Cash Deposits (Internally Managed Funds) | 13,000                                |
| <b>469,954</b>                        | <b>Total</b>                             | <b>541,571</b>                        |

### 15.5 Analysis of derivatives

Futures contracts are used to gain exposure to investment markets without the need to purchase underlying stocks and shares. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

The derivative instruments, which are used by the fund, are FTSE future contracts, which have been applied to the active and passive sub funds managed by UBS Asset Management. At 31 March 2015, the value of FTSE futures amounted to less than 0.5% (0.7% in 2013/14) of all equity investment in the fund.

The following table reflects the fund's exposure to future contracts.

| Type        | Expires            | Economic exposure<br>£000 | Market value<br>31 March<br>2014<br>£000 | Economic exposure<br>£000 | Market value<br>31 March<br>2015<br>£000 |
|-------------|--------------------|---------------------------|--|---------------------------|--|
| UK Equities | Three – Six months | 2,163                     | 2,159                                    | 1,681                     | 1,682                                    |



| 31 March 2014  |                               |  |                              | 31 March 2015  |                               |  |
|--|-------------------------------|--|------------------------------|--|-------------------------------|--|
| Designated at fair value through profit and loss<br>£000 | Loans and receivables<br>£000 | Financial liabilities at amortised costs<br>£000 |                              | Designated at fair value through profit and loss<br>£000 | Loans and receivables<br>£000 | Financial liabilities at amortised costs<br>£000 |
|  |                               |  | <b>Financial Assets</b>      |  |                               |  |
| 108,064  |                               |  | Fixed Interest Securities    | 127,116  |                               |  |
| 189,623  |                               |  | Equities                     | 200,755  |                               |  |
| 155,516  |                               |  | Pooled Investments           | 181,736  |                               |  |
| 13,197   |                               |  | Pooled Property Investments  | 15,391   |                               |  |
| 2,159  |                               |  | Derivative Contracts         | 1,682  |                               |  |
|  | 2,535                         |  | Cash                         |  | 2,086                         |  |
| 1,019  |                               |  | Other Investment Balances    | 1,428  |                               |  |
|  | 3,170                         |  | Debtors                      |  | 1,587                         |  |
| <b>469,578</b>   | <b>5,705</b>                  | <b>0</b>   |                              | <b>528,108</b>   | <b>3,673</b>                  | <b>0</b>   |
|  |                               |  | <b>Financial Liabilities</b> |  |                               |  |
| (2,163)  |                               |  | Derivative Contracts         | (1,681)  |                               |  |
|  |                               | (877)  | Creditors                    |  |                               | (568)  |
| <b>(2,163)</b>   | <b>0</b>                      | <b>(877)</b>                                     |                              | <b>(1,681)</b>   | <b>0</b>                      | <b>(568)</b>                                     |
|  |                               |  |                              |  |                               |  |
| <b>467,415</b>   | <b>5,705</b>                  | <b>(877)</b>                                     |                              | <b>526,427</b>   | <b>3,673</b>                  | <b>(568)</b>                                     |

### 16.2 Net gains and losses on financial instruments

The table below shows net gains on financial assets at fair value through profit and loss.

| 31 March 2014<br>£000 |  | 31 March 2015<br>£000 |
|-----------------------|--|-----------------------|
|                       | <b>Financial Assets / Liabilities</b>                  |                       |
| 8,385                 | Fair Value through profit and loss (2013/14: Restated) | 48,341                |
| 90                    | Loans and Receivables                                  | 123                   |
| <b>8,475</b>          | <b>Total</b>   | <b>48,464</b>         |

### 16.3 Valuation of financial Instruments carried at fair value

The valuation of financial instruments can be classified into three levels, according to the quality and reliability of information used to determine fair values. All the financial instruments of the fund are classified as level 1, 2 and 3, as follows:

Level 1 – Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of investment is based on the bid market quotation of the relevant stock exchange.

Level 2 – those financial instruments where market prices are not available. For example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 – those financial instruments where at least one input, that could have a significant effect on the instrument's valuation, is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 and 2, based on the level at which the fair value is observable.

| 31 March 2014               |                             |                                    | 31 March 2015               |                             |
|-----------------------------|-----------------------------|------------------------------------|-----------------------------|-----------------------------|
| Quoted market price Level 1 | Quoted market price Level 2 |                                    | Quoted market price Level 1 | Quoted market price Level 2 |
| £000                        | £000                        |                                    | £000                        | £000                        |
| 456,380                     | 13,197                      | <b>Financial Assets</b>            |                             |                             |
| 2,535                       |                             | Fair Value through profit and loss | 525,769                     | 15,391                      |
|                             |                             | Loans and Receivables              | 2,086                       |                             |
| (2,159)                     |                             | <b>Financial Liabilities</b>       |                             |                             |
|                             |                             | Fair Value through profit and loss | (1,682)                     |                             |
| <b>456,756</b>              | <b>13,197</b>               | <b>Total</b>                       | <b>526,173</b>              | <b>15,391</b>               |

#### 16.4 Fair value of financial instruments and liabilities

The following table compares the carrying value to the fair value of financial assets and financial liabilities. The derivatives (both assets and liabilities) are recognised at market value.

| 31 March 2014          |                    |                                    | 31 March 2015          |                    |
|------------------------|--------------------|------------------------------------|------------------------|--------------------|
| Carrying value<br>£000 | Fair value<br>£000 |                                    | Carrying value<br>£000 | Fair value<br>£000 |
|                        |                    | <b>Financial Assets</b>            |                        |                    |
| 361,773                | 469,578            | Fair Value through profit and loss | 422,097                | 541,160            |
| 2,532                  | 2,535              | Loans and Receivables              | 2,048                  | 2,086              |
|                        |                    | <b>Financial Liabilities</b>       |                        |                    |
| (2,163)                | (2,159)            | Fair Value through profit and loss | (1,681)                | (1,682)            |
| <b>362,142</b>         | <b>469,954</b>     | <b>Total</b>                       | <b>422,464</b>         | <b>541,564</b>     |

## 17. Nature and Extent of Risks Arising From Financial Instruments

### 17.1 Risk and risk management

The fund's main long-term risk is that the fund's assets will fall short of its liabilities of paying benefits to its members. Investment risk management aims to reduce the risk of the overall reduction of the fund while increasing returns. To achieve this, the fund is diversified through its asset allocation thereby reducing its price, currency and interest rate risks. Liquidity risk in the fund is managed by monitoring the cash flow forecast of the fund and ensuring that there is sufficient cash to pay its benefits payable obligations. The Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund advisory committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. The Statement of Investment Principles and Risk Register are reviewed regularly to reflect changes in activity and in market conditions. The fund also ensures reputable investment managers are used through its rigorous fund manager's selection process. In addition the fund employs an independent advisor who provides advice on investment issues.

### 17.2 Market risk

The fund is exposed to market risk from its investment activities especially through its equity holdings. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risks on equity investments. The Fund has one future valued at £1,681,750 as at 31 March 2015 (£2,159,355 as at 31 March 2014).

### 17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. The London Borough of Merton asset allocation is predominantly in equities, the majority of which are priced in Pounds Sterling. Riskier assets in the fund such as equities display greater potential price volatility than bonds. The fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the council to ensure they are within limits specified in the fund investment strategy.



| Asset Type                          | Value at 31 March 2015<br>£000 | % Change | Value on Increase<br>£000 | Value on Decrease<br>£000 |
|-------------------------------------|--------------------------------|----------|---------------------------|---------------------------|
| <b>Cash and cash equivalents</b>    |                                |          |                           |                           |
| Cash                                | 2,086                          | 0.01     | 2,086                     | 2,085                     |
| <b>Investment portfolio assets</b>  |                                |          |                           |                           |
| UK Equities                         | 225,363                        | 10.19    | 248,327                   | 202,398                   |
| Overseas Equities                   | 157,206                        | 9.03     | 171,401                   | 143,010                   |
| Bonds and Index Linked              | 127,117                        | 8.14     | 137,464                   | 116,769                   |
| Property                            | 15,391                         | 5.02     | 16,163                    | 14,618                    |
| Income Due                          | 1,402                          | 0.00     | 1,402                     | 1,402                     |
| Fixed Deposits (Internally managed) | 13,000                         | 0.00     | 13,000                    | 13,000                    |
| <b>Total Assets</b>                 | <b>541,565</b>                 |          | <b>589,843</b>            | <b>493,282</b>            |

Note: The % change for Total Assets includes the impact of correlation across asset classes

| Asset Type                         | Value at 31 March 2014<br>£000 | % Change | Value on Increase<br>£000 | Value on Decrease<br>£000 |
|------------------------------------|--------------------------------|----------|---------------------------|---------------------------|
| <b>Cash and cash equivalents</b>   |                                |          |                           |                           |
| Cash                               | 2,440                          | 0.02     | 2,440                     | 2,440                     |
| <b>Investment portfolio assets</b> |                                |          |                           |                           |
| UK Equities                        | 200,763                        | 12.08    | 225,015                   | 176,511                   |
| Overseas Equities                  | 144,477                        | 11.56    | 161,179                   | 127,775                   |
| Bonds and Index Linked             | 108,064                        | 6.45     | 115,034                   | 101,094                   |
| Property                           | 13,197                         | 4.45     | 13,784                    | 12,610                    |
| Income Due                         | 1,011                          | 0.00     | 1,011                     | 1,011                     |
| <b>Total Assets</b>                | <b>469,952</b>                 |          | <b>518,463</b>            | <b>421,441</b>            |

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2015 asset mix as shown in the following table (Note 17.4):

#### 17.4 Other price risk

Potential price changes are based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on fund asset allocations. The following table shows the volatility between the asset classes invested in.

| Asset Type             | Potential market movements (+/-) |
|------------------------|----------------------------------|
| UK Equities            | 10.19%                           |
| Overseas Equities      | 9.03%                            |
| Bonds and Index Linked | 8.14%                            |
| Cash                   | 0.01%                            |
| Property               | 5.02%                            |

### 17.5 Interest rate risk

Generally fixed interest rate investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. As at 31 March 2015, the fund's fixed rate investments were in pooled investments. These internally managed investments are of very short duration.

### 17.6 Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the GBP. The majority of foreign equities in the UBS portfolio are priced in GBP thereby reducing currency risk fluctuations. The % change has been derived from the measurement of volatility of the fund over three years.

The table below shows the currency exposure by asset type as at 31 March 2015.

| Asset Type                   | Value at 31 March 2014<br>£000 | % Change    | Value on Increase<br>£000 | Value on Decrease<br>£000 |
|------------------------------|--------------------------------|-------------|---------------------------|---------------------------|
| Overseas Equities            | 157,206                        | 5.69        | 166,147                   | 148,264                   |
| Overseas Bonds               | 31,351                         | 5.69        | 33,135                    | 29,568                    |
| <b>Total Overseas Assets</b> | <b>188,557</b>                 | <b>5.69</b> | <b>199,282</b>            | <b>177,832</b>            |

The table below shows the currency exposure by asset type as at 31 March 2014.

| Asset Type                   | Value at 31 March 2014<br>£000 | % Change | Value on Increase<br>£000 | Value on Decrease<br>£000 |
|------------------------------|--------------------------------|----------|---------------------------|---------------------------|
| Overseas Equities            | 144,477                        | 5.16     | 151,930                   | 137,025                   |
| Overseas Bonds               | 26,569                         | 5.16     | 27,939                    | 25,199                    |
| <b>Total Overseas Assets</b> | <b>171,046</b>                 |          | <b>179,869</b>            | <b>162,224</b>            |

The following table calculates the aggregate currency exposure within the fund as at 31 March 2015. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

| Currency        | Value at 31 March 2015<br>£000 | % Change | Value on Increase<br>£000 | Value on Decrease<br>£000 |
|-----------------|--------------------------------|----------|---------------------------|---------------------------|
| Danish Krone    | 771                            | 6.19     | 819                       | 723                       |
| EURO            | 9,675                          | 6.15     | 10,270                    | 9,080                     |
| Norwegian Krone | 582                            | 8.64     | 632                       | 531                       |
| Swedish Krona   | 2,561                          | 7.30     | 2,748                     | 2,374                     |
| Swiss Franc     | 4,448                          | 9.34     | 4,864                     | 4,033                     |
| US Dollar       | 31,358                         | 7.78     | 33,798                    | 28,918                    |
| <b>Total</b>    | <b>49,395</b>                  |          | <b>53,131</b>             | <b>45,659</b>             |

| Currency        | Value at 31 March 2014<br>£000 | % Change | Value on Increase<br>£000 | Value on Decrease<br>£000 |
|-----------------|--------------------------------|----------|---------------------------|---------------------------|
| Danish Krone    | 518                            | 6.26     | 550                       | 485                       |
| EURO            | 9,271                          | 6.31     | 9,857                     | 8,686                     |
| Norwegian Krone | 506                            | 8.79     | 550                       | 462                       |
| Swedish Krona   | 2,203                          | 7.03     | 2,358                     | 2,049                     |
| Swiss Franc     | 3,124                          | 7.42     | 3,356                     | 2,892                     |
| US Dollar       | 131                            | 8.07     | 141                       | 120                       |
| <b>Total</b>    | <b>15,753</b>                  |          | <b>16,812</b>             | <b>14,694</b>             |

### 17.7 Credit risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The average long term credit rating in the bond portfolio is AA as at 31 March 2015. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

The table below shows the credit quality.

| Credit Quality | Value at 31 March 2014 | Value at 31 March 2015 |
|----------------|------------------------|------------------------|
| AAA            | 2,270                  | 3,432                  |
| AA             | 80,838                 | 93,049                 |
| A              | 11,240                 | 11,949                 |
| BBB            | 11,456                 | 16,017                 |
| BB or below    | 648                    | 1,271                  |
| Cash           | 0                      | 1,398                  |
| Settled Cash   | 0                      | 36                     |
|                | <b>106,452</b>         | <b>127,152</b>         |
| A              | 0                      | 3,000                  |
| N/A            | 0                      | 10,000                 |
|                | <b>0</b>               | <b>13,000</b>          |
| <b>Total</b>   | <b>106,452</b>         | <b>140,152</b>         |

The fund's cash balance under its treasury management arrangements as at 31 March 2015 was held with Lloyds bank with a credit rating of A.

### 17.8 Liquidity risk

The Council has immediate access to its pension fund cash holdings to enable it to meet its financial obligations when due. Within the bond portfolio, the fund is permitted to hold up to 10% of the fund in cash for this reason and to ensure that the fund has available an element of cash to ensure that settlement of the segregated securities traded in the portfolio do not take the cash accounts overdrawn.

Fund cashflow is periodically reviewed by the Pension Fund Panel on a quarterly basis.

### 17.9 Refinancing risk

The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 18. Funding Arrangements

### 18.1 Actuarial position

The assets and liabilities of the Fund are valued at three-yearly intervals by the Council's Actuary (Barnett Waddingham LLP). The main purpose of the actuarial valuation is:

- (i) to determine the accrued position of the fund (for which the valuation of assets is based on the 'assessed value approach') and;
- (ii) to establish appropriate contribution arrangements required to support accruing benefits (for which the 'projected unit' actuarial method is adopted).

### 18.2 Actuarial assumption

Barnett Waddingham LLP carried out the last actuarial valuation in 2013. This gave an assessment of the value of the fund as at 31 March 2013. The results of the actuarial valuation showed that the assessed value of assets held by the Fund at 31<sup>st</sup> March 2013 was £451.0m, whilst the liabilities accrued in respect of pensionable service were £504.2m. The assessed actuarial value of £451.0m was different to the market value of the assets at 31 March 2013 (shown in Note 18.4) because the actuarial value is based on the average asset value over 6 months straddling the valuation date.

The valuation of the Fund is underpinned by 'economic' and 'statistical' assumptions. The major 'economic' assumptions relate to the rate of price inflation, general pay escalation and the rate of dividend growth. The 'statistical' assumptions cover matters such as future rates of withdrawal and retirement from service, rates of mortality, the proportion of members married and the progression of pensionable pay from age to age, attributable to increasing responsibility and promotion.

The following tables show financial assumptions used in the actuarial valuation. Following a change in valuation results presentation since the last valuation only nominal returns are now reported.

| Future Assumed Returns at 2013<br>% p.a. |  | Risk Adjusted Discount<br>Rate Weighting<br>%                           |
|--|--|---|
| Equities                                 | 6.9  | 71  |
| Gilts                                    | 3.3  | 25  |
| Cash                                     | 3.1  | 1   |
| Property                                 | 6.0  | 3   |
| Expense allowances                       | 0.1  | -   |
| <b>Financial Assumptions</b>             | <b>2013</b>  | <b>2010</b>   |
| Discount Rate                            | 5.9  | 6.7   |
| Retail Price Index (RPI)                 | 3.5  | 3.5   |
| Consumer Price Inflation (CPI)           | 2.7  | 3.0   |
| Pension & Deferred Pension Increases     | 2.7  | 3.0   |
| Short Term Pay Increase                  | In line with the CPI assumption for the 2 yrs to 31 March 2015 | Pay freeze for those earning over £21k for the 2 years to 31 March 2012 |
| Long Term Pay Increase                   | 4.5  | 5.0   |

### 18.3 Funding policy

In line with the Local Government Pension Scheme Regulations 2013, the funds actuary undertakes a funding valuation every three years. The next valuation is in 2016. The Regulations require the Actuary to set the employer's contribution rate for the authority and Scheduled and Admitted Bodies, so that it is sufficient to meet 100% of existing and prospective liabilities including pension increases. The funding objective is to ensure that the Scheme's assets and income are adequate to finance scheme members' benefits when they fall due.

The actuary has recommended contribution rates that recover past service deficit in the Fund over the next twelve years from 1<sup>st</sup> April, this is consistent with the funding strategy.

### 18.4 Funding position

The overall funding level increased from 84% in 2010 to 89% in 2013.

Investment returns were higher than assumed and pay increases lower than assumed.

The table below shows the funding level and deficit for the past three triennial valuations.

|                      | 2007<br>Valuation | 2010<br>Valuation | 2013<br>Valuation |
|----------------------|-------------------|-------------------|-------------------|
| Funding Level %      | 90.5              | 84.0              | 89.0              |
| Funding (Deficit) £m | (33.5)            | (67.2)            | (53.2)            |

The funding deficiency of £53.2 million at the time of the 2013 valuation was equivalent to 11% of accrued liabilities, compared to 16% as at the time of the 2010 valuation.



The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 is 21.4% of pensionable payroll. From 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2017 the Common Rate of Contribution will be 21% of pensionable pay.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 and 2013 actuarial valuation reports.

The table below shows the reconciliation of past service position from 2010 and 2013 valuations.

|                                  |  | Funding Position<br>£m |    |
|----------------------------------|--|------------------------|----|
| <b>Deficit at 2010 Valuation</b> |  | <b>(67)</b>            |    |
| Deficit Funded (Use of Surplus)  |  |                        | 18 |
| Financial Loss                   |  | (14)                   |    |
| Experience                       |  |                        | 11 |
| Change in Assumptions            |  | (1)                    |    |
| <b>Deficit at 2013 Valuation</b> |  | <b>(53)</b>            |    |

The following tables show the past service funding position for the 2010 and 2013 valuations.

|                                    |  | 31 March 2013<br>£000 |                     |
|------------------------------------|--|-----------------------|---------------------|
| <b>Asset Value</b>                 |  |                       | <b>450,974</b>      |
| <b>Past Service Liabilities</b>    |  |                       |                     |
| Active Members                     |  | 165,417               |                     |
| Deferred Pensioners                |  | 87,644                |                     |
| Pensioner Members                  |  | 251,112               |                     |
| <b>Total</b>                       |  |                       | <b>504,173</b>      |
| <b>Surplus (Deficit)</b>           |  |                       | <b>(53,199)</b>     |
| <b>Funding Level</b>               |  |                       | <b>89%</b>          |
| <b>Employer Contribution Rates</b> |  |                       |                     |
|                                    |  |                       | <b>% of Payroll</b> |
| Future Service Cost                |  |                       | 14.0                |
| Deficit Recovery (12 years)        |  |                       | 7.0                 |
| <b>Total Contribution Rate</b>     |  |                       | <b>21.0</b>         |

The funding position is a statement that encapsulates the liability to finance pension payments over many years, and does not imply that there is any difficulty in financing them in the short term. Investments in support of the Local Government Pension Scheme are long-term investments, and there is an expectation that over the long

term the value of the fund will ride-out the cyclical movements of the investment markets, and support an adequate funding level.

## 19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS 26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes. In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2015, using a valuation methodology that is consistent with IAS19.

The financial assumptions used for the purposes of the calculations are as follows:

|  | Assumptions<br>as at<br>31/03/15<br>% |
|--|---------------------------------------|
| <b>Inflation/Pension increase rate</b> | 2.4                                   |
| <b>Salary rate increase</b>            | 4.2                                   |
| <b>Discount Rate</b>                   | 3.3                                   |

The value of the Fund's promised retirement benefits as at 31 March 2015 was

| Year Ended   | 31/03/14<br>£m | 31/03/15<br>£m |
|--|----------------|----------------|
| <b>Present value of promised retirement benefits</b> | 685.2          | 816.1          |

## 20. Current Assets

|                       | 31/03/14<br>£000 | 31/03/15<br>£000 |
|-----------------------|------------------|------------------|
| <b>Debtors</b>        |                  |                  |
| Contributions due     | 1,245            | 1,358            |
| Sundry Debtors        | 821              | 41               |
| Cash in Hand          | 1,104            | 187              |
| <b>Current Assets</b> | <b>3,170</b>     | <b>1,586</b>     |

## Analysis of Debtors

|                               | 31/03/14<br>£000 | 31/03/15<br>£000 |
|-------------------------------|------------------|------------------|
| Administering Body            | 1,140            | 1,242            |
| Admitted and Scheduled Bodies | 105              | 116              |
| Sundry Debtors                | 821              | 41               |
| <b>Current Debtors</b>        | <b>2,066</b>     | <b>1,399</b>     |

## 21. Current Liabilities

| Creditors                  | 31/03/14<br>£000 | 31/03/15<br>£000 |
|----------------------------|------------------|------------------|
| Cash overdrawn             | (217)            | (1)              |
| Fund Managers Fees         | (160)            | (267)            |
| Sundry                     | (500)            | (48)             |
| Payroll                    | 0                | (252)            |
| <b>Current Liabilities</b> | <b>(877)</b>     | <b>(568)</b>     |

## 22. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the pension fund accounts but are paid over by the Council's shared payroll service and invested by a specialist AVC provider, Prudential PLC, independently of the London Borough of Merton Pension Fund.

The amount of additional voluntary contributions paid by members during 2014/15 to AVC schemes outside the authority's responsibility was £0.144m (£0.187m at 31 March 2014). The external providers have reported that at 31 March 2015 the total value of accumulated AVCs is £1.663m (£1.450m at 31 March 2014).

## 23. Related Parties

Related parties to the pension fund include: -

- i) **The London Borough of Merton**, a separate pension fund bank account is in full operation which holds pension fund cash balances. The Council recharges the Fund for incurred overheads while the pension fund recharges the council for any employers recharge to pensioners pay.
- ii) **The Admitted and Scheduled bodies** who make employer contributions to the fund.
- iii) **Local authority elected members and senior management officers** who sit on the Pension Fund Advisory Panel.

There is one Pensioner representative on the Panel who is in receipt of pension benefits. The senior officer in the financial management of Merton Pension Fund is the Director of Corporate Services who is remunerated by Merton Council as the administering authority. They are not paid directly by the Merton Pension Fund. However the pension fund is recharged by the Administering Authority for officers time spent in the management of the pension fund. Further information on remuneration is available within the financial statements of Merton Council.

There have been no related-party disclosures, or material declarable transactions with the Pension Fund during the financial year other than administrative services

and the use of the council's financial systems which may result in occasional cross transactions. The former were undertaken by the Council on behalf of the Pension Fund, at a cost, of £0.332m, (£0.426m in 2013/14).

## 24. Contingent and Contractual Liabilities

Following a bulk transfer and cessation valuation for South Thames College (previously Merton College) by the Fund Actuary for the fund and the LPFA, a net payment of £1.9m will be made in April 2045. The cessation valuation also reflects the current status of the employer.



# Statements of Responsibilities

## The Authority's Responsibilities

The Authority 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 Director of Corporate Services.
- To manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- To approve the Statement of Accounts.

### 1.1. The Director of Corporate Services' Responsibilities

The Director of Corporate Services is responsible for the preparation of the authority'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 Director of Corporate Services 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 of Practice.

The Director of Corporate Services has also:

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



## 1.2 Certification of Responsible Finance Officer

I hereby certify that the Statement of Accounts give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2015.

Signed

*C Holland*  
*Director of Corporate Services*

## 1.3 Approval of Accounts by General Purposes Committee

I hereby certify that the Statement of Accounts has been approved by resolution of the General Purposes Committee of the London Borough of Merton in accordance with the Accounts and Audit (England) Regulations 2011.

Signed

*Peter McCabe*  
*Chairman General Purposes Committee*

Further information about the accounts is available from:

*Director of Corporate Services*  
*8<sup>th</sup> Floor*

**Merton Civic Centre**  
*London Road*  
**MORDEN**  
*Surrey*  
**SM4 5DX**

Or alternatively, please ask for Stephen Bowsher on 020 8545 3531.

## Glossary

### ACCOUNTING POLICIES

Rules and practices followed in drawing up the accounts.

### ACCOUNTING CODES OF PRACTICE

These are designed to support consistent standards of financial accounting in local authorities. There are two accounting codes :-

The Code of Practice on Local Authority Accounting supports consistent financial reporting at the level of the formal statements of accounts.

The Service Reporting Code of Practice (SerCOP) supports consistent financial reporting between local authorities below the level of the formal statement of accounts. In particular the SerCOP is designed to support consistency and comparability in reporting the cost of individual services and activities.

The IFRS based Code of Practice requires that the analysis of services in the Consolidated Revenue Account should follow that prescribed by the SerCOP.

### ACCRUALS

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid. This concept is reflected in the accounts by the inclusion of debtors and creditors.

### ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- a. Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- b. The actuarial assumptions have changed.

### APPROPRIATIONS

The assignment of revenue balances for specified purposes.

### ASSET HELD FOR SALE

An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. The asset must be available for immediate sale in its present condition and its sale must be highly probable.

### ASSETS

These are rights or access to future economic benefits controlled by an entity as a result of past transactions or events.

**BALANCES**

Balances are maintained to meet expenditure pending the receipt of income and to provide a cushion against expenditure being higher or income lower than expected.

Contributions to balances can be either a planned contribution from the revenue budget or a transfer of any revenue surplus at the year end. The maintenance of an appropriate level of balances is a fundamental part of prudent financial management.

**BUDGET**

Statement of the spending plans for the year.

**CAPITAL ADJUSTMENT ACCOUNT (CAA)**

This reserve is debited with the historical cost of acquiring, creating or enhancing fixed assets over the life of those assets and with the historical cost of deferred charges. It is credited with resources set aside to finance capital expenditure. Where there is a credit balance, capital finance is being set-aside at a faster rate than resources have been consumed. Where there is a debit balance, fixed assets are being consumed in advance of their being financed.

**CAPITAL CHARGES**

Charges to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

**CAPITAL EXPENDITURE**

Expenditure on the acquisition of a fixed asset or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

**CAPITAL RECEIPTS DEFERRED**

Amounts receivable in the future from mortgages granted on the sale of Council houses.

**CAPITAL RECEIPTS**

Proceeds from the sale of fixed assets and repayments of capital grants and loans. These are divided into reserved and usable parts.

**CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)**

The Institute produces standards and codes of practice that must be followed in preparing the Council's financial statements.

**CLG**

This is the Government department for Communities and Local Government. This was formerly called the Office of the Deputy Prime Minister (ODPM).

**COLLECTION FUND**

This is a statutory 'ring fenced' account. It records income and expenditure on Council Tax, Non Domestic Rates, payments to the precepting authorities and transfer to the Council's General Fund.

### **COMMUNITY ASSETS**

Assets that the local authority intends to hold in perpetuity, which have no determinable useful life and which may have restrictions on their disposal. Examples include parks and historic buildings.

### **COMPREHENSIVE SPENDING REVIEW (CSR)**

The CSR is a governmental process carried out by HM Treasury which sets out fixed three-year departmental expenditure limits and through public sector service agreements defines key service improvements.

### **CONTINGENT ASSETS AND LIABILITIES**

A contingent asset is a possible asset, which may arise in the future if certain events take place. A contingent liability is a possible loss or charge, which may arise in the future if certain events take place. In both cases, these events may not be wholly within the control of the Authority.

Contingent liabilities are not recognised in the accounts but should be disclosed by way of a note if there is a possible obligation which may require payment or a transfer of economic benefits.

### **CORPORATE AND DEMOCRATIC CORE**

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. It has two elements - corporate management and democratic representation and management. The activities within the corporate and democratic core are in addition to those which would be carried out by a series of independent, single purpose bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

### **CORPORATE GOVERNANCE**

Corporate Governance is the system by which local authorities direct and control their functions and communicate to their communities.

### **COUNCIL TAX**

This is the main source of local taxation to local authorities. It is levied on households within the authority's area and the proceeds are paid into the Collection Fund for distribution to precepting authorities and to the authority's own General Fund.

### **CREDIT APPROVAL**

The permission to borrow given to each local authority annually by the Secretary of State. Local authorities can obtain supplementary credit approvals during the year for particular projects.

### **CREDITORS**

Money owed by the Council, which is due immediately or in the short term. Accordingly, it does not include money on taxation to the Council. Creditors are an example of the concept of accruals.

### **CURRENT SERVICE COST (PENSIONS)**

The increase in the present value of the liabilities earned by employees in the current period in a defined benefit scheme.

### **CURTAILMENT COSTS**

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- a. termination of employees' services earlier than expected, for example, as a restructuring of operations
- b. termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

### **DEBTORS**

Money that is due to the Council but which has not yet been received. Debtors are an example of the concept of accruals.

### **DEFERRED CONSIDERATION**

This is the value of buildings transferred to NewSchools under the PFI contract and will be amortised over the life of the contract.

### **DEFINED BENEFIT SCHEME**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

### **DEFRA**

DEFRA (The Department for the Environment, Fisheries and Rural Affairs)

### **DEPRECIATION**

Depreciation is a charge to the revenue account to reflect the reduction in the useful economic life of a fixed asset. The reduction in the value of a fixed asset in the balance sheets is in line with the expected useful life.

### **DISCRETIONARY BENEFITS**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or The Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

### **EMOLUMENTS**

All sums paid to or receivable by an employee, and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash.

### **EXCEPTIONAL ITEMS**



Material items, which derive from events or transactions that fall within the ordinary activities of the authority, but which are not expected to recur frequently or regularly.

Exceptional items should be shown as part of the Net Cost of Services to which they relate or on the face of the Income and Expenditure Account if that degree of prominence is necessary to give a fair representation of the accounts.

### **FAIR VALUE**

The fair value is the value of an asset or liability in an arms length transaction between unrelated, willing and knowledgeable parties. In practice this is often taken as market value but there are acceptable approximations, which can be used when there is no market for the asset or liability. In relation to assets the recorded value would be less, where applicable, any grants receivable towards the purchase or use.

### **FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT**

This account provides a balancing mechanism between the different rates at which gains and losses are recognized under the SORP and are required by statute to be met from the General Fund. The account is designed to hold the difference between the book value and fair value. It is not used at present because the sums involved are not significant.

### **FINANCE LEASE**

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally 90% or more), of the fair value of the leased asset.

### **FINANCIAL YEAR**

The financial year runs from the 1<sup>st</sup> April to the following 31<sup>st</sup> March.

### **FINANCIAL INSTRUMENT**

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another. In practice, this covers both assets and liabilities and includes bank deposits, investments, debtors, loans and advances, debt premiums, creditors and borrowings.

### **FIXED ASSETS**

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year. These can be tangible or intangible.

### **FRED**

Financial Reporting Exposure Drafts. These are proposed accounting standards issued by the ASB for comments. The final accounting standard is released once the comments have been incorporated or addressed.

### **FTSE 100**

This is the index of the top 100 UK listed companies by market capitalisation.

### **GENERAL FUND**

The main fund of the Council, from which all expenditure is met and all income is paid, with the exception of those items, which by statute have to be taken to some other account.

### **GOVERNMENT GRANTS**

Financial assistance by government and other bodies, in the form of cash transfers to an authority in return for compliance with certain conditions relating to the activities of the authority.

### **GROSS EXPENDITURE**

The total expenditure of a fund or account.

### **GROUP ACCOUNTS**

Accounts that show the total financial results for a group of entities for a particular period, rather than the separate results of each entity.

### **HERITAGE ASSETS**

These are a class of assets which were formerly categorized as Community Assets. These assets are deemed to contribute to a nation's society, knowledge and/or culture.

### **IFRS**

International Financial Reporting Standards: these are the standards that have superseded national accounting standards. The Code of Practice which has replaced the SORP is fully IFRS based.

### **IMPAIRMENT**

The loss of value in a fixed asset arising from physical damage, deterioration in the quality of service provided by the asset or from a general fall in prices.

### **INCOME AND EXPENDITURE ACCOUNT**

Accounts which show all money receivable or payable by the Council in the accounting period to which they relate. Accounts that record receipts and payments are converted to income and expenditure by the inclusion of debtors and creditors.

### **INFRASTRUCTURE ASSETS**

Fixed assets that have no realistic expectation of being sold but are retained to deliver core services e.g. roads, drainage etc. and in respect of which expenditure cannot be recovered through disposal.

### **INTANGIBLE ASSETS**

Intangible assets are defined in IAS38 as 'identifiable non-monetary assets without physical substance'.

### **INTEREST COST (PENSIONS)**

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**INVESTMENTS (PENSION FUND)**

The investments of the pensions fund will be accounted for in the statements of that fund. However, authorities (other than district councils in Northern Ireland) are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

**INVESTMENTS (NON-PENSION FUND)**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pensions fund that do not meet the above criteria should be classified as current assets.

**JOINTLY CONTROLLED ENTITY**

A joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

**LEASING**

This facility is a means to obtain the use of vehicles, plant and computer equipment without actually owning these items.

**LEVY**

An amount levied by a local authority or other statutory body which is paid by the Council.

**LIABILITIES**

An entity's obligations to transfer economic benefits as a result of past transactions or events.

**LOCAL AREA AGREEMENT (LAA)**

A local area agreement is a set of priorities for a local area agreed between central government and a local area, which usually comprises of a local authority, the local strategic partnership (LSP) and other key partners. The priorities have objectives and targets, and funding to achieve these comes from central government.

**MATERIALITY**

Materiality sets the threshold for determining whether an item is relevant. This is defined as: an item of information is material to the financial information if its misstatement or omission might reasonably be expected to influence the economic decisions of users of those financial statements, including their assessments of management's stewardship. Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case.

**NET ASSETS**

The Net Assets of the authority is the amount that the authority owns (its assets) less the amount that it owes (its liabilities).

**NET BOOK ASSETS**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**NET CURRENT REPLACEMENT COST**

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

**NET REALISABLE VALUE**

The open market value of an asset in its existing use (or open market value in the case of non-operational asset), less the expenses required realising the asset.

**NET WORTH**

The Net Worth of the authority shows how the net assets of the authority are allocated between usable resources, resources that have been set aside to finance capital expenditure, unrealised gains from increases in asset values and the reserves which are needed to manage the complexities of local authority accounting.

**NON-DISTRIBUTED COSTS**

These are overheads from which no user now benefits and these costs should not be apportioned to services.

**NON-DOMESTIC RATE (NDR)**

The rates paid by businesses. The amount paid is based on the rateable value set by the Valuation Office multiplied by a rate in the £ set by the government, which is consistent throughout the country.

**NON-OPERATIONAL ASSETS**

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of these assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

**OPERATIONAL ASSETS**

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**PAST SERVICE COST**

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**POOLED VEHICLES**

A pooled vehicle is a single investment whose value and performance is the aggregate of a number of separate investments held within the pooled arrangement. Pooled investments are undertaken to improve the diversification and efficiency of investment activity, particularly where a similar spread of segregated investments would incur higher management costs, and be less economic.



**POST BALANCE SHEET EVENT**

These are events which arise after the end of the accounting period. They can be divided into

- Adjusting events, which provide further evidence of conditions that existed at the end of the accounting period and that may require changes to the accounts.
- Non Adjusting Events, which are indicative of conditions that arose subsequent to period end, that are reported by way of a note to the accounts.

**PRECEPTS**

An amount collected by the Council as part of the Council Tax on behalf of another statutory body.

**PRIVATE FINANCE INITIATIVE (PFI)**

PFI contracts are agreements with private sector organisations to refurbish, maintain and operate fixed assets on behalf of public sector organisations such as local authorities.

**PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments are material adjustments relating to the accounts of previous years and which arise from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. Prior period adjustments do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**PROVISIONS**

Amounts set aside for any liabilities or losses which are likely to be incurred, but which are uncertain as to the amounts or the dates on which they will arise.

**RESERVES**

These are amounts set aside for specific purposes. The Council has discretion in whether it wishes to set aside these amounts as distinct from sums set aside in provisions.

**RESIDUAL VALUE**

This is the estimate, based on current prices, of the increase in market value of the buildings transferred to NewSchools under the PFI contract.

**REVALUATION RESERVE**

The Revaluation Reserve records increases and reductions in the value of fixed assets when compared to their original book value. Reductions in value can be offset against accumulated revaluation gains before they are charged to the income and expenditure account.

**REVENUE EXPENDITURE**



Expenditure incurred on day to day running costs and confined to accounts within one financial year.

### REVENUE EXPENDITURE FUNDED BY CAPITAL RESOURCES UNDER STATUTE

This is expenditure which is classified as revenue expenditure but which can be funded from capital resources under statutory requirements. This expenditure was called deferred charges under the 2007 SORP.

### SCHEME LIABILITIES

These are the liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

### SETTLEMENT COSTS

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

### STATEMENT OF RECOMMENDED PRACTICE (SORP)

This is the authoritative guidance on the application of accounting standards and incorporates UK GAAP. (See Accounting Codes of Practice). The SORP has now been superseded by the IFRS based Code of Practice.

### STOCKS

The amount of unused or unconsumed supplies held in expectation of future use.

### SUBSIDIARY

An entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

### SUPPORT SERVICES

These are services that are not statutory local authority services but which give support to those services.

### UK GAAP

UK Generally Accepted Accounting Principles cover accounting practices that are regarded as permissible by the accounting profession. These practices may be laid down in accounting standards and/or legislation (such as Local Government Finance

Legislation) but it also includes accounting practices that are outside the scope of accounting standards but are generally accepted by practitioners as legitimate. Local Authority accounts are now required to be IFRS compliant.

### USEFUL LIFE

This is the period over which the local authority derives benefit from the use of a fixed asset.

### VESTED RIGHTS

In relation to a defined benefit scheme, these are: -

- a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- b) for deferred pensioners, their preserved benefits;
- c) for pensioners, pensions to which they are entitled.

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## Committee: General Purpose Committee

Date: 25 June 2015

Wards: All

### Subject: Pension Fund Report

Lead officer: Caroline Holland

Lead member: Councillor Imran Uddin

Contact officer: Paul Dale

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#### Recommendations:

- a. To approve the proposed changes to the current pension fund asset allocations
  - b. To agree the procurement of a pension fund investment adviser via the National LGPS Framework to support the investment manager selection process
  - c. Agree that the Director of Corporate Services can procure investment managers required for Diversified Growth Fund and Equities mandates via an independent OJEU procurement process or via the London CIV
  - d. Agree the re-procurement of the management of fixed income and property investments for value for money reasons using any one or more of the processes described in C above
- 

#### 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. Following a detailed review of the pension fund asset allocation by the pension fund advisory committee, the committee agreed the necessary asset allocation changes as

| Asset Class     | Current Strategic Asset Allocation<br>% | Proposed Strategic Asset Allocation<br>% |
|-----------------|---|--|
| Equities        | 70                                      | 70                                       |
| Fixed interest  | 25                                      | 20                                       |
| Property        | 5                                       | 5  |
| Equity like DGF | 0                                       | 5  |
| TOTAL           | 100                                     | 100                                      |

1.2. Equity investments split

| Equity split   | Strategic asset allocation<br>% | Proposed Strategic<br>Asset Allocation<br>% |
|----------------|---------------------------------|---|
| Passive equity | 40                              | 40  |
| Active equity  | 60                              | 60  |
| Total          | 100                             | 100   |

1.3. The current asset allocations were agreed by the pension fund advisory committee in 2004. However, since 2007, investment landscapes have changed significantly and have become globalised.

1.4. These geopolitical and economic changes have meant that companies are now more global in nature, thus the regional constraints under which the current investment managers manage funds restrict their ability to “go global” choosing “best in breed” stocks on a global basis and limits their ability to deliver the expected returns. The independent investment adviser and the current investment managers have all expressed the need to have mandates which do not limit their ability to invest on a global basis. The recommended mandate changes will allow investment managers to invest in their best ideas on a global basis.

**2. DETAILS**

2.1. The Independent Investment adviser has made it clear in various reports to PFAC and the Director of Corporate Services, at the regular quarterly meetings, that one major benefit in seeking new mandates is to simplify the management structure of funds under management and reduce the number of composite benchmarks currently used to measure the investment returns of the fund. Active global equity mandates will be unconstrained and flexible, and will provide the investment managers with more freedom in constructing more efficient investment portfolios against selected global benchmarks and defined outperformance targets. A diversified growth fund (DGF) asset allocation of 5% has been included in the new strategic asset allocation. Investing in a multi-asset mandate such as a DGF fund will help reduce volatility and provide access to managers’ best ideas across different asset classes.



## 2.2. Investment assumptions in the 2013 actuarial report

| Future assumed returns at 2013 |                | Risk adjusted discount rate weighting (rounded) |
|--------------------------------|----------------|---|
| Equities                       | 6.9% per annum | 71%   |
| Gilts (fixed interest)         | 3.3% per annum | 25%   |
| Cash                           | 3.1% per annum | 1%  |
| Property                       | 6.0% per annum | 3%  |
| Expense allowance              | 0.1% per annum |   |

## 2.3 The London Collective Investment Vehicle

Discussions have been held with the London CIV, the Head of Commercial Services and AllenbridgeEpic Investment Advisers Limited our Independent Investment Adviser. In addition, officers have had discussions with the actuarial arm of Barnet Waddingham LLP as to the impact of changes in the asset allocation of the fund on its valuation and contributions. Table 2.2 above indicates the investment return assumptions that the fund might be expected to achieve under current market conditions.

2.4 Re-procurement of the management of fixed income and property. Although fees for the fixed income portfolio were reviewed in the last three years, investment performance has been less than expected. It is general good procurement advice that contracts should be reviewed periodically to ensure that the Fund continues to receive value for money on fees, manager performance and service.

## 2.5 Procurement

The council's internal procurement resources can manage the procurement process itself, investment consultants or advisers will be required to assist with the evaluation of the technical investment aspects of the procurement. A mini tender process will be required whereby these consultants or advisers are appointed by the director of corporate services.

## 3. CONSULTATION UNDERTAKEN OR PROPOSED

3.1 Comments from the Independent Investment Adviser "Members of the Committee and officers are well briefed on the investment changes proposed which have been recommended in response to the geopolitical and economic changes from regional to global markets over recent years. These recommendations seek to both simplify the investment manager structure and its investment performance measurement whilst delivering positive investment returns and maintaining a strong overarching governance structure".

## 4. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 4.1. Depending on how the procurement of an investment consultant/adviser is undertaken, one off costs of approximately £95,306 might be incurred. These fees will be charged to the pension fund.
- 4.2. Investment management and transactional fees are all charged to the pension fund. The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the council and other employers in the fund.

## **5. LEGAL AND STATUTORY IMPLICATIONS**

- 5.1. Contracts resulting from the proposal chosen will have legal implications for the Fund. Whichever procurement route is chosen and whether or not any of the procurements fall within the EU regulations or not. There is still a need for the Fund to demonstrate fairness and transparency. There will be a need for legal input in drafting and approving all contract terms and conditions. Where the framework or London CIV is used there will be need for legal input in the reviews of all access agreements required.

## **6. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 6.1. N/A

## **7. CRIME AND DISORDER IMPLICATIONS**

- 7.1. N/A

## **8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 8.1. The use of the London CIV would enable a quicker, simpler process, but delays in their ability to take investments could impinge on our ability to the new allocations and fund managers in place by the end of the financial year.

## **9. APPENDICES –**

There are no appendices to this report

## **10. BACKGROUND PAPERS**

- 10.1. Pension Fund Advisory Committee (PFAC) March 2015 meeting papers