

# Merton Council

## Standards and General Purposes Committee Agenda

### Membership

#### Councillors:

Peter McCabe (Chair)  
Janice Howard (Vice-Chair)  
Agatha Mary Akyigyina  
Adam Bush  
Stephen Crowe  
Mary Curtin  
John Dehaney  
Mary-Jane Jeanes  
Ian Munn BSc, MRTPI(Rtd)  
Marsie Skeete  
Gregory Patrick Udeh  
David Williams

#### Independent Persons invited to attend meeting

Suresh Patel  
Derek Prior

#### Substitute Members:

Michael Bull  
Sally Kenny  
Oonagh Moulton  
Imran Uddin

**Date:** Thursday 8 September 2016

**Time:** 7.15 pm

**Venue:** Committee rooms C, D & E - Merton Civic Centre, London Road,  
Morden SM4 5DX

This is a public meeting and attendance by the public is encouraged and welcomed.  
For more information about the agenda please contact or telephone .

All Press contacts: [press@merton.gov.uk](mailto:press@merton.gov.uk), 020 8545 3181

# Standards and General Purposes Committee Agenda

## 8 September 2016

- |   |   |           |
|---|---|-----------|
| 1 | Apologies for Absence   |           |
| 2 | Declarations of Pecuniary Interest  |           |
| 3 | Minutes of the previous meeting   | 1 - 6     |
| 4 | Audited Final Accounts 2015/16  | 7 - 244   |
| 5 | Regulation of Investigatory Powers Act (RIPA)   | 245 - 290 |
| 6 | Complaints against Members - verbal update from the Monitoring Officer  |           |
| 7 | Exclusion of the public<br>To RESOLVE that the public are excluded from the meeting during consideration of the following report on the grounds that it is exempt from disclosure for the reasons stated in the report. |           |
| 8 | Temporary and Contract Staff update   | 291 - 302 |
| 9 | Work Programme  | 303 - 304 |

### **Note on declarations of interest**

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that matter and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

# Agenda Item 3

## STANDARDS AND GENERAL PURPOSES COMMITTEE

30 JUNE 2016

(7.15 pm - 9.50 pm)

PRESENT Councillors Councillor Peter McCabe (in the Chair),  
Councillor Agatha Mary Akyigyina, Councillor Stephen Crowe,  
Councillor Mary Curtin, Councillor John Dehaney,  
Councillor Mary-Jane Jeanes, Councillor Ian Munn,  
Councillor Marsie Skeete, Councillor Gregory Udeh and  
Councillor David Williams

ALSO PRESENT: Stephen Bowsher, Chief Accountant  
Kim Brown, HR Lead  
Kim Carey, Head of Access and Assessment  
Margaret Culleton, Head of Internal Audit  
Caroline Holland, Director of Corporate Services  
Chris Lee, Director of Environment and Regeneration  
Yvette Stanley, Director of Children, Schools and Families  
Susanne Wicks, Democratic Services Officer

Paul King and Simon Mathers, Ernst & Young

### 1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Councillor Adam Bush, Derek Prior and Suresh Patel.

### 2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations made.

### 3 MINUTES OF THE STANDARDS COMMITTEE MEETING HELD ON 25 FEBRUARY 2016 (Agenda Item 3)

RESOLVED: That the minutes are agreed as an accurate record of the meeting.

### 4 MINUTES OF THE GENERAL PURPOSES COMMITTEE MEETING HELD ON 10 MARCH 2016 (Agenda Item 4)

RESOLVED: That the minutes are agreed as an accurate record of the meeting.

### 5 INTERNAL AUDIT ANNUAL REPORT (Agenda Item 6)

The report was introduced by the Head of Internal Audit who welcomed comments and questions. The key issues discussed were as follows:

Councillor Ian Munn noted his unease that the report appeared to be somewhat inconclusive, given that some actions recommended were overdue. He sought reassurance that senior officers oversee recommendations emerging from internal audits to ensure they are actioned.

The Director of Corporate Services advised that if any recommendations are not implemented within three months, this Committee would receive an update, and the appropriate managers would attend a meeting to respond to questions from the Committee.

At the recommendation of the Committee, the Head of Internal Audit undertook to further clarify the outcome of audits, to include substantial, satisfactory, limited and no assurance.

The Head of Internal Audit explained the process for deciding which schools will be subject to an audit, noting that it is based on a risk assessment and is intelligence led.

RESOLVED: That the Standards and General Purposes Committee reviews and comments on the Internal Audit Annual Report 2015/16.

#### 6 ANNUAL GOVERNANCE STATEMENT 2015/16 (Agenda Item 5)

The report was introduced by the Head of Internal Audit.

RESOLVED: That the Standards and General Purposes agreed the Annual Governance Statement 2015/16.

#### 7 EXPANSION OF THE SHARED AUDIT PARTNERSHIP (Agenda Item 7)

The Head of Internal Audit introduced this report and invited comments and questions.

Councillor Peter McCabe remarked that the level of savings achieved was lower than he had expected and the Director of Corporate Services explained that the joint service will assist in meeting current savings targets without the need to reduce staffing levels and performance in that regard will be reported to the Overview and Scrutiny Commission, but confirmed that cashable savings do exist and details will be provided within future reports to this Committee. She also highlighted that the shared service increases capacity and improves resilience.

RESOLVED: That the Standards and General Purposes Committee notes the approach:

- To extend the South West London Audit Partnership (SWLAP) to include the London Borough of Wandsworth Internal Audit from 1 October, and
- That the Fraud Partnership (SWLFP) and the SWLAP will merge from 1 October 2016, establishing a five borough audit and fraud investigation service.

#### 8 EXTERNAL AUDIT: 2015/16 AUDIT PROGRESS REPORT AND EY SECTOR BRIEFING (Agenda Item 8)

The report was introduced by Paul King (Executive Director) and Simon Mathers (Engagement Manager) from Ernst & Young LLP, who welcomed comments and questions.

Councillor David Williams pointed to the “key questions for the audit committee” as detailed within the report and suggested that the Committee should consider if they should raise those questions. The Director of Corporate Resources noted that some may be more appropriate for Cabinet but undertook to discuss with the Chair if this Committee is fulfilling its audit function.

Report received.

9 EXTERNAL AUDIT: 2015/16 MERTON PENSION FUND AUDIT PLAN  
(Agenda Item 9)

The report was introduced by and Simon Mathers (Engagement Manager) from Ernst & Young LLP.

With regard to the financial statement risks, Councillor Janice Howard asked if the risk of management override is an issue only for the Pension Fund and Simon Mathers advised that this is a consideration for all audits. He reassured the Committee that the test threshold is much lower than £5m, and noted his confidence that such a fraud would be detected.

Report received.

10 EXTERNAL AUDIT: FEE LETTERS FOR THE COUNCIL AND PENSION  
FUND ACCOUNTS (Agenda Item 10)

The fee letters were introduced by Simon Mathers (Engagement Manager) from Ernst & Young LLP.

Reports received.

11 DRAFT ACCOUNTS (Agenda Item 11)

The Director of Corporate Services introduced the report. She noted that for 2017/18, this Committee may not receive the draft accounts due to the amended timetable for the preparation, approval and audit of the final accounts. Comments and questions were invited.

Councillor David Williams highlighted the rate of slippage in the capital fund and questioned if members are sufficiently focussed on monitoring the capital budget. He also noted his concern about the variance in the revenue budget presented to Council on 2 March and that presented to Cabinet on 4 July, and questioned the controls in place to monitor expenditure. Councillor Peter McCabe agreed that members must be confident that the forecast budget presented to them is accurate.

The Director of Corporate Services acknowledged that budget monitoring should be improved, and outlined actions taking place to assist managers to do so. The Head of Internal Audit also noted that the capital fund is included in the Audit Plan for 16/17, and undertook to ensure the scope of the audit will include monitoring and controls.

Councillor Ian Munn asked about member involvement in monitoring the Council's assets, and giving advice on disposals and acquisitions. The Chair suggested that Councillor Ian Munn raise this issue at the Financial Monitoring Task Group, and with the relevant Cabinet Members. However, it was moved by Councillor Ian Munn, seconded by Councillor Linda Taylor and,

RESOLVED: That the Standards and General Purposes Committee recommends the establishment of a Land and Property working group.

With regard to the approval of the 2017/18 accounts, the Committee noted their wish to move the June 2018 meeting to late July in order to approve the budget.

RESOLVED: That the Standards and General Purposes Committee:

1. Notes the unaudited Statement of Accounts for the Council for the year end 31 March 2016.
2. Comments on the key statutory reporting changes introduced by the Accounts and Audit Regulations 2015, including earlier reporting deadlines from 2017/18.
3. Comments on the options for adapting to the earlier reporting deadlines from 2017/18.
4. Recommends the establishment of a Land and Property working group.

## 12 UPDATE ON RIPA AUTHORISATIONS (Agenda Item 12)

The Director of Corporate Services introduced this report and welcomed comments and questions.

In response to concerns raised by members about the decreasing rates of RIPA authorisations, the Director reminded them of the difference between open and covert surveillance and advised that the use of RIPA is low across London.

Councillor Peter McCabe noted member concerns but pointed out that the use of CCTV is not covered by RIPA legislation.

RESOLVED: That the Standards and General Purposes Committee notes the report.

## 13 COMPLAINTS AGAINST MEMBERS (Agenda Item 13)

The Director of Corporate Services advised that no complaints against members had been received since the last meeting of the Standards Committee.

#### 14 EXCLUSION OF PRESS AND PUBLIC (Agenda Item 14)

RESOLVED: That the press and public be excluded from the meeting during consideration of the Temporary and Contract Staff update report, on the grounds that it is exempt from disclosure for the reasons stated in the report.

#### 15 TEMPORARY AND CONTRACT STAFF UPDATE (Agenda Item 15)

The HR Lead, Kim Brown presented a detailed report of interim and temporary staff employed at a rate of £30 per hour or more.

At the request of the Chair, the Director of Environment and Regeneration, the Director of Children, Schools and Families, the Head of Access and Assessment and the Director of Corporate Services each gave details to the Committee of plans in place to reduce levels of temporary staff in their department, and the reasons why staff are needed. Members of the Committee raised a range of detailed questions to which officers responded.

Councillor Peter McCabe thanked the HR Lead for the detailed report and accepted the challenges described by officers in filling vacancies, but asked that they continue to think creatively about how to address the issue.

RESOLVED: That the Standards and General Purposes Committee notes the progress made to monitor and control the use of temporary workers and consultants.

#### 16 WORK PROGRAMME (Agenda Item 16)

At the suggestion of Councillor David Williams, the Committee asked that a report is brought to their November meeting about member learning and development, to include details of how training needs are identified and the different methods of delivering training.

#### 17 DATE OF NEXT MEETING (Agenda Item 17)

The suggested dates for future meetings were agreed by the Committee.

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## **Committee: Standards and General Purposes**

**Date: 8 September 2016**

Wards: All

Subject: Audited Final Accounts 2015/16

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Mark Allison – Cabinet Member for Finance

Contact officer: Paul Dale: AD Resources 0208-545-3458

**Key decision reference number:** This report is written and any decisions taken are within the Budget and Policy Framework Procedure Rules as laid out in Part 4-C of the Constitution.

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### **Recommendations:**

1. That Committee approve the audited Statement of Accounts, including the Pension Fund Accounts (Appendix 2).
  2. That Committee note any comments made by the Pensions Fund Advisory Panel regarding the Pension Fund Accounts.
  3. To note EY's Audit Results Report (Appendix 4) for the Pension Fund accounts under the International Standard on Auditing (ISA) 260.
  4. To note EY's Audit Results Report (Appendix 3) for the Statement of Accounts under the ISA 260.
  5. That the Chair signs the Statement of Responsibilities for the Statement of Accounts (Appendix 2, page 154).
  6. That the Chair signs Letters of Representation (Appendices 3 and 4) for the Statement of Accounts and Pension Fund Accounts.
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### **1. Purpose of report and executive summary**

- 1.1 This report presents the audited Statement of Accounts for the year ended 31<sup>st</sup> March 2016 for adoption by Standards and General Purposes Committee in accordance with the statutory requirements contained in the Accounts and Audit Regulations 2015 and the ISA 260.
- 1.2 The Council's 2015/16 Statement of Accounts, including the Pension Fund accounts, have been audited and are attached as Appendix 2 to this report. A summary of the Statement of Accounts is attached as Appendix 1. Appendices 3 and 4 contain Ernst & Young's Audit Results Reports on the main accounts and Pension Fund respectively, including two Letters of Representation, one for the main accounts and one for the Pension Fund. Appendix 5 contains the Council's revenue account, extracted from its Whole of Government Accounts (WGA) submission.

## 2. Details

- 2.1 **Accounting Code of Practice**: Section 21(2) of the Local Government Act 2003 requires local authorities in the United Kingdom to keep their accounts in accordance with “proper practices”. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom, prepared by the CIPFA/LASAAC Joint Committee. The Code specifies the principles and practices of accounting required to give a “true and fair“ view of the financial position and transactions of a local authority. In particular, it prescribes the accounting treatment and disclosures for all normal transactions of a local authority.
- 2.2 The Code involves adaptations of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board (IASB) subject to such adaptations as are necessary for the local government.
- 2.3 **Accounts and Audit Regulations**: These specify the timetable for producing the Council’s accounts which is as follows:
- a) That the Council's accounts must be ready for audit by no later than 30<sup>th</sup> June 2016 and in particular that the responsible financial officer must sign and date the accounts and certify that it presents a true and fair view of the financial position of the body at the year end and of that body’s income and expenditure for that year. There is no requirement for approval by committee at this stage.
  - b) That the committee of members must approve the Statement of Accounts by the 30<sup>th</sup> September 2016. The accounts must be signed and dated by the chairman of that committee and then published on the Council’s website.
- 2.4 In addition, if there are any amendments to the accounts, the Chief Financial Officer must re-certify the presentation of the Statement of Accounts. CIPFA has made recommendations concerning re-certification: the Chief Financial Officer should sign and date the balance sheet and include the following statement on the face of the balance sheet: “these financial statements replace the unaudited financial statements authorised at the meeting of the Standards and General Purposes Committee on 30<sup>th</sup> June 2016”.
- 2.5 **Audit of the Council’s accounts**: (a) Completion of audit work and approval of accounts: Ernst & Young have completed their audit work on the Council’s accounts. The results of the audit are that the accounts are unqualified, that is, the financial statements give a true and fair view in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.
- 2.6 **Audit Amendments**: The audit identified a number of errors within disclosure notes, all of which are considered minor in nature and all have been corrected. There is no effect on the level of reserves reported to Members in June. Subject to Members being satisfied with the audited accounts, Members are requested to recommend that the Council approve the audited accounts.

- 2.7 Audit Results Reports: Ernst & Young has issued its Audit Results Reports (ARRs), under ISA 260. The auditors are required to comply with the Auditing Standards contained under ISA 260, which covers 'Communications of Audit Matters with those charged with governance'. The auditor is required to report relevant matters relating to the audit to those charged with governance. There is one ARR for the Statement of Accounts and a separate ARR for the Pension Fund accounts.
- 2.8 Letters of Representation: ISA 580, covering Management Representation, requires that the auditor be provided with written representation from management with appropriate responsibilities and knowledge of the financial statements. This applies to the main accounts and the Pension Fund Accounts.
- 2.9 ISA 260 requires that those charged with governance should sign agreement to the Letter of Representation. After the Committee has discussed and agreed the Letter of Representation, it has to be signed by the Chief Financial Officer. The Chair of the Committee is then required to sign agreement to the Letter of Representation. Copies of the letters to be signed for the main accounts and the Pension Fund accounts are included in Appendices 3 & 4.
- 2.10 **Financial Summary**: The audit has not resulted in any changes to previously-reported level of reserves.
- 2.11 Fund Balances and Reserves: Table 1 contains a breakdown of revenue balances and reserves, which when the Collection Fund balance is included, stand at £69.05m. There is no change from the draft accounts.

**Table 1: Reserves**

<b>Reserves</b>	<b>2014/15 Audited Accounts £000</b>	<b>2015/16 Audited Accounts (unchanged from draft accounts) £000</b>
<b>1. Usable reserves</b>		
General fund balance	15,151	15,151
General fund-schools	8,535	10,504
Earmarked reserves (excluding schools)	35,486	32,621
Earmarked reserves- schools	8,403	9,069
<b>Revenue reserves and balances</b>	<b>67,575</b>	<b>67,345</b>
Unapplied capital receipts	31,264	29,582
Unapplied capital grants	5,715	4,153
<b>Other usable reserves</b>	<b>36,979</b>	<b>33,735</b>
<b>Total usable reserves</b>	<b>104,554</b>	<b>101,080</b>
<b>2. Unusable reserves</b>		
Collection fund	2,854	1,703
Other unusable reserves	(56,390)	11,025
<b>Total unusable reserves</b>	<b>(53,536)</b>	<b>12,728</b>
<b>Total reserves</b>	<b>51,018</b>	<b>113,808</b>

- 2.12 The £67m increase in unusable reserves was due to a £36m increase in capital accounting reserves resulting from upward revaluations of land and buildings, and a £31m reduction in the long-term pension liability following favourable changes to the financial assumptions used by the actuary.

- 2.13 Outturn Table 2 shows the final outturn for the year. The departmental figures are those reported to the Standards and General Purposes Committee on the 30<sup>th</sup> June 2016.

**Table 2: 2015/16 Outturn and Budget Variances (following audit)**

<b>Cabinet Outturn Report</b>	<b>2015/16 Current Budget £000</b>	<b>2015/16 Outturn £000</b>	<b>2015/16 Variance £000</b>
<b>Department</b>			
Corporate Services	30,210	29,837	(373)
Children, Schools & Families	50,089	50,082	(7)
Community & Housing	56,453	57,393	940
Public Health	296	289	(7)
Environment & Regeneration	18,423	22,055	3,632
Other	(646)	(374)	272
<b>Net Service Expenditure</b>	<b>154,825</b>	<b>159,282</b>	<b>4,457</b>
Corporate Provisions	4,581	(637)	(5,217)
Transfers from Earmarked Reserves	(4,710)	(2,289)	2,421
<b>Total General Fund</b>	<b>154,696</b>	<b>156,355</b>	<b>1,659</b>
Grants	(39,859)	(40,819)	(960)
Business Rates	(33,371)	(33,371)	0
Council Tax and Collection Fund	(81,471)	(81,471)	0
<b>Funding</b>	<b>(154,701)</b>	<b>(155,661)</b>	<b>(960)</b>
<b>Net overspend (funded from earmarked reserves)</b>	<b>(5)</b>	<b>694</b>	<b>699</b>

### **3. Alternative options**

None for the purposes of this report.

### **4. Consultation undertaken or proposed**

- 4.1 Under the Accounts and Audit Regulations 2015, the Council is required to make available, for a 30 working day period, copies of the Statement of Accounts and related information for inspection by any interested person. During this period, interested persons also have the right to question the auditor, by prior appointment, about the accounts. The inspection period ran from 1st July to 11th August 2016 and is advertised on the Council's website at [www.merton.gov.uk/finance](http://www.merton.gov.uk/finance).
- 4.2 There were no queries raised on the accounts during this time.

### **5. Whole of Government Accounts (WGA)**

- 5.1 The Whole of Government Accounts (WGA) process consolidates the audited accounts of around 4,000 organisations across the public sector in order to produce a comprehensive picture of the financial position of the UK public sector. WGA is based on International Financial Reporting Standards (IFRS) and is independently audited.
- 5.2 As an organisation within the WGA boundary, the Council is required each year to complete a WGA return in order that HM Treasury can produce the consolidated WGA accounts.
- 5.3 As part of Ernst and Young's audit work on the Council's accounts, an assurance statement, in respect of the WGA return, is provided to the National Audit Office. EY expect to provide the assurance statement in October.
- 5.4 The Council's revenue account, extracted from the unaudited WGA return, is attached as Appendix 5.

### **6. CHAS 2013 Ltd Audit**

- 6.1 The Council's wholly-owned subsidiary, CHAS2013 Ltd, will be audited by Ernst & Young, commencing mid-October. The audit of CHAS2013 Ltd's accounts is not expected to have any material impact on the Council's accounts.

### **7. Timetable**

- 7.1 The Statement of Accounts has been audited within statutory requirements.

### **8. Finance, resource and property implications**

- 8.1 These are contained in the body of the report.

**9. Legal and statutory implications**

- 9.1 These are contained within the report, Members are referred to the Council's Constitution, and in particular the Financial Regulations, which are set out in Part 4f.

**10. Human rights, equalities and community cohesion implications**

- 10.1 None for the purposes of this report.

**11. Crime and disorder implications**

- 11.1 None for the purposes of this report.

**12. Risk management and health and safety implications**

- 12.1 None for the purposes of this report.

**13. Appendices**

- 13.1 The following documents are to be published with this report and form part of the report
- Appendix 1: Summary Accounts for the year ended 31<sup>st</sup> March 2016
  - Appendix 2: Statement of Accounts for the year ended 31<sup>st</sup> March 2016
  - Appendix 3: Ernst & Young Audit Results Report and Letter of Representation – Statement of Accounts
  - Appendix 4: Ernst & Young Draft Audit Results Report and Letter of Representation - Pension Fund Accounts
  - Appendix 5: Whole of Government Accounts Revenue Account 2015/16

**14. Background Papers**

- 14.1 The papers used to compile this report are held within the Corporate Services Department. Specifically, they include:-
- Statement of Accounts 2015/16
  - Working papers for the accounting entries
  - Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
  - CIPFA- technical bulletins

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# Summary Statement of Accounts

## 31<sup>st</sup> March 2016

### INTRODUCTION

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

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

It is both a summary and an interpretation of the accounts, highlighting the key issues that have arisen during the financial year. The full set of accounts and this summary are available on the Council's website at: [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 2015/16

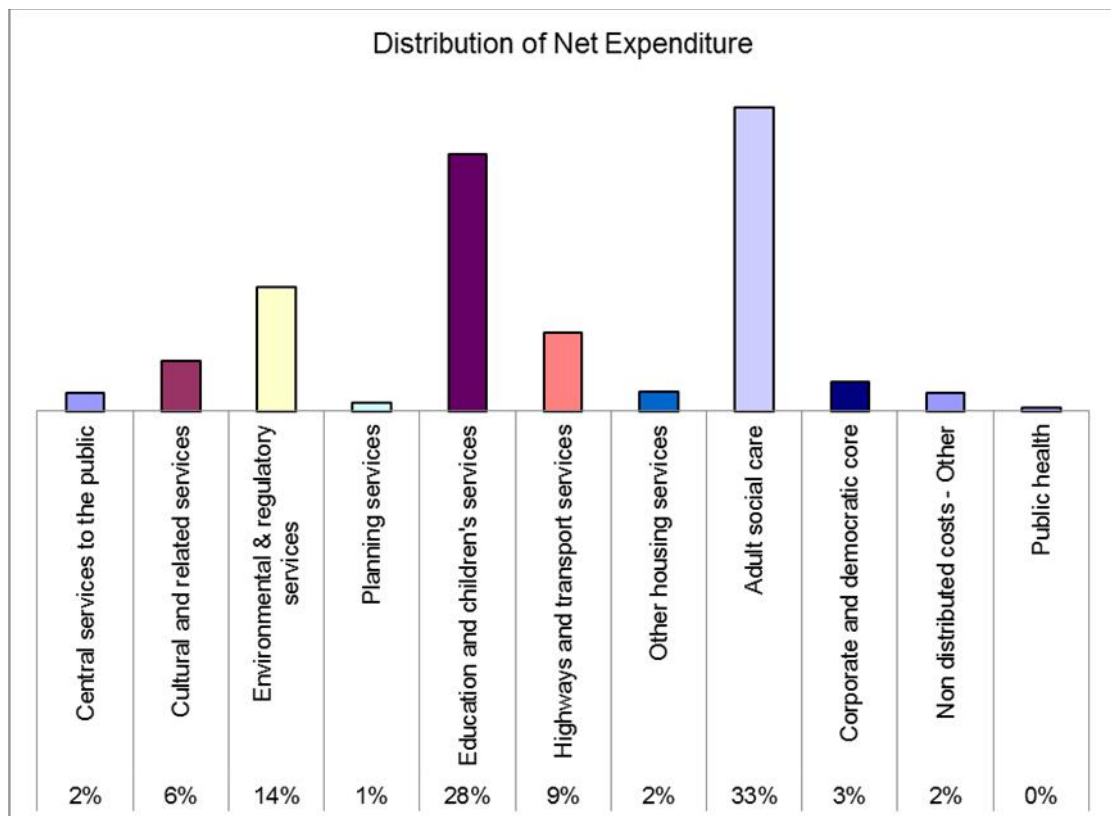
- The Council spent £29m (£37m in 2014/15) on capital schemes.
- Total net assets increased by £63m, comprising a £67m increase in unusable reserves offset by a £4m decrease in usable reserves. The £67m increase in unusable reserves was due to a £36m increase in capital accounting reserves and a £31m reduction in the long-term pension liability.
- Long term borrowings remained at £117m.
- The Council had a net £0.7m over spend against its budget in 2015/16, which has been funded from earmarked reserves.

**REVENUE SPENDING**

Merton's net cost of services was £155.8m, attributable to services as shown below:

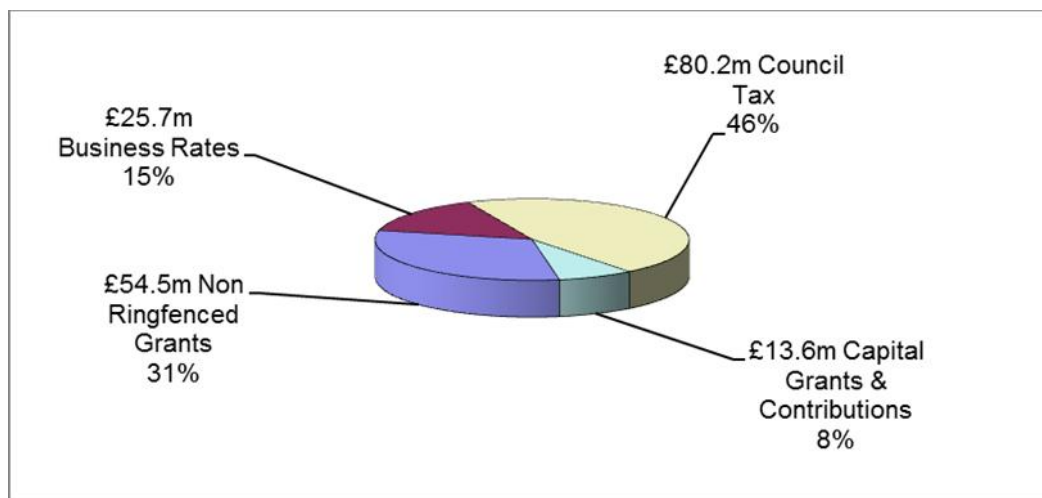
Service Areas	Gross Expenditure	Gross Income	Net Expenditure
	£m	£m	£m
Central services to the public	7.1	(3.9)	3.2
Cultural and related services	11.1	(2.5)	8.6
Environmental & regulatory services	25.7	(4.5)	21.2
Planning services	7.3	(6.0)	1.3
Education and children's services	206.8	(162.2)	44.5
Highways and transport services	28.0	(14.6)	13.4
Other housing services*	99.3	(95.9)	3.4
Adult social care	66.9	(15.2)	51.7
Corporate and democratic core	4.9	0.0	4.9
Non distributed costs - Other	13.4	(10.2)	3.1
Public health	10.9	(10.5)	0.5
<b>Net Cost of Services</b>	<b>481.2</b>	<b>(325.4)</b>	<b>155.8</b>

\* Includes Housing Benefits, Homelessness and Supporting People.



### How was expenditure funded?

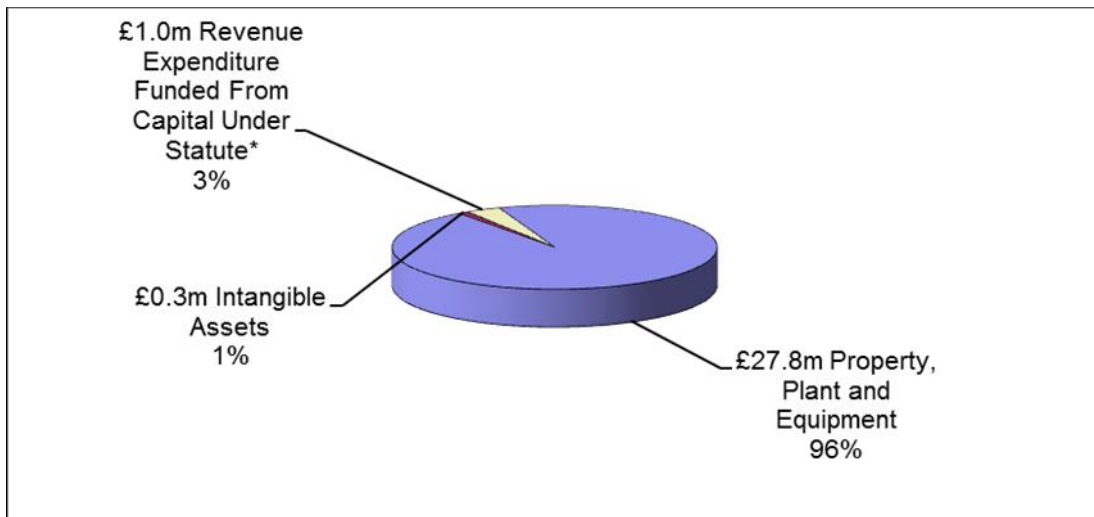
Other than income collected by departments from fees, charges and specific government grants, services are paid for from revenue support grant, which is money from Central Government, contributions from the business rates pool, council tax and special grants for specific purposes. The following chart shows the actual funding of the net cost of services from local taxation and non-specific grant income in 2015/16.



In 2015/16, Merton's Council Tax was the 10<sup>th</sup> lowest Council Tax (Band D) of the twenty outer London boroughs.

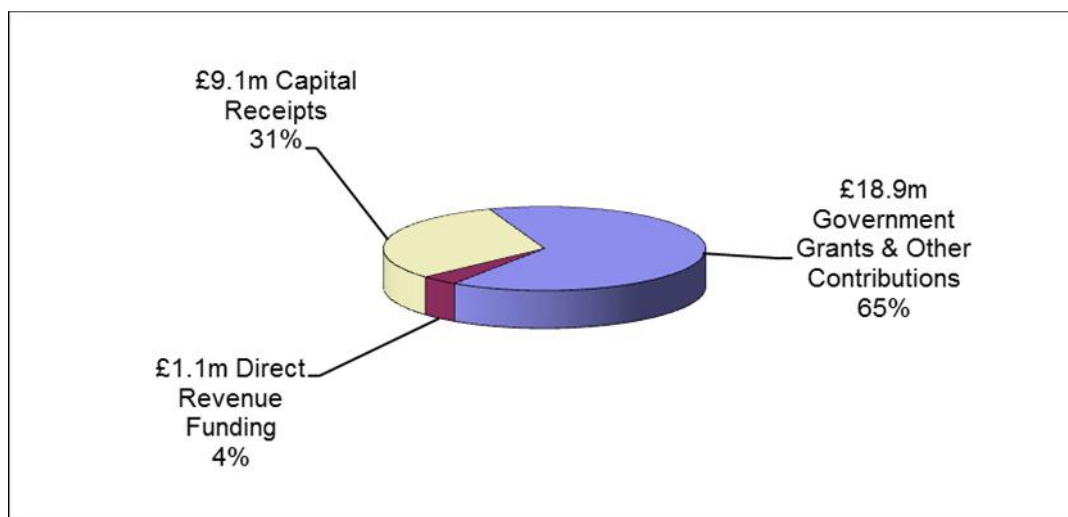
### CAPITAL SPENDING

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 £29.1m in 2015/16 as shown below.



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

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



Capital expenditure and the budget for the next four years, is shown by department in the following table:

Department	Outturn 2015/16 £000s	Capital Budget			
		2016/17* £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s
Corporate Services	2,466	2,345	5,196	2,977	2,795
Community and Housing	1,355	11,630	1055	629	280
Children, Schools and Families	14,348	14,139	19,829	12,990	4,955
Environment and Regeneration	10,910	17,834	12,664	15,474	4,277
<b>Total</b>	<b>29,079</b>	<b>45,948</b>	<b>38,744</b>	<b>32,070</b>	<b>12,307</b>

\*Budget includes £6.7m slippage from 2015/16.

## FINANCIAL HEALTH

The Balance Sheet gives a snapshot of the Council's financial position at the year-end (i.e. 31<sup>st</sup> March 2016). It shows what the Council owns (its assets) and what it owes (its liabilities) and the funds which support them.

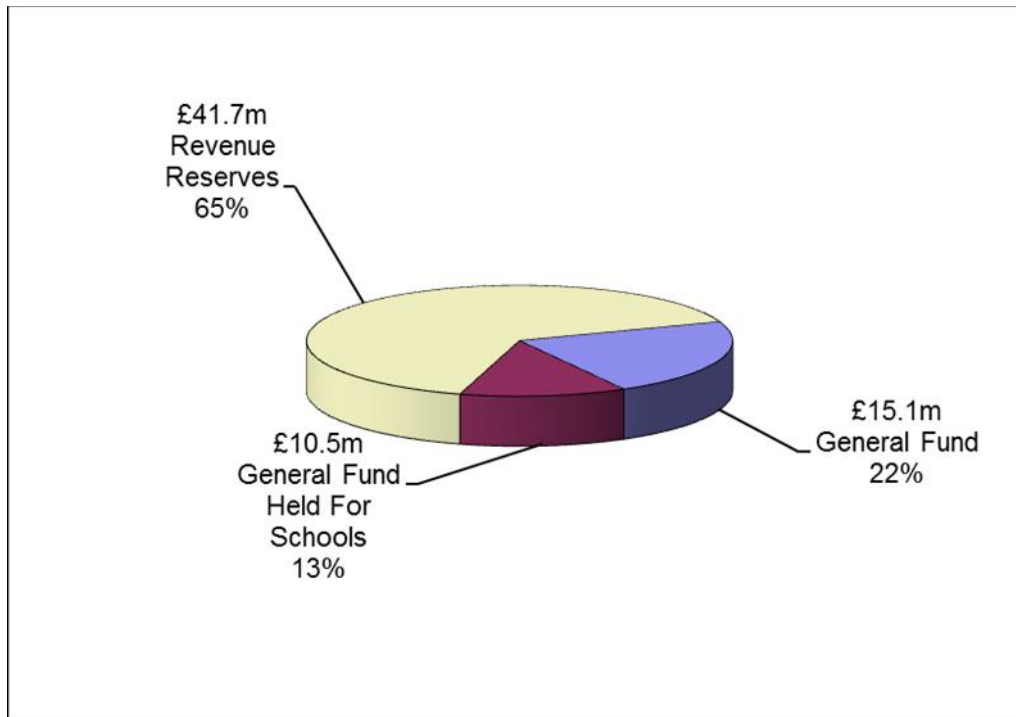
### Summary Balance Sheet

	As at 31 <sup>st</sup> March 2015	As at 31 <sup>st</sup> March 2016
Assets	£m	£m
Fixed and Other Long Term Assets	457	476
Current Assets including investments, cash and debtors	126	142
Current Liabilities including creditors and short term borrowing	(72)	(77)
<b>Total Assets Less Current Liabilities</b>	<b>511</b>	<b>541</b>
Long term borrowings	(117)	(117)
Other liabilities and provisions	(49)	(47)
Pension Fund Liability	(294)	(263)
<b>Total Long Term Liabilities</b>	<b>(460)</b>	<b>(427)</b>
<b>Total Net Assets</b>	<b>51</b>	<b>114</b>
<b>Represented by:</b>		
Reserves and balances which can be spent	(105)	(101)
Reserves and balances which cannot be spent	54	(13)
<b>Total Net Worth</b>	<b>(51)</b>	<b>(114)</b>

## RESERVES AND FUND BALANCES

In total, the Council now has usable reserves and fund balances amounting to £101m, £34m capital receipts and grants, and £67m 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 an IAS19 commitment basis. On this basis, the assets in the scheme increased by £2m during the year to £483m and the estimated pension liability decreased by £29m to £746m, leading to a £31m decrease in the pension deficit, which stands at a notional £263m. Although this is a significant notional liability, the basis on which the deficit of the fund is valued and a deficit recovery plan is maintained is determined by a separate triennial actuarial valuation. Under the latest actuarial valuation, the Council has a 12 year plan to eliminate the deficit.

### **CABINET REPORTING**

The revenue outturn in the statement of accounts has been prepared in accordance with the CIPFA 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 within the 2015/16 Statement of Accounts as disclosure note 2.

**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 2016

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# Narrative Statement

## 1. Introduction

Welcome to London Borough of Merton's 2015/16 Statement of Accounts, which reports the Authority's financial performance during the year, showing expenditure on all services and the financial position at 31<sup>st</sup> March 2016.

This Narrative Statement gives an introductory overview of the Authority's financial and service delivery performance in the year.

## 2. Financial Performance

The Authority's financial performance is summarised by the table below, as reported to Cabinet in June 2016:

Cabinet Outturn Report	2015/16	2015/16	2015/16
	Current Budget	Outturn	Variance
	£000	£000	£000
<b>Department</b>			
Corporate Services	30,210	29,837	(373)
Children, Schools & Families	50,089	50,082	(7)
Community & Housing	56,453	57,393	940
Public Health	296	289	(7)
Environment & Regeneration	18,423	22,055	3,632
Other	(646)	(374)	272
<b>Net Service Expenditure</b>	<b>154,825</b>	<b>159,282</b>	<b>4,457</b>
Corporate Provisions	4,581	(637)	(5,217)
Transfers from Earmarked Reserves	(4,710)	(2,289)	2,421
<b>Total General Fund</b>	<b>154,696</b>	<b>156,355</b>	<b>1,659</b>
Grants	(39,859)	(40,819)	(960)
Business Rates	(33,371)	(33,371)	0
Council Tax and Collection Fund	(81,471)	(81,471)	0
<b>Funding</b>	<b>(154,701)</b>	<b>(155,661)</b>	<b>(960)</b>
<b>Net overspend</b>	<b>(5)</b>	<b>694</b>	<b>699</b>

Net service expenditure was overspent by £4.457m due to a number of variances, the three largest overspends being £2.684m in Adult Social Care (Community and Housing department), £3.750m in Parking income (Environment and Regeneration department) and £0.617m within Social Care, Youth Inclusion and Commissioning (Children, Schools and Families department). These overspends were offset by a £2.594m net underspend across all other services.

Corporate provisions, including earmarked reserve transfers, underspent by £2.796m and grant income exceeded the budgeted figure by £0.960m.

This reduced the overall net overspend to £0.699m, against a net budget of £0.005m.

The resulting £0.694m net expenditure has been met by an appropriation from earmarked reserves, which is included in the Movement in Reserves statement.

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

## 2.1 Fund Balances and Reserves

During 2015/16 the Authority's overall usable reserves decreased by £3.474m.

This was composed of a £1.969m increase in the schools' general fund balance, a £2.983 decrease in earmarked revenue reserves offset by a £0.783m increase in the dedicated schools' grant reserve, a £1.682m decrease in the capital receipts reserve and a £1.562m decrease in capital grants unapplied. The general fund balance remained unchanged.

Usable Reserves	2014/15 Closing Balance	2015/16 Movement	2015/16 Closing Balance
	£000	£000	£000
General Fund Balance	15,151	0	15,151
General Fund Balances held by schools	8,535	1,969	10,504
Earmarked Revenue Reserves	43,889	(2,200)	41,690
<b>Sub Total-Fund Balances and Revenue Reserves</b>	<b>67,575</b>	<b>(230)</b>	<b>67,345</b>
Capital Receipts Reserve	31,264	(1,682)	29,582
Capital Grants Unapplied	5,715	(1,562)	4,153
<b>Total Usable Reserves</b>	<b>104,554</b>	<b>(3,474)</b>	<b>101,080</b>

## 2.2 Capital Summary

Capital investment amounted to £29.1m in 2015/16 (£36.6m in 2014/15). The programme was financed through the application of capital grants (£18.9m), capital receipts (£9.1m) and revenue contributions (£1.1m). Capital receipts received in year totalled £7.4m (£5.3m in 2014/15).

Of the total £29.1m capital expenditure, £27.8 million was spent on the purchase/enhancement of property, plant and equipment, £0.3 million on the purchase/enhancement of intangible assets and £1.0 million was revenue expenditure funded from capital under statute.

### Capital Investment Plans

The Authority's capital investment budget for the next four years is shown in the following table, alongside 2015/16 outturn. Capital investment is required both to maintain existing levels of service and to expand service provision in some areas.

Department	Outturn 2015/16 £000s	Capital Budget (£000's)			
		2016/17*	2017/18	2018/19	2019/20
Corporate Services	2,466	2,345	5,196	2,977	2,795
Community and Housing	1,355	11,630	1055	629	280
Children, Schools and Families	14,348	14,139	19,829	12,990	4,955
Environment and Regeneration	10,910	17,834	12,664	15,474	4,277
<b>Total</b>	<b>29,079</b>	<b>45,948</b>	<b>38,744</b>	<b>32,070</b>	<b>12,307</b>

\*Budget includes £6.7m slippage from 2015/16.

The following projects, whose cost is included in the above table, are expected to expand service provision:

Capital projects aimed at service expansion	Capital Budget (£000's)			
	2016/17	2017/18	2018/19	2019/20
Primary school expansions	4,102	0	0	0
Secondary school expansions	7,945	14,230	8,690	4,200
Special Educational Needs school expansions	1,095	4,844	3,650	0
Replace Morden Leisure Centre and Lake De-silting	5,131	4,928	1,747	0
<b>Total</b>	<b>18,273</b>	<b>24,002</b>	<b>14,087</b>	<b>4,200</b>

Further information regarding capital investment plans can be found in the Authority's Business Plan, located at <http://www.merton.gov.uk/council/finance.htm>.

## 2.3 Investments and Borrowing

The annual treasury management strategy, which was approved by Council in March 2016, is available on the Authority's website. In short, borrowing strategy is to internally finance the capital programme until the £10m liquid cash threshold is reached; at this point external borrowing would be undertaken except if interest rates fall to attractive levels. Regarding investment strategy, the Authority manages its cash in-house, placing investments for periods ranging from overnight to over 12 months depending on anticipated cash flow requirements.

At 31<sup>st</sup> March 2016 the Authority held short-term and long-term deposits totalling £80.9m and £5.0m respectively (£73.4m and £13.0m at 31/03/15). The Authority generated £1.12m of investment income from these deposits (£0.89m in 2014/15).

Long-term borrowing at 31<sup>st</sup> March 2016 remained unchanged at £117.0m. Short-term borrowing, including accrued interest, increased to £16.2m, from £13.1m at 31<sup>st</sup> March 2015. The Authority paid £6.7m in interest on these borrowings during 2015/16 (£6.7m in 2014/15).

## 2.4 Pensions

The actuarial valuation of the pension fund, of which the Authority is the largest employer, is carried out every three years. It determines the impact on council tax of the cost of paying 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 accrued liabilities; 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. The next applicable actuarial valuation will be as at 31<sup>st</sup> March 2016.

For accounting purposes, a valuation under IAS19 is carried out to produce an accounting surplus or deficit as at the balance sheet date. The methodology used is affected by current assumptions and short-term economic market conditions. The deficit attributable to the Authority on an IAS19 basis decreased from £294m to £263m, a reduction of £31m. The Authority's actuary estimated that at 31<sup>st</sup> March 2016, future liabilities amount to £746m (£775m at 31<sup>st</sup> March 2015) with assets of £483m (£481m at 31<sup>st</sup> March 2015).

The improvement in the net deficit is principally due to the £29m reduction in the estimated value of future liabilities (£775m to £746m). This movement is mainly a result of favourable changes to the financial assumptions used by the actuary – such as those for inflation and discount rates – which are set-out in disclosure note 32.

## 2.5 Economic Outlook

### Local Government Finance Settlement

The Local Government Finance Settlement for 2016/17 contains indicative allocations from central government up to 2019/20. These allocations continue the downward trend in funding since 2010/11. Between 2015/16 and 2019/20, the Authority's settlement funding assessment is forecast to fall by 41.8% in real terms and core spending power by 8.8% over the same period.

As the Authority's funding from central government reduces, demographic changes and the impact of the economic climate are expected to further increase pressure on service budgets, particularly those for demand-led areas such as social care.

In order to continue delivering services effectively, the Authority continues to monitor these, and other major risks to its financial position, which are:

- The current and medium term economic outlook
- Demand and other demographic pressures on the budget, particularly on vulnerable groups with demand-led budgets
- Identifying and achieving cost and income improvements in a challenging and uncertain economic environment
- Proposed changes to business rates and impact of future revaluation
- Devolution and the transfer of new responsibilities to local government
- Risks to future Government funding levels
- Ability to implement approved savings
- Risks to other income streams
- The unknown long-term impact of the EU referendum result on economic factors

## 2.6 Future Accounting Developments

### Accounts and Audit Regulations 2015

These regulations will require 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 Authority's balance sheet. Merton has set up a cross departmental working party to implement this change.

### 3. Service Performance

The Authority is comprised of four departments; Children, Schools and Families, Environment and Regeneration, Community and Housing, and Corporate Services. A selection of key performance indicators from each department is shown in the table below. The Authority's full key performance indicator set can be found in the Business Plan, which is published at: <http://www.merton.gov.uk/council/plansandpolicies.htm>.

Department	Key Performance Indicator		2014/15			2015/16		
	Description	Result	Target	Target met?	Result	Target	Target met?	
Corporate Services	% of council tax collected	97%	97%	Y	97%	97%	Y	
	% of business rates collected	97%	97%	Y	98%	98%	Y	
	The level of CO2 emissions from council buildings (tonnes) - Quarter 1 to Quarter 3	2,591	<3,075	Y	3,538	<2,925	N	
Children, Schools and Families	5 GCSE A-C including English and Maths	64%	65%	N	60%	64%	N	
	% outcome of schools Ofsted inspections good or outstanding	85%	85%	N	89%	86%	Y	
	No. of special guardianship orders and adoptions finalised during the year	16	13	Y	13	13	Y	
	% of looked after children in external agency foster care placements	42%	<36%	N	37%	<46%	Y	
	No. of in-house foster carers recruited	10	20	N	13	20	N	
Community and Housing	No. of people accessing a library at least once in the last 12 months	63,592	54,500	Y	65,269	55,000	Y	
	No. of homelessness preventions	558	550	Y	561	550	Y	
	The rate of delayed transfers of care from hospital (both Merton & NHS responsible)	3	<5	Y	9	<5	N	
Environment and Regeneration	Major applications processed within 13 weeks	52%	62%	N	56%	55%	Y	
	% of sites surveyed on local street inspections for litter that are below standard	8.2%	<8.5%	Y	7.9%	<8%	Y	
	No. of refuse collections including recycling and kitchen waste missed per 100,000	55	<55	N	52	<55	Y	

## 3.1 Future Service Developments

### Corporate Services

The Department's target is to provide high quality services to residents and internal users of support services provided.

This will be achieved through a new website incorporating increased functionality for online transactions and the ability for customers to create an online 'account' that brings all of their electronic transactions into one place so they can be managed easily. Customer feedback and benchmarking services will ensure the most cost effective delivery vehicle available is used to offer excellent services within a reducing budget.

A key priority is to increase the range of services that can be resolved at the first point of contact through our dedicated contact centre.

The department will continue to develop, identify and understand trends in customer demand and expectation as well as the opportunities presented by new technology so as to anticipate and shape demand for our services.

The council tax and business rates in year collection rates improved again in 2015/16 supporting the performance indicators above. The service collected the most ever council tax in the past year and highest business rates collection for five years.

Despite these improvements, the service faces the ongoing challenge of collecting from some taxpayers and businesses that try to avoid paying. In these circumstances the approach is to make full use of legal powers to pursue these debts. There has been improved collection of debts where the Authority has instigated bailiff action or, as a last resort, bankruptcy proceedings against non payers.

### Children, Schools and Families Department

The Department remains committed to a journey of continuous improvement, by actively seeking new and innovative ways to meet national requirements. The Department aims to deliver the very best services and to improve outcomes for all children and young people, in particular those who are most vulnerable and at risk.

There are a number of considerable challenges to service delivery over the next few years, in particular, a challenging inspection regime, major changes in school funding, and the Government's evolving strategy for more schools to become academies.

Within social care, radical changes must be implemented to the way social workers are assessed, in line with their registration requirements. The Department also faces a move towards regional adoption and the embedding of the Children and Families Act.



The Department also faces unprecedented challenges to our Early Years delivery at Children's Centres and is working closely with colleagues in the health sector to co-locate and therefore, provide a single point of access to our clients.

The performance indicators shown are those that are given a high priority by our residents, for example Ofsted inspection outcomes for schools. Performance is generally being delivered in line with, or above, expectations. It is noted that the proportion of students achieving at least five GCSEs graded A\*-C including English and Mathematics decreased by four percentage points to 60%, against a target of 64%. Notwithstanding, LB Merton's performance at 60% remains well above the national average of 54% and the Department is committed to working back towards its target. The Department is pleased that 89% of schools in the Borough received a good or outstanding rating from Ofsted, against a target of 86%.

### Community and Housing Department

The Community and Housing Department plans to investigate sharing with, or commissioning services from, other local authorities or providers. The Department will continue to exploit technology to work more flexibly and enable more self-service by customers.

In Adult Social Care, the move towards a more outcome-oriented approach will continue, which will mean improved outcomes for service-users.

The East Merton Model of Health and Wellbeing is being developed with the local community to radically transform health and social care services provision with the aim to reduce the persistent health inequalities between the west and east of the borough. The model includes the development of a community health and wellbeing campus on the Wilson Hospital site that draws in non-medical community assets to tackle some of the root causes of ill health and unhealthy behaviour.

The Department will maximise the use of volunteers across services where there is need and to increase resilience, including continuing to expand the volunteer base in libraries and developing volunteering provision within our provider services. Currently there is work under way with the voluntary sector and key partners to review and refresh the volunteering strategy for Merton.

The use of library space will also be maximised for other activities, for example as arts space where exhibitions and performances can be held.

The key issues and risks faced with these developments will be:

- finding suitable partners to share with, or commission services from;
- demographic pressures resulting in increased demand on all of our key service areas e.g. ageing population demands on adult social care services;
- external factors diverting staff from planned developments e.g. welfare reforms; and

- external price pressures from service providers e.g. providers of residential / domiciliary care.

The Department's key performance indicators show a range of performance, with areas of significant achievement and areas where performance needs to be improved.

For the rate of delayed transfers of care from hospital (both Merton & NHS responsible), performance is improving in 2016/17 and work on a strategic, operational and commissioning level continues so that the gains from integrated and collaborative working can ensure continual improvement towards achieving this target.

The Department is pleased that the number of visitors accessing the library service exceeded the target for the year. Web based resources continue to be developed to further improve the Authority's excellent library service.

The Department also achieved its target for the number of homelessness preventions. Wherever possible the Authority is committed to preventing homelessness; interventions can include negotiating with the landlord, resolving Housing Benefit issues, assistance with rent arrears or providing alternative accommodation to achieve this target.

#### Environmental and Regeneration Department

In the coming years, the Department will undergo considerable changes in how services are delivered. In particular, the move away from being a direct provider of services to one with a greater clienting role will continue, ensuring quality services are contracted effectively from third parties. The Department also aspires to increase the number of services that are shared with other local authorities. This ambition is well illustrated by the South London Waste Partnership, which involves four local authorities working together to deliver certain waste services.

From April 2017, other key front line services – including Waste Collection, Street Cleaning, Parks and Vehicle Maintenance – will be delivered by a commercial provider procured by the South London Waste Partnership. It is also planned that the Regulatory Services Partnership – successfully established with the London Borough of Richmond – will be expanded to include other partners and options for joint working in the Transport and Planning Services will be explored.

Another key departmental priority is the Place Shaping Agenda – working to positively affect physical and other attributes of the Borough, ensuring the successful management of public space. This will include the establishment of a Merton Development Company and other vehicles for supporting appropriate growth strategies.

The performance indicators above support the general conclusion from all indicators that the principal services of the department, those that are given a high priority by residents, are generally being delivered in line with expectations and to appropriate standards. The cleanliness of the borough, the effectiveness of the refuse collection

service and the efficiency of the administrative role of the Authority are all high priorities.

#### 4. 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 Authority 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 Authority'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 Authority is responsible and demonstrates how they have been financed.
- **The Balance Sheet** - summarises the Authority'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 Authority 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 Authority and the Director of Corporate Services.

# 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 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>
<i><u>Movement in reserves during 2014/15</u></i>							
(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>(43,890)</b>	<b>(31,263)</b>	<b>(5,715)</b>	<b>(104,554)</b>	<b>53,536</b>	<b>(51,018)</b>

	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 2015</b>	<b>(23,686)</b>	<b>(43,890)</b>	<b>(31,263)</b>	<b>(5,715)</b>	<b>(104,554)</b>	<b>53,536</b>	<b>(51,018)</b>
<i>Movement in reserves during 2015/16</i>							
(Surplus) or deficit on the provision of services	(4,702)	0	0	0	(4,702)	0	(4,702)
Other Comprehensive (Income) and Expenditure	0	0	0	0	0	(58,088)	(58,088)
<b>Total Comprehensive (Income) and Expenditure</b>	<b>(4,702)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,702)</b>	<b>(58,088)</b>	<b>(62,790)</b>
Adjustments between accounting basis & funding basis under regulations (Note 18)	4,933	0	1,681	1,562	8,176	(8,176)	0
<b>Net (Increase)/Decrease before Transfer to Earmarked</b>	<b>231</b>	<b>0</b>	<b>1,681</b>	<b>1,562</b>	<b>3,474</b>	<b>(66,264)</b>	<b>(62,790)</b>
Transfers (to)/from Earmarked Reserves (Note 16)	(2,200)	2,200	0	0	0	0	0
<b>(Increase)/Decrease in Year</b>	<b>(1,969)</b>	<b>2,200</b>	<b>1,681</b>	<b>1,562</b>	<b>3,474</b>	<b>(66,264)</b>	<b>(62,790)</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>(25,655)</b>	<b>(41,690)</b>	<b>(29,582)</b>	<b>(4,154)</b>	<b>(101,080)</b>	<b>(12,728)</b>	<b>(113,808)</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.

2014/15	2014/15	2014/15		2015/16	2015/16	2015/16
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
			<b>Continuing Operations</b>			
7,405	(3,353)	4,052	Central Services to the Public	7,079	(3,921)	3,158
11,788	(2,366)	9,422	Cultural and Related Services	11,079	(2,452)	8,626
26,144	(4,514)	21,630	Environmental & Regulatory Services	25,658	(4,453)	21,205
7,149	(5,836)	1,312	Planning Services	7,298	(5,994)	1,304
238,555	(160,659)	77,897	Education and Children's Services	206,782	(162,232)	44,550
27,417	(14,867)	12,550	Highways and Transport Services	27,960	(14,583)	13,377
109,937	(105,589)	4,348	Other Housing Services	99,254	(95,897)	3,358
72,709	(18,812)	53,896	Adult Social Care	66,932	(15,216)	51,716
5,940	(17)	5,923	Corporate and Democratic Core	4,936	(6)	4,930
12,151	(10,846)	1,305	Non Distributed Costs	13,350	(10,249)	3,101
10,016	(9,651)	365	Public Health	10,926	(10,458)	468
<b>529,209</b>	<b>(336,510)</b>	<b>192,699</b>	<b>Cost of services</b>	<b>481,254</b>	<b>(325,462)</b>	<b>155,793</b>
		(1,187)	Other operating income and expenditure (Note 3)			(3,745)
		21,060	Financing and investment income and expenditure (Note 4)			17,209
		(189,048)	Taxation and non-specific grant income (Note 5)			(173,958)
		<b>23,524</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>(4,702)</b>
		(8,984)	(Surplus) or deficit on revaluation of Property, Plant and equipment (Note 17)			(13,016)
		68,625	Remeasurement of the net defined benefit liability/(asset) (Notes 17 & 32)			(45,072)
		<b>59,641</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(58,088)</b>
		<b>83,165</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(62,790)</b>

The Total Comprehensive Income is credited to the Authority's reserves, as detailed by the Movement in Reserves Statement. This reserves movement can also be seen in the Balance Sheet.

### 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 2015			31 March 2016
£000		Notes	£000
433,619	Property, Plant & Equipment	19	461,133
669	Heritage Assets	21	669
13,000	Long Term Investments	9	5,000
1,639	Intangible Assets	20	1,291
8,234	Long Term Debtors	7 & 9	8,095
<b>457,161</b>	<b>Long Term Assets</b>		<b>476,187</b>
73,422	Short Term Investments	9	80,873
68	Inventories	36	46
25,756	Short Term Debtors	7	30,225
7,288	Assets Held for Sale	22	7,288
19,324	Cash and Cash Equivalents	14	23,311
<b>125,858</b>	<b>Current Assets</b>		<b>141,744</b>
(13,069)	Short Term Borrowing	9	(16,178)
(56,054)	Short Term Creditors	8	(59,345)
(2,754)	Current Provisions	11	(1,445)
<b>(71,877)</b>	<b>Current Liabilities</b>		<b>(76,968)</b>
(4,577)	Provisions	11	(6,516)
(116,976)	Long Term Borrowing	9	(116,976)
(34,099)	Other Long Term Liabilities	9	(32,346)
(293,820)	Pension Liability	32	(263,154)
(10,651)	Capital Grants Receipts in Advance	6	(8,162)
<b>(460,123)</b>	<b>Long Term Liabilities</b>		<b>(427,155)</b>
<b>51,018</b>	<b>Net Assets</b>		<b>113,808</b>
(104,554)	Usable Reserves	16	(101,080)
53,536	Unusable Reserves	17	(12,728)
<b>(51,018)</b>	<b>Total Reserves</b>		<b>(113,808)</b>

These financial statements replace the unaudited financial statements authorised at the meeting of Standards and General Purposes Committee on 30<sup>th</sup> June 2016.

Signed

Caroline Holland  
Director of Corporate Services  
8th September 2016

## 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.

2014/15		2015/16
£000		£000
23,524	Net (surplus) or deficit on the provision of services	(4,702)
(44,802)	Adjustments to net surplus or deficit on the provision of services for non cash movements (note 15a)	(30,553)
32,053	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 15b)	23,671
10,775	Net Cash flows from Operating Activities (note 15c)	(11,583)
3,639	Investing Activities (note 15d)	8,423
(11,023)	Financing Activities (note 15e)	(827)
3,390	Net (increase) or decrease in cash and cash equivalents	(3,987)
22,714	Cash and cash equivalents at the beginning of the reporting period	19,324
<b>19,324</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 14)</b>	<b>23,311</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

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# INCOME AND EXPENDITURE

## 1. MATERIAL ITEMS OF INCOME AND EXPENSE

Other than that disclosed on the face of the Comprehensive Income and Expenditure statement, there were no material items of income and expense.

## 2. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

In the Comprehensive Income & Expenditure Statement (CIES), income and expenditure are presented by service as specified by CIPFA's Service Expenditure Reporting Code of Practice. 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 Narrative Statement.

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 Authority-only perspective. The CIES, however, must consolidate schools' expenditure into the Authority's single entity accounts, as stipulated by CIPFA's Code of Practice (see schools policy xxiii). For the same reason, any DSG-funded income received by the Authority 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:

2015/16 Departmental Analysis	Corporate Services**	Children, Schools & Families	Community and 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	(12,844)	(5,767)	(13,503)	(925)	(485)	(388)	(27,751)	<b>(61,663)</b>
Government grants (Note 6)	(93,259)	(154,586)	(1,317)	(1,487)	(2,543)	(10,071)	(536)	<b>(263,799)</b>
<b>Total Income</b>	<b>(106,103)</b>	<b>(160,354)</b>	<b>(14,820)</b>	<b>(2,412)</b>	<b>(3,028)</b>	<b>(10,458)</b>	<b>(28,287)</b>	<b>(325,462)</b>
<b>EXPENDITURE</b>								
Employee expenses*	26,551	130,862	11,015	3,166	1,284	1,044	23,659	<b>197,580</b>
Other service expenses	108,746	71,054	58,955	1,245	3,237	9,704	21,382	<b>274,324</b>
Depreciation, Impairment losses and (revaluation increases) - Note 18	2,198	(2,028)	76	388	0	0	10,251	<b>10,885</b>
Support service recharges	(17,943)	5,179	4,351	1,076	265	178	5,358	<b>(1,535)</b>
<b>Total Expenditure</b>	<b>119,553</b>	<b>205,067</b>	<b>74,397</b>	<b>5,875</b>	<b>4,786</b>	<b>10,926</b>	<b>60,650</b>	<b>481,254</b>
<b>Net Cost of Services (Statement of Accounts)</b>	<b>13,450</b>	<b>44,714</b>	<b>59,577</b>	<b>3,463</b>	<b>1,759</b>	<b>468</b>	<b>32,363</b>	<b>155,793</b>
Items in Cost of Services not in Narrative Statement	(16,013)	(5,368)	5,680	1,332	394	179	10,308	(3,490)
<b>Total Narrative Statement (Revenue Outturn Report)</b>	<b>29,463</b>	<b>50,082</b>	<b>53,897</b>	<b>2,131</b>	<b>1,365</b>	<b>289</b>	<b>22,055</b>	<b>159,282</b>

\*Includes the following expenditure on staff employed at voluntary-aided and foundation schools:

Employee Expenditure	2014/15 £'000	2015/16 £'000
VA Schools	27,166	28,162
Foundation Schools	5,111	5,627
<b>Total</b>	<b>32,277</b>	<b>33,789</b>

\*\*Corporate Services outturn includes net recharges, which are shown separately as 'other' in the Narrative Statement.

The table below reconciles the Departmental Analysis, the Narrative Statement and the Surplus or Deficit on the provision of services:

2015/16	Total Narrative Statement (Revenue Outturn Report)	Items in Departmental Analysis not in Narrative Statement	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	(86,266)	24,603	(61,663)	0	(61,663)
Interest & investment income (Note 9)	(22)	22	0	(1,850)	(1,850)
Taxation & non-specific grant income (Note 5)	0	0	0	(173,958)	(173,958)
Recharges	(33,902)	33,902	0	0	0
Government grants (Note 6)	(266,673)	2,874	(263,799)	0	(263,799)
Other	2,752	(2,752)	0	(800)	(800)
<b>Total Income</b>	<b>(384,111)</b>	<b>58,649</b>	<b>(325,462)</b>	<b>(176,608)</b>	<b>(502,070)</b>
<b>EXPENDITURE</b>					
Employee expenses	97,197	100,383	197,580	0	197,580
Other service expenses	393,048	(118,724)	274,324	0	274,324
Depreciation, Impairment losses and (revaluation increases) -Note 18	19,619	(8,734)	10,885	0	10,885
Support Service Recharges	33,528	(35,063)	(1,535)	0	(1,535)
Interest Payments (Note 9)	0	0	0	10,255	10,255
Precepts & Levies	0	0	0	926	926
Interest on net defined benefit liability (asset) (Note 32)	0	0	0	9,434	9,434
Gain or loss on disposal of fixed assets (Note 3)	0	0	0	(4,671)	(4,671)
Other finance and investment expenditure (Note 4)	0	0	0	170	170
<b>Total Expenditure</b>	<b>543,392</b>	<b>(62,138)</b>	<b>481,254</b>	<b>16,114</b>	<b>497,368</b>
<b>Net Expenditure/(Income)</b>	<b>159,282</b>	<b>(3,488)</b>	<b>155,793</b>	<b>(160,494)</b>	<b>(4,702)</b>

## 2014/15 Comparative Figures

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	(18,023)	(8,550)	(17,948)	(1,065)	(324)	(415)	(27,295)	<b>(73,621)</b>
Government grants (Note 6)	(98,639)	(150,052)	(348)	(1,603)	(2,156)	(9,236)	(854)	<b>(262,889)</b>
<b>Total Income</b>	<b>(116,663)</b>	<b>(158,602)</b>	<b>(18,297)</b>	<b>(2,669)</b>	<b>(2,480)</b>	<b>(9,651)</b>	<b>(28,149)</b>	<b>(336,510)</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	120,954	75,880	61,491	1,577	2,589	9,048	21,890	<b>293,428</b>
Depreciation & Impairment Losses (Note 18)	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>131,044</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>529,209</b>
<b>Net Cost of Services (Statement of Accounts)</b>	<b>14,381</b>	<b>78,215</b>	<b>61,242</b>	<b>3,742</b>	<b>1,837</b>	<b>365</b>	<b>32,917</b>	<b>192,699</b>
Items in Cost of Services not in Cabinet Outturn report	(14,374)	31,012	5,247	1,268	(73)	110	11,092	<b>34,282</b>
<b>Total Revenue Outturn report</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>

2014/15	Total Revenue Outturn	Items in Departmental Analysis not in Revenue Outturn	Total Cost of Services	Corporate Amounts	Total (Surplus)/ Deficit on the provision of services
	£000	£000	£000	£000	£000
<b><u>INCOME</u></b>					
Fees, charges and other service income	(90,598)	16,977	(73,621)	0	<b>(73,621)</b>
Interest & investment income (Note 9)	0	0	0	(1,552)	<b>(1,552)</b>
Taxation & non-specific grant income (Note 5)	0	0	0	(189,048)	<b>(189,048)</b>
Recharges	(32,852)	32,852	0	0	<b>0</b>
Government grants (Note 6)	(260,509)	(2,380)	(262,889)	0	<b>(262,889)</b>
Other (Note 4)	(3,064)	3,064	0	(1,206)	<b>(1,206)</b>
<b>Total Income</b>	<b>(387,023)</b>	<b>50,513</b>	<b>(336,510)</b>	<b>(191,805)</b>	<b>(528,315)</b>
<b><u>EXPENDITURE</u></b>					
Employee expenses	96,299	99,639	195,938	0	<b>195,938</b>
Other service expenses	398,885	(105,457)	293,428	0	<b>293,428</b>
Depreciation & Impairment Losses (note 18)	17,768	23,614	41,382	0	<b>41,382</b>
Support Service Recharges	32,488	(34,027)	(1,539)	0	<b>(1,539)</b>
Interest Payments (Note 9)	0	0	0	10,417	<b>10,417</b>
Precepts & Levies	0	0	0	931	<b>931</b>
Interest on net defined benefit liability/(asset) (Note 32)	0	0	0	9,477	<b>9,477</b>
Gain or loss on disposal of fixed assets (Note 3)	0	0	0	(2,138)	<b>(2,138)</b>
Gain or loss on disposal of academies (Note 4)	0	0	0	3,923	<b>3,923</b>
Other	0	0	0	19	<b>19</b>
<b>Total Expenditure</b>	<b>545,440</b>	<b>(16,232)</b>	<b>529,208</b>	<b>22,630</b>	<b>551,838</b>
<b>Net Expenditure/(Income)</b>	<b>158,417</b>	<b>34,282</b>	<b>192,699</b>	<b>(169,176)</b>	<b>23,524</b>

### 3. OTHER OPERATING EXPENDITURE

2014/15		2015/16
£000		£000
931	Precepts and Levies	926
(2,138)	(Gains)/ losses on the disposal of non-current assets	(4,671)
19	Payments to the Government Housing Capital Receipts Pool	0
<b>(1,187)</b>	<b>Total</b>	<b>(3,745)</b>

### 4. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2014/15		2015/16
£000		£000
10,417	Interest payable and similar charges (Note 9)	10,255
9,477	Net interest on defined pension liability (Note 32)	9,434
(1,552)	Interest receivable and similar income (Note 9)	(1,850)
(329)	Trading accounts not related to services (Note 35)	170
3,923	Loss on the disposal of academies	0
(877)	Other (income)/expenditure	(800)
<b>21,060</b>	<b>Total</b>	<b>17,209</b>

### 5. TAXATION AND NON-SPECIFIC GRANT INCOMES

2014/15		2015/16
£000		£000
(80,221)	Council tax income	(80,155)
(23,676)	Non domestic rates (see Note 6)	(25,695)
(61,565)	Non-ringfenced government grants (see Note 6)	(51,782)
(23,586)	Capital grants and contributions (see Note 6)	(16,327)
<b>(189,048)</b>	<b>Total</b>	<b>(173,958)</b>

## 6. GRANT INCOME

The London Borough of Merton credited the following grants, contributions, donations and taxation income to the Comprehensive Income and Expenditure Statement in 2015/16:

	2014/15	2015/16
	£000	£000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Collection Fund	(80,221)	(80,155)
Revenue Support Grant	(39,738)	(30,425)
Business Rates	(23,676)	(25,695)
Top-up Grant	(7,694)	(7,841)
Capital Grant Income	(23,586)	(16,327)
PFI Contribution	(4,797)	(4,797)
New Homes Bonus Grant	(3,199)	(3,679)
Section 31 Grant	(1,278)	(1,051)
Council Tax Freeze Grant	(852)	(867)
Education Services Grant	(3,232)	(2,594)
Other grants under £1 million	(774)	(528)
<b>Total</b>	<b>(189,048)</b>	<b>(173,958)</b>
<b>Credited to Services</b>		
<b>Grants over £1million</b>		
Schools Delegated Budget*	(131,414)	(138,183)
Housing Benefits Subsidy	(96,042)	(91,149)
Public Health Grant	(9,236)	(10,071)
Benefits Administration	(1,311)	(1,074)
Pupil Premium	(6,285)	(5,991)
Sixth Form Funding	(5,251)	(5,543)
Bed & Breakfast Accommodation	(1,680)	(2,211)
Universal Infant Free School Meals	(1,435)	(2,206)
Adult Education Main	(1,603)	(1,487)
	(254,259)	(257,915)
<b>Total grants under £1million**</b>	<b>(8,630)</b>	<b>(5,884)</b>
<b>Total Grants</b>	<b>(262,889)</b>	<b>(263,799)</b>
<b>Contributions over £1million</b>		
Contributions from CCG	(1,525)	(1,429)
Registered Nursing Care Contribution	(1,008)	(1,237)
Local Taxation Services	(1,126)	(1,001)
Shared Legal Service	(5,065)	(4,204)
Recharge for out of borough SEN support	(1,338)	(1,267)
Funding transfer from NHS England to Social Care***	(3,428)	0
	(13,489)	(9,138)
<b>Total contributions under £1million</b>	<b>(12,287)</b>	<b>(10,166)</b>
<b>Total Contributions</b>	<b>(25,776)</b>	<b>(19,304)</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>	<b>(288,665)</b>	<b>(283,104)</b>

\*The 2014/15 Schools Delegated Budget figure has been re-stated. It had previously included grant amounts for Sixth Form Funding and Universal Infant Free School Meals; these amounts are now disclosed separately above.

\*\*Includes grant income credited to services to fund REFCUS.

\*\*\*In 2015/16, this contribution has been replaced by the Better Care Fund pooled budget; see disclosure note 37 for further detail.



The Authority has received a number of capital 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 shown in the following table.

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

	2014/15	2015/16
	£000	£000
<b>1. Government Grants and other contributions</b>		
Other Grants and Contributions	(2,751)	(616)
	(2,751)	(616)
<b>2. Section 106</b>	(7,044)	(6,943)
<b>3. Schools Capital Grants</b>	(855)	(604)
<b>Total</b>	<b>(10,651)</b>	<b>(8,162)</b>

# DEBTORS, CREDITORS AND CASH FLOWS

## 7. DEBTORS

Gross Debt	Impairment	31 March 2015 Net Debt		Gross Debt	Impairment	31 March 2016 Net Debt
£000	£000	£000		£000	£000	£000
811	0	811	<b>Long Term Debtors</b>	776	0	776
10,638	(3,215)	7,423	Other Local Authorities	10,921	(3,602)	7,319
<b>11,449</b>	<b>(3,215)</b>	<b>8,234</b>	Bodies external to general government	<b>11,697</b>	<b>(3,602)</b>	<b>8,095</b>
			<b>Total Long Term Debtors</b>			
			<b>Short Term Debtors</b>			
7,869	0	7,869	Central government bodies	5,286	0	5,286
0	0	0	Other Local Authorities	81	0	81
29,459	(11,572)	17,887	Bodies external to general government	36,162	(11,304)	24,858
<b>37,328</b>	<b>(11,572)</b>	<b>25,756</b>	<b>Total short term debtors</b>	<b>41,529</b>	<b>(11,304)</b>	<b>30,225</b>
<b>48,777</b>	<b>(14,787)</b>	<b>33,989</b>	<b>Total Debtors</b>	<b>53,226</b>	<b>(14,906)</b>	<b>38,320</b>

### Financial Instruments in Debtors

Gross Debt	Impairment	31 March 2015 Net Debt		Gross Debt	Impairment	31 March 2016 Net Debt
£000	£000	£000		£000	£000	£000
811	0	811	<b>Long Term Debtors</b>	776	0	776
7,488	(455)	7,033	Other Local Authorities	7,338	(463)	6,875
<b>8,299</b>	<b>(455)</b>	<b>7,844</b>	Bodies external to general government	<b>8,114</b>	<b>(463)</b>	<b>7,651</b>
			<b>Total Long Term Debtors</b>			
			<b>Short Term Debtors</b>			
19,048	(2,395)	16,653	Bodies external to general government	20,135	(2,372)	17,763
<b>19,048</b>	<b>(2,395)</b>	<b>16,653</b>	<b>Total short term debtors</b>	<b>20,135</b>	<b>(2,372)</b>	<b>17,763</b>
<b>27,347</b>	<b>(2,850)</b>	<b>24,497</b>	<b>Total Financial Instruments in Debtors</b>	<b>28,249</b>	<b>(2,835)</b>	<b>25,414</b>

## 8. CREDITORS

31 March 2015		31 March 2016
£000		£000
	<b>Short Term Creditors</b>	
(3,452)	Central government bodies	(3,352)
(1,454)	Other local authorities	(1,420)
(199)	NHS bodies	(217)
(50,949)	Bodies external to general government	(54,356)
<b>(56,054)</b>	<b>Total Short Term Creditors</b>	<b>(59,345)</b>

### Financial Instruments in Creditors

31 March 2015		31 March 2016
£000		£000
	<b>Short Term Creditors</b>	
(686)	Other local authorities	(756)
(199)	NHS bodies	(217)
(41,088)	Bodies external to general government	(38,898)
<b>(41,973)</b>	<b>Total Financial Instruments in Short Term Creditors</b>	<b>(39,871)</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 2015	31 March 2016	31 March 2015	31 March 2016
	£000	£000	£000	£000
<b>Investments</b>				
Loans and receivables	13,000	5,000	73,422	80,873
<b>Total investments</b>	<b>13,000</b>	<b>5,000</b>	<b>73,422</b>	<b>80,873</b>
<b>Debtors</b>				
Loans and receivables	7,844	7,651	16,653	17,763
<b>Total debtors</b>	<b>7,844</b>	<b>7,651</b>	<b>16,653</b>	<b>17,763</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	116,976	116,976	13,069	16,178
<b>Total borrowings</b>	<b>116,976</b>	<b>116,976</b>	<b>13,069</b>	<b>16,178</b>
<b>Other Liabilities</b>				
PFI and Finance Lease Liabilities	34,099	32,226	1,597	1,638
<b>Total other liabilities</b>	<b>34,099</b>	<b>32,226</b>	<b>1,597</b>	<b>1,638</b>
<b>Short Term Creditors</b>				
Other Financial liabilities at amortised cost	N/A	N/A	40,376	38,233
<b>Total creditors</b>	<b>N/A</b>	<b>N/A</b>	<b>40,376</b>	<b>38,233</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, which is approved by Council, 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 also sets out the Authority's criteria for the minimum creditworthiness required for investment counter parties.

## Income, Expense, Gains and Losses

	2014/15			2015/16		
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Total
	£000	£000	£000	£000	£000	£000
Interest Expense - Borrowings	6,687	0	6,687	6,702	0	6,702
Interest Expense - Finance Leases	3,711	0	3,711	3,533	0	3,533
Fee Expenses	19	0	19	19	0	19
<b>Total Expenses in Surplus or Deficit on the Provision of Services</b>	<b>10,417</b>	<b>0</b>	<b>10,417</b>	<b>10,255</b>	<b>0</b>	<b>10,255</b>
Interest Income - Investments	0	(887)	(887)	0	(1,124)	(1,124)
Interest Income - Finance Leases	0	(664)	(664)	0	(726)	(726)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(1,551)</b>	<b>(1,551)</b>	<b>0</b>	<b>(1,850)</b>	<b>(1,850)</b>
<b>Net (gain)/loss for the year</b>	<b>10,417</b>	<b>(1,551)</b>	<b>8,866</b>	<b>10,255</b>	<b>(1,850)</b>	<b>8,405</b>

## Investments

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

Investment Profile		31 March 2015 £000	31 March 2016 £000
Long-term		13,000	5,000
Short-term		73,100	80,400
Accrued Investment Income		322	473
<b>Total</b>		<b>86,422</b>	<b>85,873</b>
Investments - Movement in year			£000
<b>Investments at 1 April 2015</b>			<b>86,422</b>
Change in investment managed internally			(700)
Change in accrued investment income			151
<b>Investment at 31 March 2016</b>			<b>85,873</b>
Long-term investment (book value)			5,000
Short-term investment (book value)			80,400
	Book Value £000	Fair Value £000	Unrealised Profits/(Losses) £000
Managed Internally	80,873	80,993	0
Managed Externally	5,000	5,036	36
<b>Total</b>	<b>85,873</b>	<b>86,029</b>	<b>36</b>

## Fair Value of Assets and Liabilities

Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair value has been assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2 in the IFRS fair value hierarchy).

The fair value of the Authority's internally managed investment portfolio is not materially different to the book value, which is disclosed in the table below.

Internally managed investments	Book Value March 2015 £000	Fair Value 31 March 2015 £000	Book Value 31 March 2016 £000	Fair Value 31 March 2016 £000
Fixed Term Deposit	81,100	81,505	69,450	70,043
Money Market Funds	0	0	10,950	10,950
	<b>81,100</b>	<b>81,505</b>	<b>80,400</b>	<b>80,993</b>

The fair value of the Authority's investments is greater than the book value because the Council's portfolio of assets includes a number of fixed rate investments where the interest rate payable is higher than the rates available for similar investments in the market at the balance sheet date. This shows a notional future gain based on economic conditions at 31 March 2016 arising from counter-parties' commitment to pay interest to the Council above current market rates.

In line with FRS25, IFRS7 and IFRS13 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 Public Works Loan Board (PWLB) debt, fair values as at 31<sup>st</sup> March 2016 published by PWLB have been used.
- 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.

Borrowing at source - Fair Value	31 March 2015 Re-stated		31 March 2016	
	Fair Value £000	Book Value £000	Fair Value £000	Book Value £000
Public Works Loan Board (PWLB)	65,985	52,010	66,548	52,010
Market Loan	95,804	63,000	96,423	63,000
Temporary Loan	11,911	11,910	15,008	15,000
Stock Loan	2,463	1,966	2,271	1,966
<b>Total</b>	<b>176,163</b>	<b>128,886</b>	<b>180,250</b>	<b>131,976</b>

Borrowing - Maturity Profile	31 March 2015	31 March 2016
	£000	£000
Less than 1 year	11,910	15,000
Between 1 and 2 years	0	3,966
Between 2 and 5 years	3,966	0
Between 5 and 10 years	30,510	30,510
More than 10 years	82,500	82,500
Total over 1 year	<b>116,976</b>	<b>116,976</b>
<b>Total Borrowings</b>	<b>128,886</b>	<b>131,976</b>
Accrued Interest	1,159	1,178
	<b>130,045</b>	<b>133,154</b>

Balance Sheet figures are based upon the maturity profile of borrowings. No early repayment or impairment is recognised. Instruments with maturity of less than 12 months or trade or other receivables, fair value is assessed as the carrying amount or the billed amount. The fair value of the Council's total liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss based on economic conditions at 31 March 2016 arising from a commitment to pay interest to lenders above current market rates. The fair value of PWLB loans of £66.548m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. However, the Authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets.

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

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

### 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 2015/16 were as follows:

Category	Fitch	Moody's	Standard & Poor's	Definition
Banks and Building Societies				
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 2016 the disposition of investments was:

Category	£000	%	Spread (number of counterparties)	Fitch Rating
UK Clearing Banks	38,650	45.3%	3	F1, A, a-,1
UK Building Society	17,200	20.1%	1	F1, A, a-,1
Local Authority	8,000	9.4%	2	n/a
Pooled Property Fund	5,000	5.9%	1	AAAmf
Pooled Investments - Money Market Funds*	10,950	12.7%	2	AAAmf
Non UK Banks	5,600	6.6%	1	AAA
<b>Total</b>	<b>85,400</b>	<b>100.0%</b>	<b>10</b>	

\*The Money Market Funds are administered through two institutions, Deutsche Bank and Aberdeen. Funds are pooled with monies from other investors, and invested by a Fund Manager in a large spread of shareholdings and government bonds, to diversify risk.

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 2015/16, 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 2015	31 March 2016
	£000	£000
< 3 months	8,526	6,758
3 to 12 months	1,731	1,904
> 1 year	3,902	4,213
<b>Total</b>	<b>14,159</b>	<b>12,875</b>

#### Cash

The Authority's cash is held in a UK clearing bank and when the balance is significant, deposits are spread across a number of institutions to reduce risk.

#### **Liquidity Risk**

The Authority's ability to pay its financial commitments as and when due is supported by substantial resources. Also, it has a comprehensive cash flow management

system that seeks to ensure that cash is available as needed. It plans a balanced annual budget that provides sufficient revenue to cover annual expenditure, and has access to borrowings from money markets and the Public Works Loans Board.

There is no significant risk that the Authority will be unable to raise finance to meet its commitments under financial instruments, although there is risk the Authority may be bound to replenish some of its borrowings at a time of unfavourable interest rates.

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 2015		31 March 2016	
	£000	%	£000	%
Under 12 months	11,910	9.2%	15,000	11.4%
1yr to 2yrs	0	0.0%	3,966	3.0%
2yrs to 5yrs	3,966	3.1%	0	0.0%
5yrs to 10yrs	30,510	23.7%	30,510	23.1%
10yrs and over	82,500	64.0%	82,500	62.5%
<b>Total</b>	<b>128,886</b>	<b>100%</b>	<b>131,976</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 market rates. 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 exposure with market rates of:	Prospectively repayable / requiring Re-finance	Proportion of total debt
	£000	%
4.00 - 4.99%	5,000	3.8
5.00 - 5.99%	34,000	25.8
6.00 - 6.99%	15,500	11.7
7.00 - 7.99%	2,000	1.5
8.00 - 8.99%	6,500	4.9
<b>Total</b>	<b>63,000</b>	<b>47.7</b>

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 2016 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 2016	4,300	5.0
July to September 2016	31,950	37.4
October to December 2016	33,200	38.9
January 2017 to March 2017	10,950	12.8
April 2017 to June 2017	0	0.0
June 2017 to September 2017	0	0.0
October 2017 and beyond	5,000	5.9
	<b>85,400</b>	<b>100.0</b>

The Authority did not experience any liquidity problems in 2015/16 and does not anticipate any for 2016/17.

### Interest Rate (or Market) 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 Comprehensive Income and Expenditure Statement can rise or fall.
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement 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 rates 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:

	2015/16 £000	0.50% £000	1.00% £000	Mitigation
Borrowings	131,976	315	630	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 Authority is locked into its investments until maturity. A premium would be payable to unwind the fixed deposits.
Investments	(85,400)	(427)	(854)	
Impact on CIES	N/A	(112)	(224)	

## 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	2015/16	2016/17	2017/18	2018/19
Fixed rates	100	100	100	100
Variable rates	50	50	50	50

At 31<sup>st</sup> March 2016 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 table shows the maturity analysis of financial liabilities, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy).

Maturity in	Actual at 31 March 2015 £000	Actual at 31 March 2016 £000	Approved Lower Limit %	Approved Higher Limit %
Under 12 months	11,910	15,000	0	60
1 to 2 years	0	3,966	0	60
2 to 5 years	3,966	0		
5 to 10 years	30,510	30,510	0	80
10 to 15 years	4,500	4,500	0	100
15 to 20 years	1,000	12,500	0	100
20 to 25 years	11,500	0		
25 to 30 years	13,500	13,500	0	100
30 to 35 years	0	0		
35 to 40 years	17,000	32,000	0	100
40 to 45 years	15,000	0		
45 to 50 years	20,000	20,000	0	100
	<b>128,886</b>	<b>131,976</b>		

## 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.

	2014/15	2015/16	2016/17	2017/18
Maximum investment over 1 year as percentage of total investments	50	50	50	50

At 31<sup>st</sup> March 2016, the investment portfolio's exposure to interest rate change is set out in the following table.

Deposit Maturity in:	Actual at 31	Actual at 31	Current
	March 2015	March 2016	average interest rate
	£000	£000	%
0-3 months	9,500	4,300	1.0
3-6 months	25,550	31,950	0.9
6-9 months	32,950	33,200	1.0
9-12 months	5,100	10,950	0.4
over 12 months	13,000	5,000	4.0
	<b>86,100</b>	<b>85,400</b>	0.9

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 New Schools and do not change.

## **Price Risk**

The Authority (excluding its Pension Fund, which is subject to separate constraints) 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.

## **Refinancing and Maturity Risk**

The Authority maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer-term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments made for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day-to-day cash flow needs, and the spread of longer-term investments provide stability of maturities and returns in relation to the longer-term cash flow needs.

## **Overall Procedures for Managing Risk**

The Authority's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

## 11. PROVISIONS

	Injury and damage compensation claims £000	Other provisions £000	Total £000
<b>Balance at 1 April 2015</b>	(4,013)	(3,319)	(7,331)
Additional provisions made in 2015/16	(1,317)	(2,840)	(4,157)
Amounts used in 2015/16	1,011	2,517	3,527
<b>Balance at 31 March 2016</b>	<b>(4,319)</b>	<b>(3,642)</b>	<b>(7,961)</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 £4.319m**

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 31/03/2016, £0.234m remains in the provision for settlement of outstanding contracts, which is expected to be reached during 2016/17. No charge was made against the provision during 2015/16.

- **Single Status £0.052m**

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 Authority 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 2015/16, the Authority made payments totalling £0.246m against the provision. The remaining £0.053m provision is the estimated outstanding liability for single status allowances.

- **PFI Refund £0m**

In 2014/15, the Authority had made provision of £0.056m for the partial refund of past contributions made by an Academy school under the PFI scheme (see Note 29). The liability was settled for £0.056m during 2015/16.

- **NDR Appeals £2.382m**

The Authority has a provision of £2.382m (£0.185m current, £2.197m non-current) for its share of appeals against NDR (Business Rates) charges. During 2015/16, £2.215m was charged against the provision, and an additional £1.867m set-aside to cover future appeals. The total £2.382m provision reflects an estimate of the potential effects of appeals that may be settled in future years.

- **Housing Benefit Grant Clawback £0.974m**

Following the audit of past grant claims, the Authority expects to have to make a repayment to the government, in respect of an overclaimed sum. The estimated repayment is £0.974m.

Of the above provisions, those for housing benefit grant, single status, housing and part of the NDR appeals, totalling £1.445m, are classified as current provisions (£2.754m at 31/03/2015), expected to fall due within one year of the balance sheet date. The remainder of the provisions, totalling £6.516m (£4.577m at 31/03/2015) are long-term provisions, expected to fall due more than one year after the balance sheet date.

## 12. CONTINGENT LIABILITIES

### Local Land Charges

A group of property search companies sought to claim refunds of fees paid to the Authority to access land charges data. The parties have reached agreement on the claims. The Authority has agreed to pay the property search companies' legal costs and is in discussions with the claimants about this. At present it is not possible to put a final value on the potential liability.

### Employment Disputes

There are two significant employment disputes where compensation and/or costs may be involved.

In the first, LBM faces a claim for £122,285, although the Authority itself believes the true claim value to be in the region of £12,000.

The second claim is for constructive dismissal/discrimination, with a maximum estimated liability of £55,000. This claim is at an early stage.

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



## **Education**

There is one ongoing Special Educational Needs tribunal case of note. A residential college placement is being sought which would cost the Authority £230,000 a year. The Authority is offering local provision at approximately £33,000 a year. Due to the inherent uncertainties surrounding the tribunal outcome, the Authority has not made a provision for these in the accounts.

## **CHAS 2013 Ltd**

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

Proceedings have been issued by a third party against the Authority claiming £250,000, plus estimated costs of £213,000, following a contractual dispute. CHAS 2013 Ltd and the Authority have put in a counterclaim of £351,000 against the third party, plus other losses yet to be assessed and potential costs of £179,000, in respect of alleged unpaid commission due to the Authority and unauthorised use of the CHAS registered trademark and name. The parties will meet at a mediation session by 11th November 2016. Due to the uncertainties surrounding the outcome, neither claim is reflected in the accounts.

## **13. CONTINGENT ASSETS**

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

The Authority 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 14th November 2014, of which the Council would receive 37.5%, less the costs of the financial investigator. The sum was not paid in time and court proceedings to recover it are continuing, as are sales of assets.

Another POCA application following a housing benefit fraud investigation is proceeding through the courts. The criminal gain is approximately £46k, although this figure is disputed.

### **Connexions Consortium**

In 2011, the Connexions Consortium (which included LB Merton) terminated a contract with Centre for British Teachers Schools Trust (CfBT) in response to the withdrawal of government funding. At that point there was a dispute regarding whether redundant staff should have transferred back to the Royal Borough of Kingston-upon-Thames before being made redundant. The case was subsequently resolved by an industrial tribunal.

After meeting the costs associated with the tribunal cases, there remains a residual balance which will be held by RB Kingston until the threat of contractual litigation from CfBT no longer exists. The limitation period within which CfBT could commence an action of breach of contract expires on 12th July 2017. RB Kingston will continue to hold the balance until 13th July 2017, at which stage the funds will be distributed in accordance with the previously agreed formula for cost sharing. For LB Merton the total estimated refund will be £51,000.

## 14. CASH AND CASH EQUIVALENTS

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

31 March 2015 £000		31 March 2016 £000
(252)	Main bank account	2,049
1,439	Cash in transit (held by agents)	1,322
18,101	Cash advanced to schools	19,921
36	Cash advanced to establishments (Cash imprests)	20
<b>19,324</b>	<b>Total Cash and Cash Equivalents</b>	<b>23,311</b>

## 15. CASH FLOWS

### 15a. Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements

2014/15 £000		2015/16 £000
	<b>Non Cash Movements</b>	
(17,075)	Depreciation	(16,711)
(24,147)	(Impairment)/Revaluation increases	5,972
(693)	Amortisation	(584)
(6,930)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(2,600)
(868)	Movement in Pension Liability	(14,406)
1,080	(Increase)/decrease in provision for the impairment of bad debts	(120)
(529)	(Increase)/decrease in Provisions	(629)
<b>(49,163)</b>		<b>(29,078)</b>
	<b>Accruals Adjustments</b>	
(143)	Increase/(decrease) in Inventories	(22)
(3,156)	Increase/(decrease) in Debtors	4,451
120	Increase/(decrease) in Interest Debtors	151
7,529	(Increase)/decrease in Creditors	(6,036)
11	(Increase)/decrease in Interest Creditors	(18)
<b>4,361</b>		<b>(1,474)</b>
<b>(44,802)</b>	<b>Total</b>	<b>(30,553)</b>

**15b. Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities**

2014/15		2015/16
£000		£000
4,870	Proceeds from the sale of PP&E, investment property and intangible assets	6,357
27,183	Any other items for which the cash effects are investing or financing cash flows	17,314
<b>32,053</b>	<b>Total</b>	<b>23,671</b>

**15c. Cash Flow Statement - Operating Activities**

2014/15		2015/16
£000		£000
1,797	Employee and running costs less income	(20,102)
(1,432)	Interest received	(1,699)
6,699	Interest paid	6,685
3,711	Interest element of finance lease	3,533
<b>10,774</b>	<b>Net cash flows from operating activities</b>	<b>(11,583)</b>

**15d. Cash Flow Statement - Investing Activities**

2014/15		2015/16
£000		£000
31,389	Purchase of property, plant and equipment, investment property and intangible assets	30,325
442,320	Purchase of short-term and long-term investments	403,555
(4,870)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6,357)
(436,220)	Proceeds from short-term and long-term investments	(404,255)
(28,980)	Other receipts from investing activities	(14,845)
<b>3,639</b>	<b>Net cash flows from investing activities</b>	<b>8,423</b>

## 15e. Cash Flow Statement - Financing Activities

2014/15		2015/16
£000		£000
(22,910)	Cash receipts of short-term borrowing	(20,000)
(401)	Other receipts from financing activities	0
1,270	Cash payments for the reduction of finance leases	1,842
11,000	Repayment of short-term borrowing	16,910
19	Other payments	421
<b>(11,023)</b>	<b>Net cash flows from financing activities</b>	<b>(827)</b>

# RESERVES

## 16. USABLE RESERVES

Usable Reserves	Balance at 31 March 2014 £000	Transfers out 2014/15 £000	Transfers in 2014/15 £000	Balance at 31 March 2015 £000	Transfers out 2015/16 £000	Transfers in 2015/16 £000	Balance at 31 March 2016 £000
<b>General Fund:</b>							
Balances held by schools under a scheme of delegation	(12,090)	3,593	(37)	(8,535)	0	(1,969)	(10,504)
General Fund Balances	(18,838)	3,687	0	(15,151)	0	0	(15,151)
Earmarked reserves	(49,892)	11,836	(5,833)	(43,890)	9,450	(7,250)	(41,690)
<b>Total General Fund</b>	<b>(80,820)</b>	<b>19,116</b>	<b>(5,870)</b>	<b>(67,575)</b>	<b>9,450</b>	<b>(9,219)</b>	<b>(67,344)</b>
<b>Capital:</b>							
Capital Receipts Reserves	(26,057)	138	(5,344)	(31,263)	9,082	(7,401)	(29,582)
Capital Grants Unapplied	(8,176)	3,329	(868)	(5,715)	4,266	(2,705)	(4,153)
<b>Total Capital</b>	<b>(34,233)</b>	<b>3,467</b>	<b>(6,212)</b>	<b>(36,978)</b>	<b>13,349</b>	<b>(10,106)</b>	<b>(33,736)</b>
<b>Total Usable Reserves</b>	<b>(115,053)</b>	<b>22,583</b>	<b>(12,083)</b>	<b>(104,554)</b>	<b>22,798</b>	<b>(19,324)</b>	<b>(101,080)</b>

**General Fund Balance** - This fund includes any surplus after meeting net expenditure on Council services.

**Earmarked Reserves** - Earmarked reserves are amounts set aside from the General Fund to provide financing for future expenditure plans. Also included in this note are amounts held by schools under delegated schemes and amounts set aside to meet future insurance claims. (see Note 11 for detail)

**Capital Receipts Reserve** - This represents receipts from the sale of land and other assets. The reserve can be used for the repayment of external loans, or transferred to the capital adjustment account to finance capital expenditure.

**Capital Grants Unapplied** - These are unapplied capital grants set aside for future capital expenditure. The balance includes Community Infrastructure Levy receipts totalling £2.83m.

## Transfers to/from Earmarked Reserves

Reserve	Balance at 31st March 2014	Net Transfer (to)/from Reserve	Balance at 31st March 2015	Net Transfer (to)/from Reserve	Balance at 31st March 2016
	£000	£000	£000	£000	£000
Outstanding Council Programme Board	(11,105)	1,590	(9,515)	3,233	(6,282)
For use in future years' budgets	(8,252)	2,500	(5,752)	(113)	(5,865)
Revenue reserve for capital/revenueisation	(5,360)	(702)	(6,062)	(1,685)	(7,747)
Renewable energy reserve	(1,441)	0	(1,441)	(82)	(1,523)
Repairs and renewals fund	(1,424)	0	(1,424)	200	(1,224)
Transforming families reserve	(784)	370	(414)	414	0
Pension fund additional contribution	(1,078)	1,015	(63)	0	(63)
Local land charges	(1,260)	(159)	(1,419)	(226)	(1,645)
Apprenticeships	(949)	301	(648)	242	(406)
Community care reserve	(1,733)	347	(1,386)	0	(1,386)
Local welfare support reserve	(315)	(299)	(614)	81	(533)
Performance reward grant	(265)	265	(0)	0	(0)
Economic development strategy	(1,322)	173	(1,148)	529	(620)
Governor support reserve	0	(52)	(52)	33	(19)
Wimbledon tennis courts renewal	(52)	(25)	(77)	(25)	(101)
Merton action single homelessness	(50)	50	0	0	0
Corporate services reserves	(182)	0	(182)	(108)	(290)
New homes bonus scheme	0	0	0	(1,037)	(1,037)
<b>Sub total earmarked reserves</b>	<b>(35,573)</b>	<b>5,376</b>	<b>(30,197)</b>	<b>1,457</b>	<b>(28,740)</b>
Adult social care contributions	(670)	245	(425)	75	(350)
Culture & environment contributions	(1,204)	757	(447)	313	(134)
Culture & environment grants	(747)	384	(363)	(50)	(413)
Children & education grants	(708)	58	(650)	279	(371)
Supporting people balances	0	0	0	(65)	(65)
Housing planning development grants	(299)	110	(190)	89	(101)
Housing GF grants	(106)	0	(106)	0	(106)
Public health grant reserve	(1,664)	510	(1,154)	1,132	(22)
Children, schools & families reserve	0	0	0	(365)	(365)
<b>Sub total IFRS earmarked reserves</b>	<b>(5,398)</b>	<b>2,063</b>	<b>(3,335)</b>	<b>1,409</b>	<b>(1,927)</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	(2,728)	(857)	(3,585)	(783)	(4,368)
Refund of school PFI contributions	0	(400)	(400)	300	(100)
Schools reserve	(168)	116	(52)	52	(0)
Schools PFI fund	(4,071)	(295)	(4,366)	(235)	(4,600)
<b>Sub total schools reserves</b>	<b>(6,967)</b>	<b>(1,436)</b>	<b>(8,403)</b>	<b>(666)</b>	<b>(9,069)</b>
<b>Grand Total</b>	<b>(49,894)</b>	<b>6,004</b>	<b>(43,890)</b>	<b>2,200</b>	<b>(41,690)</b>

## **Purpose of Earmarked Reserves**

Outstanding Council Programme Board: This reserve is held to fund the transformation of services for the Council.

For use in future years' budgets: These funds are used to balance any budgetary gaps, as identified in the medium term financial strategy, until agreed savings are achieved.

Revenue reserve for capital/revenue: The reserve provides revenue support towards funding capital expenditure and, where necessary, funds revenue expenditure which has been re-classified from the capital programme.

Renewable energy: To fund the cost of implementing renewable energy measures with lower carbon impact in Council buildings, as part of the Authority's strategy to reduce its environmental impact.

Repairs and renewals fund: To support day-to-day revenue expenditure, such as maintenance work, on fixed assets.

Transforming families reserve: The reserve is held to fund central government's troubled families initiative.

Pension fund additional contribution: This reserve is used to fund the costs of any enhanced early retirement benefits, which must be borne by the general fund

Local Land Charges: The reserve will be used to fund any liability arising from a legal challenge in relation to local land charges (for details, refer to contingent liabilities disclosure)

Apprenticeships: The reserve is used to fund the Authority's apprenticeship scheme.

Community care reserve: Used to fund learning and disability transition expenditure, including TUPE and redundancy cost from the NHS, and other learning and disability related expenditure.

Local welfare support reserve: Reserve holds any underspend arising from the local welfare support scheme.

Economic development strategy: For projects that support economic development in the Borough.

Governor support reserve: Service provided jointly with LB Sutton. This reserve holds an underspend from prior years. Expenditure must be agreed jointly by the two Boroughs.

Wimbledon tennis courts renewal : Funds held in accordance with the agreement for the upkeep of Merton's tennis courts.

Corporate services reserves: Funds corporate projects.

New homes bonus scheme: Top-slice funding received from the Greater London Authority. The funds must be used to deliver three specific projects that contribute to London - Brighter Business: Resilience through energy efficiency; Morden Masterplanning; and Morden Retail Gateway.

Adult social care contributions: To be spent on vital social care services that also benefit the NHS.

Culture & environment contributions: The grants and funds will mainly be spent on the weekly collection support scheme.

Culture & environment grants: To hold unspent funds from various grants, including: Trees for Cities, Air Quality, Heat Networks Delivery Unit and Sports Blast

Children & education grants: The reserve holds unspent receipts from the following grants: Social Work Improvement Fund Training, Troubled Families, Adoption Reform, and SEN Reform.

Housing planning development grants: Funds are used to support housing planning developments.

Housing GF grants: Used to fund rent deposits for homeless people.

Public health grant reserve: Carry forward of unspent public health grant. The funds will be spent on public health related services

Insurance reserves: The Authority, in line with most other local authorities, self-insures for claims up to a certain value. The insurance reserve is held for this purpose.

DSG reserve: The reserve holds prior year underspends on the Dedicated Schools Grant. It is used to fund projects determined by the Schools Forum.

Schools reserve: Resources to support inspections preparation, project support, capacity building for transformation and commissioning post funding.

Refund of schools' PFI contributions: To fund the reimbursement of previous overpayments, made by three schools to the Authority, towards the Private Finance Initiative Scheme (see Note 27).

Schools PFI fund: Programmed reserve to balance general fund contributions to the PFI scheme evenly over the contract term.



## 17. UNUSABLE RESERVES

31 March 2015		31 March 2016
£000		£000
(73,934)	Revaluation Reserve	(84,678)
(161,565)	Capital Adjustment Account	(187,067)
293,820	Pensions Reserve	263,154
(5,547)	Deferred Capital Receipts Reserve	(5,319)
(2,854)	Collection Fund Adjustment Account	(1,703)
3,616	Accumulated Absences Account	2,884
<b>53,536</b>	<b>Total Unusable Reserves</b>	<b>(12,728)</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.

2014/15		2015/16
£000		£000
<b>(71,054)</b>	<b>Balance at 1<sup>st</sup> April</b>	<b>(73,934)</b>
(12,486)	Upward revaluation of assets	(13,016)
3,503	Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services	0
(8,984)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(13,016)
4,225	Difference between fair value depreciation and historical cost depreciation	2,271
1,879	Accumulated gains on assets sold or scrapped	1
6,104	Amount written off to the Capital Adjustment Account	2,272
<b>(73,934)</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>(84,678)</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 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.

2014/15			2015/16	
£000			£000	
(167,021)	<b>Balance at 1st April</b>		(161,565)	
(6,104)	Amounts written out of the Revaluation Reserve		(2,272)	
	<b>Reversal of items relating to capital expenditure debited or credited to the CIES</b>			
17,075	Charges for depreciation and impairment of non-current assets	16,711		
24,147	Revaluation losses charged to CIES for Property, Plant and Equipment where there is no prior Revaluation Reserve balance	2,106		
0	Reversal of impairment charges to the CIES of non-current assets in prior years where the non-current assets have had an upward revaluation in year	(8,078)		
693	Amortisation of intangible assets	584		
3,768	Revenue expenditure funded from capital under statute	1,006		
6,930	Amounts of non-current assets written off on derecognition or sale as part of the gain/ loss on disposal to the CIES	2,600		
5	Other adjustments	0		
52,619			14,929	
<b>46,515</b>	<b>Net reversal of the cost of non-current assets consumed in the year</b>		<b>12,657</b>	
	<b>Capital financing applied in the year:</b>			
(119)	Use of Capital Receipts Reserve to finance new capital expenditure	(9,082)		
(29,676)	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	(18,895)		
(9,137)	Statutory provision for the financing of capital investment charged against the General Fund	(9,276)		
(2,327)	Capital expenditure charged against the General Fund	(1,036)		
<b>(41,258)</b>			<b>(38,289)</b>	
200	Loan Repayments		130	
<b>(161,565)</b>	<b>Balance at 31st March</b>		<b>(187,067)</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.

2014/15		2015/16
£000		£000
<b>224,327</b>	<b>Balance at 1st April</b>	<b>293,820</b>
68,625	Remeasurements of the net defined benefit liability/asset	(45,072)
29,093	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	31,310
(28,225)	Employer's pensions contributions and direct payments to pensioners payable in the year	(16,904)
<b>293,820</b>	<b>Balance at 31st March</b>	<b>263,154</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.

2014/15		2015/16
£000		£000
<b>(5,555)</b>	<b>Balance at 1st April</b>	<b>(5,547)</b>
0	Correction of balance relating to previous years	217
9	Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	11
	Transfer to the Capital Receipts Reserve upon receipt of cash	0
<b>(5,547)</b>	<b>Balance at 31st March</b>	<b>(5,319)</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.

2014/15		2015/16
£000		£000
<b>(3,814)</b>	<b>Balance at 1st April</b>	<b>(2,854)</b>
960	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	1,151
<b>(2,854)</b>	<b>Balance at 31st March</b>	<b>(1,703)</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.

2014/15 £000		2015/16 £000
<b>3,989</b>	<b>Balance at 1st April</b>	<b>3,616</b>
(3,989)	Settlement or cancellation of accrual made at the end of the preceding year	(3,616)
<b>3,616</b>	<b>Amount accrued at 31st March</b>	<b>2,884</b>
(373)	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	(732)

## 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.

2015/16

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£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	(16,711)			16,711
Revaluation losses on Property Plant and Equipment	(2,106)			2,106
Reversal of impairment charges to the CIES of non-current assets in prior years where the non-current assets have had an upward revaluation in year	8,078			(8,078)
Amortisation of intangible assets	(584)			584
Revenue expenditure funded from capital under statute	(1,006)			1,006
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	(2,600)			2,600
<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	9,276			(9,276)
Capital expenditure charged against the General Fund balance	1,036			(1,036)
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	17,333		(2,705)	(14,628)
Application of grants to capital financing transferred to the Capital Adjustment Account			4,266	(4,266)
<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	7,271	(7,271)		

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	
Use of the Capital Receipts Reserve to finance new capital expenditure		9,082		(9,082)
Repayment of debt		(130)		130
<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	(11)			11
Correction of balance relating to previous years	(217)			217
<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 32)	(31,310)			31,310
Employer's pensions contributions and direct payments to pensioners payable in the year	16,904			(16,904)
<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	(1,151)			1,151
<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	732			(732)
<b>Total Adjustments</b>	<b>4,933</b>	<b>1,681</b>	<b>1,562</b>	<b>(8,176)</b>

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£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	
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 32)	(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>

# 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

At 31<sup>st</sup> March 2016, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years totalling an estimated £7.5m. This is considerably lower than the commitments at 31/03/2015 (which were £34m), because the primary school expansion programme is coming to an end and contractual commitments for the secondary school expansion programme are yet to be made. Furthermore, the E&R Highways term contractor's contract ends in September 2016 and subsequent contractual commitments have yet to be made.

### Effects of Changes in Estimates

There are no material changes to the basis of estimation.

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
At 1 April 2015	328,956	22,782	157,446	0	2,000	358	511,542	57,295
Correction of balance relating to previous years	48	(48)	0	0	0	0	0	0
Additions	15,668	1,364	9,023	668	0	1,114	27,837	81
Revaluation increase/(decreases) recognised in the Revaluation Reserve	11,080	0	0	0	0	0	11,080	0
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	6,639	0	0	(668)	0	0	5,972	0
Derecognition - Disposals	0	(3,475)	(10,892)	0	0	0	(14,367)	0
Derecognition - Other	(2,439)	(39)	0	0	0	0	(2,478)	0
Reclassified to surplus assets	(5,026)	0	0	0	5,026	0	0	0
<b>At 31 March 2016</b>	<b>354,927</b>	<b>20,584</b>	<b>155,577</b>	<b>0</b>	<b>7,026</b>	<b>1,472</b>	<b>539,586</b>	<b>57,376</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2015	4,056	12,345	61,521	0	0	0	77,922	0
Depreciation Charge	7,357	3,309	6,045	0	0	0	16,711	1,218
Depreciation written out to the Revaluation Reserve	(1,936)	0	0	0	0	0	(1,936)	0
Derecognition - Disposals	0	(3,199)	(10,892)	0	0	0	(14,091)	0
Derecognition - Other	(142)	(11)	0	0	0	0	(154)	0
<b>At 31 March 2016</b>	<b>9,334</b>	<b>12,444</b>	<b>56,673</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>78,452</b>	<b>1,218</b>
<b>Net Book Value</b>								
At 31 March 2016	<b>345,593</b>	<b>8,140</b>	<b>98,904</b>	<b>0</b>	<b>7,026</b>	<b>1,472</b>	<b>461,133</b>	<b>56,158</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>433,619</b>	<b>57,295</b>

## Comparative Movements in 2014/15:

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment	
	£000	£000	£000	£000	£000	£000	£000	£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) recognised in the Revaluation Reserve	1,647	0	0	0	0	0	1,647	1,572	
Revaluation increase/(decreases) recognised in the Surplus/Deficit 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 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 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 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>433,619</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>	

## 20. 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 £0.58m charged to revenue in 2015/16 (£0.69m in 2014/15) 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:

	2014/15	2015/16
	Intangible Assets	Intangible Assets
	£000	£000
Balance at start of year:		
Gross carrying amounts	4,027	3,701
Accumulated amortisation	(2,131)	(2,062)
<b>Net carrying amount at start of year</b>	<b>1,896</b>	<b>1,639</b>
Disposals:		
Gross carrying amounts	(762)	(963)
Accumulated amortisation	762	963
Additions:		
Purchases	436	235
Amortisation for the period	(693)	(584)
<b>Net carrying amount at end of year</b>	<b>1,639</b>	<b>1,291</b>
Comprising:		
Gross carrying amounts	3,701	2,973
Accumulated amortisation	(2,062)	(1,682)
	<b>1,639</b>	<b>1,291</b>

## 21. 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 Collection	Regalia & Ceremonial	Total Assets
	£000	£000	£000
<b>Cost or Valuation</b>			
31 March 2015	197	472	<b>669</b>
31 March 2016	197	472	<b>669</b>

## 22. ASSETS HELD FOR SALE

	Current	
	2014/15	2015/16
	£000	£000
<b>Balance outstanding at start of year</b>	<b>0</b>	<b>7,288</b>
Recognition	425	0
Assets reclassified (to)/from Other Land & Buildings	7,899	0
Assets reclassified (to)/from Non Current Asset Held for Sale	231	0
Derecognition - Disposals	(1,267)	0
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>7,288</b>	<b>7,288</b>

## 23. IMPAIRMENT LOSSES

The Authority carried out an impairment review in 2015/16, the result of which was that there were no impairment losses recognised in the year.

## 24. 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:

	2014/15	2015/16
	£000	£000
<b>Opening Capital Financing Requirement</b>	214,060	207,826
<b>Capital Investment</b>		
Property, Plant and Equipment	32,854	27,837
Intangible Assets	437	235
Revenue Expenditure Funded from Capital Under Statute	3,768	1,006
<b>Other Investments</b>		
Loans to public sector organisations	59	0
<b>Sources of Finance</b>		
Capital receipts	(119)	(9,082)
Government grants and other contributions	(29,676)	(18,895)
<b>Sums set aside from revenue:</b>		
Direct revenue contributions	(2,327)	(1,036)
MRP	(9,137)	(9,276)
CFR Adjustment	(2,094)	0
<b>Closing Capital Financing Requirement</b>	<b>207,826</b>	<b>198,616</b>
Increase/(decrease) in underlying need to borrowing (unsupported by government financial assistance)	(6,234)	(9,210)
CFR Adjustment	2,094	0
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>(4,141)</b>	<b>(9,210)</b>



## 25. LEASES

### Authority as Lessee

#### Finance Leases

In the past the Authority 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 2015 £000		31 March 2016 £000
2,613	Other Land and Buildings	2,544
463	Vehicles, Plant, Furniture and Equipment	261
<b>3,076</b>	<b>Total</b>	<b>2,805</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 2015 £000		31 March 2016 £000
	Finance lease liabilities (net present value minimum lease payments):	
140	- current	293
679	- non current	553
175	Finance costs payable in future years	62
<b>994</b>	<b>Total minimum lease payments</b>	<b>908</b>

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

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000
Not later than one year	228	293	140	293
Later than one year and not later than five years	497	352	411	290
Later than five years	269	263	268	263
<b>Total</b>	<b>994</b>	<b>908</b>	<b>819</b>	<b>846</b>

The finance lease payments represent the long term liability excluding interest costs.

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 2015/16, £0.291m contingent rents were payable by the Authority (2014/15 £0.064m).

### 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 2015 £000		31 March 2016 £000
205	Not later than one year	214
736	Later than one year and not later than five years	665
1,265	Later than five years	1,066
<b>2,206</b>	<b>Total</b>	<b>1,945</b>

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

2014/15 £000		2015/16 £000
172	Minimum lease payments	205
<b>172</b>	<b>Total</b>	<b>205</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 2015		31 March 2016
£000		£000
	Finance lease debtor (net present value of minimum lease payments):	
10	- current	12
5,330	- non current	5,484
21,015	Unearned finance income	20,054
2	Unguaranteed residual value of property	2
<b>26,357</b>	<b>Gross investment in lease</b>	<b>25,552</b>

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

	Gross Investment in Lease		Minimum Lease Payments	
	31 March 2015	31 March 2016	31 March 2015	31 March 2016
	£000	£000	£000	£000
Not later than one year	338	337	338	337
Later than one year and not later than five years	1,360	1,360	1,360	1,360
Later than five years	24,659	23,855	24,657	23,852
<b>Total</b>	<b>26,357</b>	<b>25,552</b>	<b>26,355</b>	<b>25,549</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 2015/16, £0.339m contingent rents were receivable by the authority (£0.346m in 2014/15).

## 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 2015		31 March 2016
£000		£000
3,225	Not later than one year	3,055
9,830	Later than one year and not later than five years	9,496
28,874	Later than five years	29,949
<b>41,929</b>	<b>Total</b>	<b>42,500</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

## 26. DEDICATED SCHOOLS GRANT

The authority's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the Department for Education. 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 2015/16 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total Expenditure £'000
Final DSG for 2015/16 before Academy recoupment			154,684
Academy figure recouped for 2015/16			(16,501)
Total DSG figure after Academy recoupment for 2015/16			138,183
Plus: Brought forward from 2014/15			3,585
Less: Carry-forward to 2016/17 agreed in advance			(3,269)
Agreed initial budgeted distribution in 2015/16	18,693	119,806	138,499
<b>Final budgeted distribution for 2015/16</b>	<b>18,693</b>	<b>119,806</b>	<b>138,499</b>
Less: Actual central expenditure	(17,979)		(17,979)
Less: Actual ISB deployed to schools		(119,421)	(119,421)
<b>Carry forward for 2015/16</b>	<b>714</b>	<b>385</b>	<b>1,099</b>
Carry-forward to 2016/17 agreed in advance			3,269
<b>Total carry forward 2016/17</b>			<b>4,368</b>

The £4.368m 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		2014/15		2015/16	
		Number of Schools	Net surplus/ (deficit) £'000	Number of Schools	Net surplus/ (deficit) £'000
Maintained Schools	Primary	30	5,078	30	5,093
	Secondary	2	1,439	2	1,905
Voluntary Aided Schools	Primary	11	1,265	11	1,366
	Secondary	2	183	2	551
Foundation		1	133	1	600
Special Schools		4	438	4	988
<b>Total</b>		<b>50</b>	<b>8,535</b>	<b>50</b>	<b>10,504</b>

## 27. 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 (such as caretaking and facilities maintenance) to the remaining three schools and one academy, in return for an annual payment. The contract does not allow for any of the four remaining schools to leave the arrangement before 2030. 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 2015	31 March 2016
	£000	£000
Gross Value	57,295	57,376
Accumulated Depreciation	0	(1,218)
<b>Net</b>	<b>57,295</b>	<b>56,158</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. The total combined liability is shown in the following table:

	Capital	Interest	Services	Total
	£000	£000	£000	£000
Mar 2017	1,345	3,243	4,213	8,800
Mar 2018 - 2022	8,440	17,674	23,169	49,283
Mar 2023 - 2027	12,927	16,027	24,927	53,881
Mar 2028 - 2030	10,566	13,110	17,495	41,171
<b>Liability at 31st March 2016</b>	<b>33,277</b>	<b>50,053</b>	<b>69,805</b>	<b>153,135</b>
<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>

## Partial Termination

	Capital	Interest	Services	Total
	£000	£000	£000	£000
Mar 2017	640	1,019	0	1,659
Mar 2018 - 2022	3,958	4,337	0	8,295
Mar 2023 - 2027	5,598	2,697	0	8,295
Mar 2028 - 2030	4,417	560	0	4,977
<b>Liability at 31st March 2016</b>	<b>14,613</b>	<b>8,613</b>	<b>0</b>	<b>23,226</b>
<b>Liability at 31st March 2015</b>	<b>15,210</b>	<b>9,675</b>	<b>0</b>	<b>24,885</b>
<b>Liability at 31st March 2014</b>	<b>15,767</b>	<b>10,777</b>	<b>0</b>	<b>26,544</b>

## Three Schools and One Academy

	Capital	Interest incl. Contingent Rent	Services	Total
	£000	£000	£000	£000
Mar 2017	705	2,224	4,213	7,141
Mar 2018 - 2022	4,482	13,337	23,169	40,988
Mar 2023 - 2027	7,329	13,330	24,927	45,586
Mar 2028 - 2030	6,149	12,550	17,495	36,194
<b>Liability at 31st March 2016</b>	<b>18,664</b>	<b>41,440</b>	<b>69,805</b>	<b>129,909</b>
<b>Liability at 31st March 2015</b>	<b>19,524</b>	<b>45,185</b>	<b>75,339</b>	<b>140,047</b>
<b>Liability at 31st March 2014</b>	<b>20,449</b>	<b>47,549</b>	<b>78,649</b>	<b>146,646</b>

# MEMBERS, OFFICERS AND RELATED PARTIES

## 28. MEMBERS' ALLOWANCES

The cost of members' allowances to the Authority is shown in the table below. The allowances include employer's national insurance contributions totalling £28k (£35k in 2014/15).

	2014/15	2015/16
	£000	£000
Salaries	0	0
Allowances	730	723
Expenses	0	0
<b>Total</b>	<b>730</b>	<b>723</b>



## 29. 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.

CIPFA guidance states that the disclosure should exclude staff where the authority is not the employer i.e. teaching staff employed at voluntary aided and foundation schools. Therefore, 58 voluntary aided and foundation school employees have been excluded from 2015/16 figures and 52 voluntary aided and foundation school employees have been excluded from 2014/15 figures.

Remuneration Band £	2014/15	2014/15	2015/16	2015/16
	Teaching Staff	Other Staff	Teaching Staff	Other Staff
50,000 – 54,999	70	46	65	53
55,000 – 59,999	34	27	44	26
60,000 – 64,999	11	10	13	19
65,000 – 69,999	13	7	13	9
70,000 – 74,999	6	17	9	15
75,000 – 79,999	7	2	5	4
80,000 – 84,999	6	4	3	1
85,000 – 89,999	3	2	2	4
90,000 – 94,999	1	0	2	5
95,000 – 99,999	0	3	0	1
100,000 – 104,999	2	0	1	0
105,000 – 109,999	0	0	1	0
110,000 – 114,999	1	0	1	0
115,000 – 119,999	0	0	0	2
120,000 – 124,999	1	1	0	1
125,000 – 129,999	0	0	0	0
130,000 – 134,999	0	0	1	0
135,000 – 139,999	0	5	0	3
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>155</b>	<b>125</b>	<b>160</b>	<b>144</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 CIPFA guidance, five voluntary aided and one foundation school employees has been excluded from 2015/16 figures and five foundation school employees have been excluded from 2014/15 figures.

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
£							£	£
0 - 20,000	48	65	15	30	63	95	400,409	806,887
20,001 - 40,000	11	12	7	8	18	20	494,960	556,312
40,001 - 100,000	2	3	2	2	4	5	257,939	285,523
<b>TOTAL</b>	<b>61</b>	<b>80</b>	<b>24</b>	<b>40</b>	<b>85</b>	<b>120</b>	<b>1,153,308</b>	<b>1,648,721</b>

In accordance with the Accounts and Audit Regulations, there is a legal requirement to report the remuneration of certain 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 2015/16 and also the 2014/15 comparative year data with supporting sub-notes.

2014/15				Post holder information	2015/16			
Sub-Notes	Remuneration (Including fees & Allowances) £	Employer's Pension contributions £	Total £		Sub-Notes	Remuneration (Including fees & Allowances) £	Employer's Pension contributions £	Total £
6	185,000	25,715	<b>210,715</b>	Chief Executive Ged Curran	1	185,000	25,715	<b>210,715</b>
7	135,000	18,765	<b>153,765</b>	Director of Corporate Services Caroline Holland	2	135,000	18,765	<b>153,765</b>
8	136,096	18,917	<b>155,013</b>	Director of Community and Housing Simon Williams	3	119,660	7,882	<b>127,542</b>
9	135,000	18,765	<b>153,765</b>	Director of Children, Schools and Families Yvette Stanley	4	135,000	18,765	<b>153,765</b>
10	135,000	18,765	<b>153,765</b>	Director of Environment & Regeneration Chris Lee	5	135,000	18,765	<b>153,765</b>

### Sub-notes 2015/16

1. Mr G. Curran, Chief Executive, remuneration for 2015/16 was a salary of £185,000. Two additional separate payments were received, totalling £7,335.68, for Local Authority Gold Team duties and for Acting Returning Officer duties at the General election on 7<sup>th</sup> May 2015 respectively.
2. Ms C. Holland, Director of Corporate Services, remuneration for 2015/16 was a salary of £135,000. Two additional separate payments of £3,121.68 were received for Local Authority Gold Team duties and Deputy Local Returning Officer duties at the General election on 7<sup>th</sup> May 2015 respectively.
3. Mr S. Williams, Director of Community and Housing, remuneration for 2015/16 was a salary of £119,659.82. Two additional separate payments were received, totalling £688.00, for Acting Returning Officer Assistant and Polling Station Inspector duties at the General elections on 7<sup>th</sup> May 2015. During 2015/16, the Director's contracted hours reduced from 1.0 full time equivalent to 0.8.
4. Ms Y. Stanley, Director of Children, Schools and Families, remuneration for 2015/16 was a salary of £135,000. Two separate payments, totalling £870.20, were received for Acting Returning Officer Assistant and Polling Station Inspector duties at the General elections on 7<sup>th</sup> May 2015.
5. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2015/16 comprised of salary of £135,000. Two separate payments, totalling £870.20, were received Acting Returning Officer Assistant and Polling Station Inspector duties at the General election on 7<sup>th</sup> May 2015.

### 2014/15

6. Mr G. Curran, Chief Executive, remuneration for 2014/15 was a salary of £185,000. Two additional separate payments were received, totalling £6,110.79, for Local Authority Gold Team duties and for Local Returning Officer duties at the Merton Borough Council and European Parliamentary election on 22<sup>nd</sup> May 2014 respectively.
7. Ms C. Holland, Director of Corporate Services, remuneration for 2014/15 was a salary of £135,000. A separate payment of £2,500 was received for Deputy Local Returning Officer duties at the Merton Borough Council and European Parliamentary election on 22<sup>nd</sup> May 2014.
8. Mr S. Williams, Director of Community and Housing, remuneration for 2014/15 was a salary of £136,096. Two additional separate payments were received, totalling £900.85, for Local Returning Officer Assistant and Polling Station Inspector duties at the Merton Borough Council and European Parliamentary election on 22<sup>nd</sup> May 2014.
9. Ms Y. Stanley, Director of Children, Schools and Families, remuneration for 2014/15 was a salary of £135,000. Two separate payments, totalling £900.85, were received for Local Returning Officer Assistant and Polling Station Inspector duties at the Merton Borough Council and European Parliamentary election on 22<sup>nd</sup> May 2014.
10. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2014/15 comprised of salary of £135,000. Three separate payments, totalling £1,415.11, were received for Local Authority Gold Team duties and Local Returning Officer Assistant and Polling Station Inspector duties at the Merton Borough Council and European Parliamentary election on 22<sup>nd</sup> May 2014.

### 30. 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 and 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.

#### Members

Members of the Authority have direct control over the financial and operating decisions of the Authority. The total of members' allowances paid in 2015/16 is shown in Note 28.

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 59 standard letters to current members and 1 letter to a former member who held office in 2015/16; 58 current and 1 former members have responded respectively.

During 2015/16, 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 £8.228m (net £4.812m). The amounts disclosed below are those material to either party of the related party transaction (i.e. the Authority or the other entity).

Organisation	Nature of transaction	2015/16 £000
Endeavour Youth Club	Grant Received from LBM	31
Friends in St Helier	Grant Received from LBM	36
Merton and Morden Guild	Grant Received from LBM	47
Merton Priory Homes (MPH)	Capital receipts paid to LBM as part of VAT sharing and sale proceeds from Right to Buy agreements with MPH	(6,520)
North East Mitcham Community Association	Funding received from LBM	44
London Councils	Contributions from LBM	1,486
Merton Community Transport	Grant Received from LBM	64
<b>Total</b>		<b>(4,812)</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 31 standard letters to current senior officers; there have been 31 responses. The Authority also contacted five former senior officers; two responded.

Three senior officers are directors of CHAS 2013 Ltd (see note 34). One senior officer holds the positions of Governor at South Thames College, Director of London Grid for Learning, and Trustee at Action for Children. During 2015/16 the Authority made payments and grants to these organisations of £129,517, £452,488 and £683,281 respectively. 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 £0.222m 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 2015/16 an administration fee of £0.323m was paid by the Fund to the Authority (£0.332m in 2014/15, see Pension Fund Accounts, Note 11).

## PENSION FUND

### 31. 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 2015/16, the employer's contribution was 14.1% from April to August, then 16.48% from September to March 2016 (14.1% in 2014/15). 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. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31<sup>st</sup> March 2016, the Authority's own contributions equate to approximately 0.1%.

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 Authority also pays an employer's contribution of 14.0% (unchanged from 2014/15) to the NHS Pension Scheme, for staff who have transferred to the Authority but remain in the NHS scheme. The NHS scheme was previously a defined benefit scheme, with staff benefits linked to their average earnings in the final ten years of employment. From 1<sup>st</sup> April 2015, it became a career average revalued earnings scheme.

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

	2014/15	2015/16
	£000	£000
Authority's contribution to DfE teacher's pension scheme	7,303	8,092
Authority's contribution to NHS pension scheme	130	120

Assuming a 1% staff pay award in 2016/17, an estimate of the contributions to be paid in the next financial year would be:

DfE Teacher's Pension Scheme: £8.70m

NHS Pension Scheme: £0.12m

## **32. 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 2015/16. This is a defined benefit 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 benefits payable in respect of service from 1<sup>st</sup> April 2014 are based on career average revalued earnings, rather than final salary. The scheme accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2015/16, 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 is a profit of £45.072m (a loss of £68.625m in 2014/15).

	Local Government Pension Scheme	
	2014/15	2015/16
	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>		
<i>Cost of Services</i>		
Service Cost	19,223	21,421
Administration	393	455
<i>Finance and Investment Income and Expenditure</i>		
Net interest on defined liability	9,477	9,434
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>29,093</b>	<b>31,310</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>		
Remeasurement of the net defined benefit liability/asset	68,625	(45,072)
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>97,718</b>	<b>(13,762)</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	(29,093)	(31,310)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
Employers' contributions payable to scheme	28,225	16,904



## Assets and Liabilities in relation to Post-Employment Benefits

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

	Local Government Pension Scheme	
	2014/15	2015/16
	£000	£000
<b>Opening defined benefit obligation</b>	<b>654,698</b>	<b>775,379</b>
Current service cost	18,866	20,728
Interest cost	28,412	25,282
Change in financial assumptions	90,061	(55,638)
Change in demographic assumptions	0	0
Experience loss/(gain) on defined benefit obligation	1,048	(1,128)
Liabilities extinguished on settlements	(1,210)	(7)
Estimated benefits paid net of transfers in	(20,444)	(22,855)
Past service costs including curtailments	925	696
Contributions by scheme participants	4,942	5,095
Unfunded pension payments	(1,919)	(1,781)
<b>Defined benefit obligation at end of period</b>	<b>775,379</b>	<b>745,771</b>

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

	Local Government Pension Scheme	
	2014/15	2015/16
	£000	£000
<b>Opening fair value of Scheme assets</b>	<b>430,372</b>	<b>481,560</b>
Interest on assets	18,935	15,848
Return on assets less interest	22,484	(11,694)
Other actuarial gains/(losses)	0	0
Actuarial gains (losses)	-	0
Administration expenses	(393)	(455)
Contributions by employer including unfunded	28,225	16,904
Contributions by Scheme participants	4,942	5,095
Estimated benefits paid plus unfunded net of transfers in	(22,363)	(24,636)
Settlement prices received/(paid)	(642)	(4)
<b>Fair value of Scheme assets at end of period</b>	<b>481,560</b>	<b>482,618</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	2014/15		2015/16	
	£000	%	£000	%
Equities	348,588	72	338,868	70
Gilts	115,796	24	113,595	24
Property	13,577	3	15,315	3
Cash	3,599	1	14,840	3
<b>Total</b>	<b>481,560</b>	<b>100</b>	<b>482,618</b>	<b>100</b>

## Scheme History

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Present value of scheme liabilities					
The Local Government Pension Scheme (LGPS)	(529,492)	(589,722)	(630,064)	(748,920)	(722,264)
Unfunded Liabilities	(23,447)	(23,119)	(24,634)	(26,459)	(23,507)
Fair value of assets in the LGPS	363,253	417,967	430,372	481,560	482,618
Surplus / (Deficit) in the scheme	(189,686)	(194,874)	(224,326)	(293,819)	(263,154)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £263.2m 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

	2014/15	2015/16
<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	22.4	22.5
Women	25.7	25.8
<b>Longevity at 65 for future pensioners retiring in 20 years at 65:</b>		
Men	24.6	24.8
Women	28.0	28.1
	%	%
<b>Rate of Inflation</b>	2.4	2.3
<b>Rate of increase in salaries</b>	4.2	4.1
<b>Rate of increase in pensions</b>	2.4	2.3
<b>Rate for discounting scheme liabilities</b>	3.3	3.6
<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 Authority'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	732,622	745,771	759,169
Projected service cost	18,086	18,510	18,945
<b>Adjustment to long term salary increase</b>	+0.1%	0.0%	-0.1%
Present value of total obligation	747,356	745,771	744,195
Projected service cost	18,519	18,510	18,501
<b>Adjustment to pension increases and deferred revaluation</b>	+0.1%	0.0%	-0.1%
Present value of total obligation	757,741	745,771	734,018
Projected service cost	18,941	18,510	18,089
<b>Adjustment to mortality age rating assumption</b>	+1 Year	None	-1 Year
Present value of total obligation	768,569	745,771	723,670
Projected service cost	18,982	18,510	18,049

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 in 2016/17

The table below shows the estimated contributions to be paid to the plan during 2016/17, assuming a 1% staff pay award for 2016/17.

	2015/16	2016/17
	Actual	Estimated
	£000	£000
Employers contributions -normal	11,601	11,717
Employers Additional Funding (Deficit Funding)	4,205	4,247
Employers Additional Funding (Pension Strain)	683	690
Employees contributions	5,497	5,552
<b>Total</b>	<b>21,986</b>	<b>22,206</b>

## **Associated Risks**

Participating in a defined benefit pension scheme means that the Authority 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 Authority 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

### 33. EVENTS AFTER BALANCE SHEET DATE

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

### 34. 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 Authority's offices at the Civic Centre in Morden. Its board of directors is chaired by LBM's Director of Corporate Services.

LBM's investment in CHAS 2013 Ltd is recognised and measured at cost in the Authority's balance sheet. LBM is exposed to variable returns from CHAS 2013 Ltd. In 2015/16, CHAS 2013 Ltd's profit after tax was £0.5m (£0.5m profit in 2014/15). Dividends received by LBM from CHAS 2013 Ltd will be recognised within the Authority's comprehensive income and expenditure statement (CIES). No dividend was declared in either 2014/15 or 2015/16.

Separate from any dividends, CHAS 2013 Ltd also makes an annual licence fee payment to LBM, for use of intellectual property owned by the Authority. In 2015/16, the licence fee was £0.8m (2014/15 £0.8m), which has been recognised within financing and investment income and expenditure in the CIES.

LB Merton provides a banking facility to CHAS2013 Ltd. The cash balance generated by CHAS2013 Ltd is held by LB Merton in its single entity Balance Sheet, with a corresponding creditor to reflect that this sum is owed to CHAS2013 Ltd. At 31/03/2016, the sum owed to CHAS2013 Ltd was £2.461m (£1.377m at 31/03/2015).

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 Authority. 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, with a corresponding creditor to reflect the sum owed to MSJCB. At 31/03/2016, including cash held and loans to MSJCB, there was a net credit balance of £0.024m (net debit balance of £0.062m at 31/03/2015).

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

### 35. 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 Scheme (CHAS) provided health and safety assessments for other local authorities and businesses. In 2013, CHAS commenced trading as a private limited company (see Note 34). The 2014/15 figures are an adjustment to the prior year.

Included within Financing and Investment Income and Expenditure		2014/15	2015/16
		£000	£000
Printing and Graphic Design	Turnover	(421)	(498)
	Expenditure	313	402
	<b>(Surplus)/Deficit</b>	<b>(108)</b>	<b>(96)</b>
Translation Services	Turnover	(465)	(520)
	Expenditure	417	383
	<b>(Surplus)/Deficit</b>	<b>(48)</b>	<b>(137)</b>
Transport	Turnover	(10,109)	(9,740)
	Expenditure	9,948	10,143
	<b>(Surplus)/Deficit</b>	<b>(162)</b>	<b>403</b>
CHAS prior year adjustment (see Note 34)	Turnover	9	0
	Expenditure	(20)	0
	<b>(Surplus)/Deficit</b>	<b>(11)</b>	<b>0</b>
<b>Total</b>	Turnover	(10,987)	(10,758)
	Expenditure	10,658	10,928
	<b>(Surplus)/Deficit</b>	<b>(329)</b>	<b>170</b>



### 36. INVENTORIES

The stock balance of £0.046m in 2015/16 (£0.068m in 2014/15) represents the complete stock relating to the Partnership Agreement with the Merton Clinical Commissioning Group and Integrated Community Equipment Services (ICES).

	Consumable Stores	
	2014/15 £000	2015/16 £000
<b>Balance outstanding at the start of the year</b>	<b>211</b>	<b>68</b>
Purchases	738	730
Recognised as an expense in the year	(882)	(752)
<b>Balance outstanding at year-end</b>	<b>68</b>	<b>46</b>

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

#### Community Equipment Services

During 2015/16 the Authority has continued to host a Partnership Agreement 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	Total
	2014/15 £000	2015/16 £000
<b>INCOME</b>		
<b>PARTNERS' CONTRIBUTIONS</b>		
<b>Brought forward</b>	<b>310</b>	<b>199</b>
LB Merton	330	330
Merton CCG	247	247
Additional From LB Merton	200	200
<b>TOTAL CONTRIBUTIONS</b>	<b>1,086</b>	<b>976</b>
<b>EXPENDITURE</b>		
Community Equipment Services	738	730
Stock Adjustment	143	22
Management & Support Costs	6	6
<b>TOTAL EXPENDITURE</b>	<b>887</b>	<b>758</b>
<b>NET (UNDER) / OVERSPEND CARRIED FORWARD</b>	<b>(199)</b>	<b>(217)</b>

The pooled budget net underspend is included within Creditors.

## Better Care Fund

The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups and NHS providers. Its primary aim is to drive closer integration of care services and to improve outcomes for patients, service users and carers.

In 2015/16, the Authority commenced a partnership agreement, under Section 75 of the National Health Service Act 2006, with Merton Clinical Commissioning Group (CCG) in respect of the Better Care Fund. The CCG receives the full BCF allocation from NHS England, then transfers a proportion (£5,508,500 in 2015/16) into a pooled fund, hosted by the Authority, to be spent on services. The Authority makes a £1 contribution to the pool. The gross income and expenditure of the partnership is shown in the table below. As per accounting standards, the Authority records only its £1 share of the pooled funds as expenditure in its Comprehensive Income and Expenditure Statement (CIES). The CCG's contribution, therefore, is not recognised in the Authority's CIES.

<b>Better Care Fund Pooled Budget – Gross Income and Expenditure</b>	<b>Total 2015/16 £000</b>
<b>Merton CCG contribution to pool</b>	<b>(5,509)</b>
<b>LBM contribution to pool</b>	<b>0</b>
<b>Total contributions</b>	<b>(5,509)</b>
<b>Expenditure</b>	
Integrated Locality Teams	650
Seven Day Working	500
Community Equipment and Adaptions	200
Protecting and Modernising Social Care	3,577
Investing in Integration Infrastructure	182
Developing Personal and Health Care Budgets	400
<b>Total revenue expenditure</b>	<b>5,509</b>
<b>Net</b>	<b>0</b>

### 38. 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:

	2014/15	2015/16
	£000	£000
Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year	229	185
Fees payable to the External Auditor for other services provided in year	10	9
<b>Total</b>	<b>239</b>	<b>193</b>

### 39. TRUST FUNDS

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

2015/16	Income £000	Expenditure £000	Assets £000
<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.	0	0	157
<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. Established by the authority pre 1990s	0	0	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. Established pre 1990s from residence estates naming LBM as a beneficiary	0	0	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.	0	0	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"	0	0	60
<b>Total</b>	<b>0</b>	<b>0</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.

2014/15	Income £000	Expenditure £000	Assets £000
<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.	0	0	157
<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. Established by the authority pre 1990s	0	0	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. Established pre 1990s from residence estates naming LBM as a beneficiary	0	0	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.	0	0	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	0	60
<b>Total</b>	<b>1</b>	<b>0</b>	<b>256</b>

## 40. On-Street Parking Account

On Street Parking: The Council maintains a memorandum account in respect of on street parking to show how the income is spent. In 2015/16 the Council made a surplus of £4.82m (£5.85m in 2014/15), which was applied notionally as a contribution to concessionary fares. This contribution was less than the full cost of concessionary fares which were £9.01m in 2015/16 (£8.97m in 2014/15). In the event that the surplus exceeded the cost of concessionary fares, the excess would be applied to fund day-to-day carriageway and footway maintenance, the cost of which was £1.02m in 2015/16 (£1.00m in 2014/15). Were any surplus to exceed both the cost of concessionary fares and day-to-day maintenance, any remaining excess would be applied to fund carriageway and footway planned maintenance.

2014/15				On-Street Parking Account	2015/16			
On Street Parking	Bus Lanes	Moving Traffic Violations	Total		On Street Parking	Bus Lanes	Moving Traffic Violations	Total
£000	£000	£000	£000		£000	£000	£000	£000
<b>Income</b>								
(2,863)	(626)	(1,011)	<b>(4,499)</b>	Penalty Charge Notices	(2,605)	(452)	(1,226)	<b>(4,282)</b>
(1,140)	0	0	<b>(1,140)</b>	Residents' Parking Permits	(1,167)	0	0	<b>(1,167)</b>
(810)	0	0	<b>(810)</b>	Residents' Visitors' Parking Permits	(835)	0	0	<b>(835)</b>
(234)	0	0	<b>(234)</b>	Business Parking Permits	(233)	0	0	<b>(233)</b>
(37)	0	0	<b>(37)</b>	Teachers Parking Permits	(34)	0	0	<b>(34)</b>
(2,496)	0	0	<b>(2,496)</b>	On-Street Parking Charges	(2,596)	0	0	<b>(2,596)</b>
(264)	0	0	<b>(264)</b>	Other Income	(325)	0	0	<b>(325)</b>
<b>(7,843)</b>	<b>(626)</b>	<b>(1,011)</b>	<b>(9,480)</b>	<b>Total Income</b>	<b>(7,794)</b>	<b>(452)</b>	<b>(1,226)</b>	<b>(9,471)</b>
<b>Expenditure</b>								
796	174	281	<b>1,251</b>	On-Street Parking	1,019	177	480	<b>1,676</b>
20	4	7	<b>32</b>	Off-Street Parking Spaces	19	3	9	<b>31</b>
134	29	47	<b>211</b>	Parking Management & Planning	144	25	68	<b>236</b>
1,361	297	481	<b>2,139</b>	Parking Enforcement	1,649	286	776	<b>2,711</b>
5,531	120	194	<b>5,846</b>	Contribution to Public Transport (Concessionary Fares)	4,963	(39)	(106)	<b>4,817</b>
<b>7,843</b>	<b>626</b>	<b>1,011</b>	<b>9,480</b>	<b>Total Expenditure</b>	<b>7,794</b>	<b>452</b>	<b>1,226</b>	<b>9,471</b>

2014/15	Memorandum Items	2015/16
£000		£000
	<b>Total Expenditure on:</b>	
8,966	Concessionary fares	9,011
1,001	Carriageway & Footway Day-to-Day Maintenance	1,016
<b>9,966</b>	<b>Total</b>	<b>10,026</b>

# TECHNICAL ANNEX – ACCOUNTING POLICIES

## 41. ACCOUNTING POLICIES

### i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year end of 31<sup>st</sup> March 2016. The Authority is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2015, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, 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 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.
- Notwithstanding the accrual principle, some items are recorded as received/paid on the basis that there is no material distortion of the 'true and fair view' concept. These items include:
  - a) Housing benefit payments and the related subsidy grant are recorded when the payment to housing benefit recipients falls due.
  - b) Income received from Penalty Charge Notices (PCNs) does not equate to the full recorded value of PCNs issued. This is due to prompt payment discounts, disputed notices and other mitigating circumstances. Consequently, income from PCNs is recognised on a

cash basis. This accounting treatment is consistent year-on-year, therefore the revenue impact of not accruing PCN income in the CIES is not material.

**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. 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.

**v. 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) with a determinable finite life, and is calculated on a straight-line basis over the asset's estimated useful economic life.

## vi. 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. childcare vouchers), 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.

### *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 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 3.6%.
- 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.

#### **vii. 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.

## **viii. 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 Authority charges the whole amount incurred in the year.

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

**ix. 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 Authority 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 and held in the Capital Grants Unapplied Account until used. However, a small proportion of the charges may be used to fund revenue expenditure.

#### **x. 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.

#### **xi. 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.

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

The authority has reviewed its relationships with companies and external organisations in accordance with the Code guidelines. In 2015/16, 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 joint venture are disclosed in Note 34.

**xiii. Inventories and Long Term Contracts**

The inventory balance is the Authority 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.

**xiv. 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.

Shared Internal Audit Service: LB Richmond hosts the service, which provides the internal audit function for LB Merton and RB Kingston. Each authority makes a financial contribution to LB Richmond. A shared service board with senior representatives from each authority oversees the delivery of the service and arrangements between the 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 for Community Equipment Services: 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.

Better Care Fund: the Authority hosts a pooled budget, under Section 75 of the National Health Service Act 2006, with Merton Clinical Commissioning Group (CCG) in respect of the Better Care Fund. The CCG receives the allocation from the Department of Health. The CCG then appropriates a proportion to the pooled budget to spend on services. Income and expenditure relating to the Authority's contribution to the pooled budget is reported within the Adult Social Care line in the Comprehensive Income and Expenditure Account.

#### **xv. 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.

#### **xvi. 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 2015/16 (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.

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

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year, are classified as Property, Plant and Equipment (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
- surplus assets – the current value measurement base is fair value, estimated using Level 1 observable inputs and highest and best use from a market participant's perspective
- all other assets – current 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 current value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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 31<sup>st</sup> March. This represents a minor policy change from previous years, when revaluations were undertaken at 1<sup>st</sup> April, then adjusted for any material movement up to 31<sup>st</sup> March. The change is to improve the efficiency of the valuation process, and will not have a material impact on the relevance and reliability of information disclosed in the accounts.

Assets regarded by the authority as operational were valued on the basis of Existing Use Value (EUV) 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.

#### *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 2015/16 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. 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 amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether 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.

**xviii. 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.

## **xix. Provisions, Contingent Liabilities and Contingent Assets**

### *Provisions*

#### 1. General

The Authority 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 Authority 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.

## **xx. 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.



**xxi. 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.

**xxii. VAT**

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

**xxiii. 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.

**42. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

The 2016/17 Code of Practice will include updates to reflect changes to the following accounting standards:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendment to IFRS 11 Joint Arrangements
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible
- Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to AS 1 Presentation of Financial Statements (Disclosure Initiative)

The Code requires implementation from 1 April 2016 and therefore there is no impact on the 2015/16 Statement of Accounts.

#### 43. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying certain policies set out in Note 41, 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 do 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 xiv – Jointly Controlled Operations.
- The potential outcomes from legal claims are not expected to be material to the Authority's accounts.
- Accounting for Schools – 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 Authority. Rather than produce group accounts, the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Authority's single entity accounts.
- Accounting for Schools – Balance Sheet recognition of schools.  
The Authority 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 Authority 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 Authority, school or Governing Body then it is not included on the Authority's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Authority, school or school Governing Body.

#### 44. 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 2016 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 £461.13m is included in the accounts. Therefore a 1% movement in value would result in a change of £4.61m. The average PPE depreciation period is 24 years. A difference of one year would result in a change in the depreciation charge of approximately £0.7m.

**Item:**

Provisions

**Uncertainty:**

The authority has made provisions of £4.32m 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 £0.04m charge to the General Fund.

**Item:**

Provision for NDR appeals

**Uncertainty:**

The authority has made provision of £2.38m 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 Authority'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 Authority's NDR funding baseline.

**Item:**

Pension Liability

**Uncertainty:**

Estimation of the net £263.154m 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 32 for further detail.

# Collection Fund

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Authority. 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 Authority, the Greater London Authority and central government. The costs of administering collection are accounted for in the General Fund.

2014/15				2015/16		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
			<b>A) INCOME</b>			
-	101,000	101,000	Council Tax Receivable	-	102,566	102,566
84,448	-	84,448	Business Rates Receivable	87,913	-	87,913
2,551	-	2,551	Business Rates Supplements Receivable	2,638	-	2,638
<b>86,999</b>	<b>101,000</b>	<b>187,999</b>		<b>90,551</b>	<b>102,566</b>	<b>193,117</b>
			<b>B) EXPENDITURE</b>			
			<b>Apportionment of Previous Year Surplus</b>			
(620)	-	(620)	Central Government	(655)	-	(655)
(372)	4,608	4,236	Billing Authority (LBM)	(393)	4,813	4,420
(248)	1,266	1,018	Greater London Authority	(262)	1,300	1,039
<b>(1,240)</b>	<b>5,874</b>	<b>4,634</b>		<b>(1,310)</b>	<b>6,113</b>	<b>4,804</b>
			<b>C) Precepts, Demands and Shares</b>			
42,131	-	42,131	Central Government (DCLG): NDR	42,550	-	42,550
25,279	75,342	100,621	Billing Authority (LBM): NDR & Council Tax	25,530	77,051	102,581
16,852	20,358	37,210	Greater London Authority: NDR & Council Tax	17,020	20,543	37,563
2,551	-	2,551	Greater London Authority: Business Rates Supplement	2,638	-	2,638
<b>86,813</b>	<b>95,700</b>	<b>182,513</b>		<b>87,738</b>	<b>97,594</b>	<b>185,332</b>
			<b>D) Charges to Collection Fund</b>			
107	(896)	(789)	Less: increase/(decrease) in bad debt provision	683	1,038	1,721
5,141	-	5,141	Less: increase/(decrease) in provision for appeals	1,305	-	1,305
281	-	281	Less: cost of collection	277	-	277
<b>5,529</b>	<b>(896)</b>	<b>4,633</b>		<b>2,265</b>	<b>1,038</b>	<b>3,303</b>
<b>(4,103)</b>	<b>322</b>	<b>(3,781)</b>	<b>Surplus/(Deficit) arising during the year (=A-(B+C+D))</b>	<b>1,858</b>	<b>(2,179)</b>	<b>(323)</b>
<b>(2,102)</b>	<b>5,668</b>	<b>3,566</b>	<b>Surplus/(Deficit) b/fwd 1st April</b>	<b>(6,205)</b>	<b>5,990</b>	<b>(215)</b>
<b>(6,205)</b>	<b>5,990</b>	<b>(215)</b>	<b>Surplus/(Deficit) c/fwd 31st March</b>	<b>(4,347)</b>	<b>3,811</b>	<b>(538)</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 2015/16 before adjustments for localisation of Council Tax Support, technical reforms to Council Tax, and allowance for non-collection is 71,606 (70,193 for 2014/15). The derivation of this is shown in the table below.

Council Tax Band	Number of Dwellings on Valuation Officers List		Number of Dwellings after Discounts and Exemptions		Ratio to Band D	Equivalent Number of Band D Properties	
	2014/15	2015/16	2014/15	2015/16		2014/15	2015/16
A adjust	0	2	0	1	5/9	0	0
A	1,003	1,023	514	534	6/9	343	356
B	8,125	8,139	4,895	5,125	7/9	3,808	3,986
C	21,987	22,099	15,954	16,397	8/9	14,181	14,575
D	27,484	27,497	22,135	22,500	9/9	22,135	22,500
E	12,933	13,027	11,264	11,498	11/9	13,768	14,053
F	5,153	5,224	4,671	4,777	13/9	6,747	6,900
G	3,936	3,947	3,663	3,689	15/9	6,105	6,148
H	1,620	1,631	1,551	1,542	18/9	3,102	3,085
<b>Total</b>						<b>70,188</b>	<b>71,601</b>
Defence properties						5	5
<b>Council Tax Base</b>						<b>70,193</b>	<b>71,606</b>

The average Council Tax charge for a Band D property (including the GLA) was £1397.25 in 2015/16 compared to £1,401.25 in 2014/15. From this an income yield of £97.595m was expected (£95.7m in 2014/15). In 2015/16 the income generated was £102.566m (£101m in 2014/15) 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.

## 2. Non-Domestic Rates (NDR)

The Authority is responsible for collecting rates due from the business ratepayers in its area. The Valuation Office Agency (VOA) 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 Authority 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 2015	31 <sup>st</sup> March 2016
Non-domestic rateable value at year end	£201m	£201m
Number of Hereditaments	5,396	5,373
Uniform Business Rate (in the £)	48.2p	49.3p

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

	2014/15 £000	2015/16 £000
Gross Rates payable (including net amounts for previous years)	97,066	99,843
Mandatory and discretionary reliefs	(12,006)	(12,105)
Transitional Protection Payments	(612)	175
<b>Business Rates Receivable</b>	<b>84,448</b>	<b>87,913</b>
Provision for bad and doubtful debts	(107)	(683)
Provision for losses on appeals	(5,141)	(1,305)
Cost of collection	(281)	(277)
<b>Net Income</b>	<b>78,919</b>	<b>85,648</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:

	2014/15 £000	2015/16 £000
Gross Rates payable	2,813	2,891
Mandatory and discretionary reliefs	(262)	(253)
<b>Net contribution to GLA</b>	<b>2,551</b>	<b>2,638</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 Authority is liable for its proportionate share of successful appeals against NDR charges made in the period to 2015/16. 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> April 2015	Allowance for Impairment	Amounts charged against Allowance	Balance at 31 <sup>st</sup> March 2016
	£000	£000	£000	£000
Council Tax: Impairment of Bad Debts	5,284	1,038	(929)	5,393
Non-Domestic Rates: Impairment of Bad Debts	2,273	683	(664)	2,292
Non-Domestic Rates: Losses on Appeals	9,100	1,305	(2,466)	7,939
<b>TOTAL</b>	<b>16,657</b>	<b>3,026</b>	<b>(4,059)</b>	<b>15,624</b>

### 4. Collection Fund Surpluses and Deficits

#### Council Tax

There is an accumulated surplus of £3.811m on the Collection Fund (£5.990m in 2014/15). 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.

	2014/15	2015/16	Change in the Year
	£000	£000	£000
London Borough of Merton Council Tax surplus	(4,716)	(3,007)	1,709
Greater London Authority Council Tax surplus	(1,274)	(803)	471
<b>Total</b>	<b>(5,990)</b>	<b>(3,810)</b>	<b>2,180</b>

In the Authority's Balance sheet, the Collection Fund balance contains the Authority'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 2015	(1,274)	(4,716)	(5,990)
Paid to GLA in 2015/16	1300	-	1,300
Transfer to General Fund in 2015/16	-	4,813	4,813
Surplus/Deficit in 2015/16	(829)	(3,104)	(3,933)
<b>Total</b>	<b>(803)</b>	<b>(3,007)</b>	<b>(3,810)</b>

## NDR

There is a deficit of £4.347m on the Collection Fund (£6.205m in 2014/15). 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.

	2014/15	2015/16	Change in the Year
	£000	£000	£000
London Borough of Merton NDR (surplus)/deficit	1,862	1,304	(558)
Greater London Authority NDR (surplus)/deficit	1,241	869	(372)
DCLG NDR (surplus)/deficit	3,102	2,174	(928)
<b>Total</b>	<b>6,205</b>	<b>4,347</b>	<b>(1,858)</b>

In the Authority's Balance sheet, the Collection Fund balance contains the Authority'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	DCLG	London Borough	Total
	Authority		of Merton	
	£000	£000	£000	£000
Accumulated (surplus)/deficit as at 1 <sup>st</sup> April 2015	1,241	3,102	1,862	6,205
Payments to/(from) preceptors in 2015/16	(262)	(654)	0	(916)
Transfer to/(from) General Fund in 2015/16	-	-	(393)	(393)
(Surplus)/deficit in 2015/16	(110)	(274)	(165)	(549)
<b>Total</b>	<b>869</b>	<b>2,174</b>	<b>1,304</b>	<b>4,347</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 £80.155m Council Tax income and the £25.695m NDR income in the CIES show the Authority'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 Authority's share of the Collection Fund surplus or deficit generated from the previous year's income.

Income and Expenditure Council Tax	2014/15	2015/16
	£000	£000
Demand on the Fund	75,342	77,051
Transfer of Surplus	4,608	4,813
Total included in CIES under Collection Fund Regulations	<b>79,950</b>	81,864
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	271	(1,709)
<b>Council Taxation Fund Income</b>	<b>80,221</b>	<b>80,155</b>
Movement in Reserves Statement	2014/15	2015/16
	£000	£000
Reversal of adjustment of Collection Fund Surplus under 2011 Code	(271)	1,709
<b>Net charge to General Fund, which is based on statutory requirements</b>	<b>79,950</b>	81,864

Income and Expenditure: NDR	2014/15	2015/16
	£000	£000
Retained Business Rates: London Borough of Merton	25,279	25,530
Transfer of Surplus/(Deficit)	(372)	(393)
Total included in CIES under Collection Fund Regulations	<b>24,907</b>	<b>25,137</b>
Adjustment of Collection Fund Deficit under 2011 Code (Reversed in the Movement in Reserves Statement)	(1,231)	558
<b>NDR Fund Income</b>	<b>23,676</b>	<b>25,695</b>
Movement in Reserves Statement: NDR	2014/15	2015/16
	£000	£000
Reversal of adjustment of Collection Fund Deficit under 2011 Code	1,231	(558)
<b>Net charge to General Fund, which is based on statutory requirements</b>	<b>24,907</b>	<b>25,137</b>

## Balance Sheet

The cash collected by the Authority for Council Tax and NDR belongs proportionately to the Authority 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 Authority 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 2015/16, 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 Authority 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 Authority'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.

Balance Sheet	Collection Fund 2015/16	Balance Sheet 2015/16
	£000	£000
<b>Council Tax</b>		
Arrears	8,384	6,710
Impairment Allowance for Doubtful Debts	(5,393)	(4,316)
Receipts in Advance	(5,271)	(4,218)
Collection Fund (Surplus) / Deficit	(3,007)	(3,007)
GLA	(803)	(1,258)
<b>Cash</b>	<b>(6,089)</b>	<b>(6,089)</b>
<b>Business Rates</b>		
Arrears	3,590	1,077
Impairment Allowance for Doubtful Debts	(2,293)	(688)
Impairment for Loss on Appeals	(7,939)	(2,382)
Receipts in Advance	(2,113)	(634)
Collection Fund (Surplus) / Deficit	1,304	1,304
GLA	869	(881)
DCLG	2,174	(2,204)
<b>Cash</b>	<b>(4,408)</b>	<b>(4,407)</b>

## **Cash Flow Statement**

The Cash Flow Statement of the Authority, 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	2014/15 £000	2015/16 £000
<b>Dealings with members, employers and others directly involved in the Fund</b>			
Contributions	7	(34,340)	(21,986)
Transfers in from other Pension Funds	8	(983)	(2,153)
<b>Total Income</b>		<b>(35,323)</b>	<b>(24,139)</b>
Benefits	9	22,080	23,734
Payments to and on account of leavers	10	1,143	2,796
<b>Total Expenditure</b>		<b>23,223</b>	<b>26,530</b>
Net (additions)/withdrawals from dealing with members		<b>(12,100)</b>	<b>2,391</b>
<b>Management Expenses</b>	11	<b>856</b>	<b>1,230</b>
<b>Returns on Investments</b>			
Investment and other income	12	(10,954)	(11,423)
Taxes on Income	13	316	359
Gains and losses on disposal and change in the market value of investments	14.3	(48,464)	19,211
<b>Net Returns on Investments</b>		<b>(59,102)</b>	<b>8,147</b>
<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(70,346)</b>	<b>11,768</b>

As at 31<sup>st</sup> March 2015, the net assets totalled £542.6m. During 2015/16, the Fund's net assets decreased by £11.8m to £530.8m at 31<sup>st</sup> March 2016.

## Net Assets Statement

2014/15 £000		Notes	2015/16 £000
543,253	Investment assets	14	530,717
(1,681)	Investment liabilities		(1,527)
1,586	Current assets	19	2,619
(568)	Current liabilities	20	(987)
<b>542,590</b>	<b>Net assets of the Fund available to Fund benefits at period end</b>		<b>530,822</b>

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 18.

## 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 (LGPS) and is administered by the London Borough of Merton (“the Authority”). The Authority is the reporting entity for this Pension Fund.

The LGPS Regulations require the Authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Authority 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.

The 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.

The Public Service Pensions Act 2013 requires each fund within the Local Government Pension Scheme, to establish and run a Local Pension Board. Merton’s Local Pension Board is responsible for assisting the Council as administering authority to ensure the effective and efficient governance and administration of the Fund and to comply with legislation and with any requirement imposed by The Pensions Regulator.

The Board meets quarterly and has no decision-making powers on policy matters but may make recommendations to PFAC. The Board has four members comprising two employer and two scheme member representatives.

#### (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 Authority. In addition to the Authority, the Admitted and Scheduled Bodies that currently contribute to the Fund are shown in the following table:



Admitted Bodies	Scheduled Bodies
<ul style="list-style-type: none"> <li>• Greenwich Leisure</li> <li>• Merton Priory Homes</li> <li>• CATCH 22</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.

2014/15		2015/16
	<b>Active Members</b>	
3,390	London Borough of Merton	3,432
215	Scheduled Bodies	205
89	Admitted Bodies	85
<b>3,694</b>		<b>3,722</b>
	<b>Pensioners</b>	
3,264	London Borough of Merton	3,361
148	Scheduled Bodies	151
97	Admitted Bodies	103
<b>3,509</b>		<b>3,615</b>
	<b>Deferred Pensioners</b>	
3,943	London Borough of Merton	4,326
226	Scheduled Bodies	254
114	Admitted Bodies	115
<b>4,283</b>		<b>4,695</b>

### (c) Funding

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

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 2016. The employee contributions are matched by the employer contributions which are set based on triennial actuarial funding valuations. The latest valuation occurred at 31 March 2013. Currently, employer contribution rates range from 12.0% to 24.2%. Employers pay a monetary contribution towards past service costs.

### (d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

	Service pre 1 April 2008	Service Post 1 April 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

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 2015/16 financial year and its financial position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2015/16', 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 18.

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).

Refund 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.

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.

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

##### **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.

## Revenue account – expense items

### 3.5 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.

### 3.6 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 LB Merton being the Administering Authority, VAT input tax is generally recoverable on all Fund activities.

### 3.7 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 Authority'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.

### 3.8 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

### 3.9 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 or 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.

### **3.10 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.

### **3.11 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.

### **3.12 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 2016.

### **3.13 Cash**

Cash comprises cash- in- hand and includes amounts held by the Fund's external managers.

### **3.14 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 18).

### **3.15 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.

### **3.16 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 only uses one provider, 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 21).

### **3.17 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 Authority has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

### **4.1 Pension Fund Liability**

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 2016 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 £13.2m and a -0.1% reduction would increase the obligation by £13.4m. An adjustment to the mortality age rating assumption of -1 yr would decrease the obligation by £22.1m.

## 6. Events After The Reporting Date

In the immediate aftermath of the vote for the United Kingdom to leave the European Union on 23 June 2016, equity prices fell in UK and foreign markets, Credit Default Swaps (CDS) rose and the value of Sterling fell sharply. The uncertainty triggered a downgrade for the outlook for the UK economy by the major rating agencies. Despite this initial volatility, equity markets subsequently recovered to pre-referendum levels. However, the negative outlook and consequential investors' flight to the safety of Government bonds has put significant downward pressure on bond (gilt and index-linked) yields.

L.B Merton Pension Fund is cashflow positive and there is no requirement to sell assets (in the current volatile markets) to meet pension payments. Also, as a long-term investor, the Pension Fund is well placed to ride out short-term volatility. In addition, the Fund's overseas exposure is unhedged so if the value of Sterling depreciates, a fall in the value of UK equities is partially offset by overseas equities where currency gain will have added value. The value of the Pension Fund assets appreciated from £533m at the end of May 2016 to £588m at the end of July 2016 reflecting the post-Brexit rally in the markets and the currency gain from weak Sterling.

L.B Merton Pension Fund assets are managed by external fund managers with full discretion giving regard to the Investment Management Agreement. The managers will be mindful of threats and opportunities presented by market volatility. PFAC will continue to review the Pension Fund investment strategy. The longer-term impact of Brexit on Pension Fund assets and funding is unknown but officers will continue to monitor the situation and update PFAC.

## 7. Contributions Receivable

2014/15 £000		2015/16 £000
	<b>By Category</b>	
29,005	Employers	16,489
5,335	Members	5,497
<b>34,340</b>	<b>Total</b>	<b>21,986</b>

2014/15 £000		2015/16 £000
	<b>By Authority</b>	
31,248	Administering	20,386
876	Scheduled	1,004
2,216	Admitted	596
<b>34,340</b>	<b>Total</b>	<b>21,986</b>

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

2014/15 £000		2015/16 £000
	<b>By Type</b>	
12,860	Employers Normal	11,601
5,335	Employees Normal	5,497
15,097	Deficit Funding	4,205
1,048	Employers Additional	683
<b>34,340</b>	<b>Total</b>	<b>21,986</b>

## 8. Transfers In From Other Pension Funds

2014/15 £000		2015/16 £000
983	Individual Transfers	2,153
<b>983</b>	<b>Total</b>	<b>2,153</b>



## 9. Benefits Payable

2014/15 £000		2015/16 £000
	<b>By Category</b>	
18,473	Pensions	19,239
2,939	Commutations and lump sum retirement benefits	3,625
668	Lump sum death benefits	870
<b>22,080</b>	<b>Total</b>	<b>23,734</b>
2014/15 £000		2015/16 £000
	<b>By Authority</b>	
20,276	Administering	21,908
1,066	Scheduled	997
738	Admitted	829
<b>22,080</b>	<b>Total</b>	<b>23,734</b>

## 10. Payments to and on Account of Leavers

2014/15 £000		2015/16 £000
1,109	Individual Transfers	2,732
40	Refunds of Contribution	29
(6)	State Scheme Premiums	35
<b>1,143</b>	<b>Total</b>	<b>2,796</b>

A payment of £1.98m was made in 2015/16 following the bulk transfer and cessation valuation for South Thames College (previously Merton College).

## 11. Management Expenses

2014/15 £000 Restated		2015/16 £000
332	Administrative Costs	323
198	Investment management expenses	574
131	Transaction Costs	181
195	Oversight and governance costs	152
<b>856</b>	<b>Total</b>	<b>1,230</b>

Investment management expenses have increased due to the inclusion of pooled Fund expenses.

## 12. Investment Income

2014/15 £000		2015/16 £000
2,697	Fixed Interest Securities	2,604
6,839	Equity Dividends	7,347
184	Pooled Investments	332
518	Pooled Property Investments	616
716	Other	524
<b>10,954</b>	<b>Total</b>	<b>11,423</b>

## 13. Taxes on Income

2014/15 £000		2015/16 £000
268	Non-Recoverable Tax	308
48	Withholding Tax	51
<b>316</b>	<b>Total</b>	<b>359</b>

## 14. Investment

### 14.1 Asset management arrangements

The management of Pension Fund assets is delegated to external investment managers who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). 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 2016. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

2014/15		Fund Manager	2015/16	
£000	%		£000	%
231,570	44	Aberdeen	228,098	43
290,830	55	UBS	294,206	56
6,172	1	RREEF/Blackrock	6,737	1
<b>528,572</b>	<b>100</b>	<b>Total</b>	<b>529,041</b>	<b>100</b>

£13m (2014/15) and £0.15m (2015/16) internally managed funds have not been included in the above analysis.

### 14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2016 is shown in the following table. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

Market Value 31 March 2015 £000		Market Value 31 March 2016 £000
	<b>Investment Assets</b>	
127,116	Fixed Interest Securities	130,929
200,755	Equities	194,037
181,736	Pooled Investments	179,624
15,391	Pooled Property Investments	21,183
1,682	Derivative Contracts - Futures	1,528
2,145	Cash Held With Fund Managers	2,005
1,428	Investment Income Due	1,261
<b>530,253</b>	<b>Total Investment Assets</b>	<b>530,567</b>
	<b>Investment Liabilities</b>	
(1,681)	Derivative Contracts - Futures	(1,527)
<b>(1,681)</b>	<b>Total Investments liabilities</b>	<b>(1,527)</b>
<b>13,000</b>	<b>Internally Managed Funds</b>	<b>150</b>
<b>541,572</b>	<b>Net Investment assets</b>	<b>529,190</b>

### 14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2015/2016. 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 1 April 2015 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value 31 March 2016 £000
<b>Fixed Interest Securities</b>	<b>127,116</b>	12,152	(10,356)	2,017	<b>130,929</b>
<b>Equities</b>	<b>200,755</b>	39,676	(29,574)	(16,820)	<b>194,037</b>
<b>Pooled Investments</b>	<b>181,736</b>	17,372	(14,118)	(5,366)	<b>179,624</b>
<b>Pooled Property</b>	<b>15,391</b>	4,808	0	984	<b>21,183</b>
	<b>524,998</b>	<b>74,008</b>	(54,048)	<b>(19,185)</b>	<b>525,773</b>
<b>Derivatives (Futures)</b>					
Future Asset	1,682	7,020	(7,139)	(35)	1,528
Future Liability	(1,681)				(1,527)
	<b>524,999</b>	<b>81,028</b>	<b>(61,187)</b>	<b>(19,220)</b>	<b>525,774</b>
<b>Other Investment Balances</b>					
Cash with Fund Managers	<b>2,145</b>				<b>2,005</b>
Investment Income Due	<b>1,428</b>				<b>1,261</b>
Realised Loss on FX				9	
<b>External Investments at Market Value</b>	<b>528,572</b>			<b>(19,211)</b>	<b>529,040</b>
<b>Internally Managed Funds</b>	<b>13,000</b>				<b>150</b>
<b>Investment Assets</b>	<b>541,572</b>			<b>(19,211)</b>	<b>529,190</b>

## 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.

	Market Value 1 April 2014 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value 31 March 2015 £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 Asset	2,159	9,468	(10,068)	123	1,682
Future Liability	(2,163)				(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 with Fund Managers	2,535				2,145
Investment Income Due	1,019				1,428
Realised Loss on FX				(28)	
<b>External Investments at Market Value</b>	<b>469,950</b>			<b>48,464</b>	<b>528,572</b>
<b>Internally Managed Funds</b>	<b>0</b>	<b>13,000</b>			<b>13,000</b>
<b>Investment Assets</b>	<b>469,950</b>			<b>48,464</b>	<b>541,572</b>

#### 14.4 Detail Analysis of Investments

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

Market Value 31 March 2015 £000		Market Value 31 March 2016 £000
	<b>Fixed Interest Securities</b>	
95,765	Public Sector : UK quoted	97,855
31,351	: Overseas quoted	33,074
<b>127,116</b>		<b>130,929</b>
	<b>Equities (Direct)</b>	
185,369	UK quoted	180,088
15,386	Other European quoted	13,949
0	American	0
0	Other Overseas	0
<b>200,755</b>		<b>194,037</b>
	<b>Pooled Investments</b>	
39,917	UK (Equities)	39,997
28,203	Other European (Equities)	27,585
54,064	American (Equities)	53,701
23,063	Japanese (Equities)	21,563
20,336	Other Overseas (Equities)	20,716
16,153	Developing Markets (Equities)	16,062
6,131	Property Managed Fund/Units quoted	6,721
9,260	Property Managed Fund/Units un-quoted	14,462
1,428	Other Investment Balances	1,261
2,145	Cash with Fund Managers	2,005
1,682	Derivatives (Futures)	1,528
<b>202,382</b>		<b>205,601</b>
	<b>Investment Liabilities</b>	
<b>(1,681)</b>	Derivatives (Futures)	<b>(1,527)</b>
<b>13,000</b>	Internally Managed Funds	<b>150</b>
<b>541,572</b>	<b>Total</b>	<b>529,190</b>

#### 14.5 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. These instruments are essentially used by the Fund Managers for efficient portfolio management.

At 31 March 2016, the value of FTSE futures amounted to less than 0.5% of all equity investment in the Fund (0.5% in 2014/15).

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

Type	Expires	Economic exposure £000	Market value 31 March 2015 £000	Economic exposure £000	Market value 31 March 2016 £000
UK Equities	Three – Six months	1,681	1,682	1,527	1,528

#### 14.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2016.

#### 14.7 Investments exceeding 5% of net assets

The table below shows investments exceeding 5% of total net assets, (all these investments are pooled).

% Market Value 2014/15	Security	% Market Value 2015/16
12.13	Aberdeen Global II Index Linked	12.37
9.08	UBS Life North America Equity Tracker	9.09
5.76	Aberden Global II Global Aggregate	6.28
6.18	UBS Life UK Equity Tracker	6.25
5.23	UBS Life Europe Ex UK Equity Tracker	5.11

The largest single direct holding is HSBC at 1.47% (2.09% in 2014/15).

## 15. Financial Instruments

### 15.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement heading.

31 March 2015				31 March 2016		
Designated at fair value through profit and loss £000	Loans and receivables Restated £000	Financial liabilities at amortised costs £000		Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			<b>Financial Assets</b>			
127,116			Fixed Interest Securities	130,929		
200,755			Equities	194,037		
181,736			Pooled Investments	179,624		
15,391			Pooled Property Investments	21,183		
1,682			Derivative Contracts	1,528		
	2,086		Cash With Fund Managers		2,008	
	13,000		Internally Managed Funds		150	
1,428			Other Investment Balances	1,261		
	228		Debtors		1,256	
<b>528,108</b>	<b>15,314</b>	<b>0</b>		<b>528,562</b>	<b>3,414</b>	<b>0</b>
			<b>Financial Liabilities</b>			
(1,681)			Derivative Contracts	(1,527)		
		(316)	Creditors			(726)
<b>(1,681)</b>	<b>0</b>	<b>(316)</b>		<b>(1,527)</b>		<b>(726)</b>
<b>526,427</b>	<b>15,314</b>	<b>(316)</b>		<b>527,035</b>	<b>3,414</b>	<b>(726)</b>

### 15.2 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 2015 £000		31 March 2016 £000
	<b>Financial Assets / Liabilities</b>	
48,341	Fair Value through profit and loss	(19,176)
123	Loans and Receivables	(35)
<b>48,464</b>	<b>Total</b>	<b>(19,211)</b>

### 15.3 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 interest 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 2015			31 March 2016	
Quoted market price Level 1	Quoted market price Level 2		Quoted market price Level 1	Quoted market price Level 2
£000	£000		£000	£000
512,769	15,391	<b>Financial Assets</b>	507,379	21,183
15,086		Fair Value through profit and loss	2,158	
		Loans and Receivables		
(1,682)		<b>Financial Liabilities</b>	(1,527)	
		Fair Value through profit and loss		
<b>526,173</b>	<b>15,391</b>	<b>Total</b>	<b>508,010</b>	<b>21,183</b>

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

### 16.1 Risk and risk management

The Fund’s primary long-term risk is that the Fund’s assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund’s forecast cashflows. 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 Authority’s pensions operations. The Statement of Investment Principles (SIP) and Risk Register are reviewed regularly to reflect

changes in the Fund's strategy, activity and in market conditions. The Fund also ensures authorised investment managers are used through its rigorous Fund Manager's selection process. In addition the Fund employs an advisor who provides advice on investment issues.

## 16.2 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 £1,528,250 (£1,681,750 as at 31 March 2015)

## 16.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. London Borough of Merton asset allocation is predominantly in equities, the majority of which are priced in 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 Authority to ensure they are within limits specified in the Fund investment strategy.

Asset Type	Value at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>				
Cash	2,008	0.01	2,008	2,008
<b>Investment portfolio assets</b>				
UK Equities	220,085	10.33	242,820	197,350
Overseas Equities	153,576	9.16	167,644	139,508
Bonds and Index Linked	130,929	8.26	141,744	120,114
Property	21,183	5.09	22,261	20,105
Income Due	1,261	0.00	1,261	1,261
Fixed Deposits (Internally managed)	150	0.00	150	150
<b>Total Assets</b>	<b>529,192</b>		<b>577,888</b>	<b>480,496</b>

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

Asset Type	Value at 31 March 2015 £000	% Change	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>				
Cash	2,086	0.01	2,086	2,086
<b>Investment portfolio assets</b>				
UK Equities	225,363	10.19	248,327	202,398
Overseas Equities	157,206	9.03	171,402	143,010
Bonds and Index Linked	127,117	8.14	137,464	116,770
Property	15,391	5.02	16,164	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>589,845</b>	<b>493,284</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 2016 asset mix as shown in the following table (Note 16.4):

#### 16.4 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	10.33%
Overseas Equities	9.16%
Bonds and Index Linked	8.26%
Cash	0.01%
Property	5.09%

#### 16.5 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 2016, the Fund's fixed rate investments were in pooled investments. These internally managed investments are of very short duration.

#### 16.6 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 2016.

Asset Type	Value at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	153,576	6.47	163,512	143,640
Overseas Bonds	33,074	6.47	35,214	30,934
<b>Total Overseas Assets</b>	<b>186,650</b>		<b>198,726</b>	<b>174,574</b>

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

Asset Type	Value at 31 March 2015 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	157,206	5.69	166,151	148,261
Overseas Bonds	31,351	5.69	33,135	29,567
<b>Total Overseas Assets</b>	<b>188,557</b>	<b>5.69</b>	<b>199,286</b>	<b>177,828</b>

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2016. 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 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	694	6.83	741	647
EURO	8,653	6.77	9,239	8,067
Norwegian Krone	394	9.40	431	357
Swedish Krona	2,164	7.65	2,330	1,998
Swiss Franc	4,318	9.95	4,748	3,888
US Dollar	33,185	7.78	35,767	30,603
<b>Total</b>	<b>49,408</b>		<b>53,256</b>	<b>45,560</b>

Currency	Value at 31 March 2015 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	771	6.19	819	723
EURO	9,675	6.15	10,270	9,080
Norwegian Krone	582	8.64	632	532
Swedish Krona	2,561	7.30	2,748	2,374
Swiss Franc	4,448	9.34	4,863	4,033
US Dollar	31,358	7.78	33,798	28,918
<b>Total</b>	<b>49,395</b>		<b>53,130</b>	<b>45,660</b>

## 16.7 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 Authority's credit criteria. The average long term credit rating in the bond portfolio is AA as at 31 March 2016. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

The table below shows the credit quality for the Aberdeen Bond portfolio.

Credit Quality	Value at 31 March 2015 £000	Value at 31 March 2016 £000
AAA	3,432	3,535
AA	93,049	95,840
A	11,949	12,308
BBB	16,017	16,497
BB or below	1,271	1,309
Cash	1,398	1,440
Settled Cash	36	16
	<b>127,152</b>	<b>130,945</b>
A	3,000	<b>0</b>
N/A	10,000	150
	<b>13,000</b>	<b>150</b>
<b>Total</b>	<b>140,152</b>	<b>131,095</b>

### 16.8 Liquidity risk

The Authority 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.

### 16.9 Refinancing risk

The risk that the Authority will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

## 17. Funding Arrangements

### 17.1 Actuarial position

The assets and liabilities of the Fund are valued at three-yearly intervals by the Fund 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).

### 17.2 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

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 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 % p.a.		Risk Adjusted Discount Rate Weighting %
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

### 17.3 Funding policy

In line with the Local Government Pension Scheme Regulations 2013, the Fund actuary undertakes a funding valuation every three years. The next valuation is in 2016. The Regulations require the Actuary to set the employer 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 Funds deficit recovery period is 12 years.

### 17.4 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 Valuation	2010 Valuation	2013 Valuation
Funding Level %	90.5	84.0	89.0
<b>Funding (Deficit) £m</b>	<b>(33.5)</b>	<b>(67.2)</b>	<b>(53.2)</b>

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 following table show the past service funding position for the 2013 valuation.

	31 March 2013 £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.

## 18. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 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 2016, using a valuation methodology that is consistent with IAS19.

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

	Assumptions as at 31/03/16 %
Inflation/Pension Increase Rate	2.3
Salary Rate Increase	4.1
Discount Rate	3.6

The value of the Fund's promised retirement benefits as at 31 March 2016 was

Year Ended	31/03/15 £m	31/03/16 £m
<b>Present value of promised retirement benefits</b>	816.1	790.3

## 19. Current Assets

	31/03/15 £000	31/03/16 £000
<b>Debtors</b>		
Contributions Due	1,358	1,363
Sundry Debtors	41	28
Cash in Hand	187	1,228
<b>Current Assets</b>	<b>1,586</b>	<b>2,619</b>

## Analysis of Debtors

	31/03/15 £000	31/03/16 £000
Administering Body	1,242	1,274
Admitted and Scheduled Bodies	116	89
Sundry Debtors	41	28
<b>Current Debtors</b>	<b>1,399</b>	<b>1,391</b>



## 20. Current Liabilities

Creditors	31/03/15 £000	31/03/16 £000
Cash overdrawn	(1)	0
Fund Managers Fees	(267)	(214)
Sundry	(48)	(512)
Payroll	(252)	(261)
<b>Current Liabilities</b>	<b>(568)</b>	<b>(987)</b>

## 21. 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 Authority'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 2015/16 to AVC schemes outside the Authority's responsibility was £0.127m (£0.144m at 31 March 2015). The external providers have reported that at 31 March 2016 the total value of accumulated AVCs is £1.710m (£1.663m at 31 March 2015).

## 22. Related Parties

Related parties to the Pension Fund include: -

- i) Merton Pension Fund is administered by the **Merton Council** and **Wandsworth Council** under a shared service arrangement. Consequently there is a strong relationship between the two Councils and the Pension Fund. The amount recharged by the council to the Pension Fund under this arrangement was £0.36m in 2015/16 (2014/15 £0.37m).
- 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.
- iv) The panel included one **Pensioner representative** in receipt of pension benefits, who resigned during the year.

# 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 2016.

Signed

*C Holland*

*Director of Corporate Services*

*8<sup>th</sup> September 2016*

## 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 2015.

Signed

*Peter McCabe*

*Chairman General Purposes Committee*

*8<sup>th</sup> September 2016*

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.

# Independent Auditor's Report

The final Auditor's report will be received from Ernst and Young shortly after the Standards and General Purposes Committee on 8<sup>th</sup> September 2016.

# 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 Authority 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 Authority'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 Authority'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 Authority, which is due immediately or in the short term. Accordingly, it does not include money on taxation to the Authority. 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 Authority 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**

Department for the Environment, Food 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**

Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. The IFRS 13 fair value hierarchy has three levels of valuation:

Level One – fair value has been obtained using quoted prices in active markets for identical items.

Level Two - fair value has been obtained using other inputs observable for the item.

Level Three – unobservable inputs have been used to reach fair value.

## **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.

## **FTSE 100**

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

## **GENERAL FUND**

The main fund of the Authority, 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 Authority 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 Authority.

### **LIABILITIES**

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

### **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 Authority 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 Authority 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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# Merton Council

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

August 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Standards and General Purposes Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Merton Council for the year ended 31 March 2016. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in the form which appears in Appendix E:</p> <ul style="list-style-type: none"> <li>• Completion of our work on the Council's Whole of Government Accounts (WGA) return.</li> <li>• Completion of small amount of detailed audit testing.</li> <li>• Receipt of the signed management representation letter.</li> </ul> <p>We will not be able to issue the audit certificate if our work on WGA is not fully completed or we have not received the Pension Fund Annual Report at the time we issue our audit opinion.</p> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>Subject to completion of the outstanding work there are no unadjusted or adjusted audit differences.</p>
Scope and materiality	<p>In our Audit Plan presented at the 10 March 2016 General Purposes Committee meeting, we communicated that our audit procedures would be performed using a materiality of approximately £11.2 million. We have reassessed this based on the actual results for the financial year and have decreased this amount to approximately £10.2 million based on the reduced level of gross revenue expenditure reported in the financial statements compared to the prior year.</p> <p>The threshold for reporting audit differences which impact the financial statements has also decreased from £560,000 to £512,000. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years.</p> <p>We carried out our work in accordance with our Audit Plan.</p>
Significant audit risks	<p>We identified the risk of management override during the planning phase of our audit, which we reported to you in our audit plan.</p>

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	The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this.
Non-significant risks	We identified the following non-significant risks during the planning phase of our audit, which we reported to you in our Audit Plan: <ul style="list-style-type: none"><li>• Payroll</li><li>• Housing benefit overpayment debtors.</li></ul>
Other reporting issues	We have identified two matters which we set out in more detail in the 'other matters' section of this report below. Both of the matters relate to arrangements for the audit and have been raised together with associated recommendations with the intention of improving arrangements to meet the requirements of early closure and audit needed by 2017/18.
Control observations	We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

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We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Paul King

Executive Director  
For and on behalf of Ernst & Young LLP

## 2. Responsibilities and purpose of our work

### The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

### 3. Financial statements audit

#### Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>• Reviewing accounting estimates for evidence of management bias. Our work in this area focused in particular on the completeness of the Minimum Revenue Provision (MRP) charged by the Council, the completeness and valuation of its bad debt provisions and the reasonableness of accounting policies applied by management.</li> <li>• Evaluating the business rationale for significant unusual transactions.</li> </ul>	<p>We have significantly progressed our planned programme of work and have identified no evidence of management override or bias to date.</p> <p>Specifically:</p> <ul style="list-style-type: none"> <li>• Subject to a small number of residual queries our detailed testing of journal entries recorded in the general ledger has found them to be appropriate.</li> <li>• We are satisfied that the MRP charged by the Council for the period has been calculated in accordance with extant requirements and supported by accounting records. We have yet to fully complete our work on the bad debt provision.</li> <li>• We identified no significant unusual transactions in the course of our work.</li> </ul>

We also identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Non - Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>The Council makes use of shared arrangements with other London boroughs to process its payroll.</p> <p>The Council's Midland iTrent payroll system is partly operated by Agilisys Ltd, a private company which provides similar services to three other London boroughs as part of a partnership arrangement.</p> <p>Technical support and some administrative functions mainly relating to statutory requirements are undertaken by Agilisys, but the bulk of the system's operational functions, which include payroll and HR activities, are carried out by Central Operations Teams (COT) in each of the four councils using Agilisys. For the Council COT staff are currently employed by the London Borough of Sutton Council (LBS), and the service is delivered under a shared service agreement.</p> <p>In 2014/15 LBS commissioned an independent reporting accountants' assurance report on the internal controls of the shared HR and payroll service. The reporting auditor issued a qualified opinion on the design and operating effectiveness of controls. A number of specific control weaknesses were identified as part of this qualification.</p> <p>We have considered the weaknesses identified and have concluded that the issues raised do not give rise to a significant risk of material misstatement of the Council's 2015/16 financial statements. We also note that a management action plan to address the issues identified has been devised and agreed by LBS</p>	<p>We planned to gain assurance in respect of payroll expenditure by both testing controls capable of providing material assurance and undertaking substantive tests of detail.</p> <p>We planned to consider any updated controls assurance report over the shared HR and payroll service operated by LBS and progress made against the 2014/15 management action plan as part of our continuous audit planning.</p>	<p>We have completed both our planned testing of controls and substantive tests of detail and have gained satisfactory assurance over payroll expenditure.</p> <p>We have considered the 2015/16 service auditor report for LBS and we are satisfied that no issues have been highlighted that generate a risk of material misstatement. There remain, however, a relatively large number of recommendations outstanding from the 2014/15 management action plan and management needs to continue to focus on addressing these recommendations.</p>



Non-significant risks	Audit procedures performed	Assurance gained and issues arising
<p><b>Housing benefit overpayment debtors</b></p> <p>In the course of our documentation and walk through of the Council’s housing benefit system (Civica) we found the value held in the housing benefit system for overpaid benefit to claimants where recovery is being made by deduction from ongoing entitlement did not agree to the equivalent debtor figure in the general ledger as at 31 December 2015.</p> <p>Errors in the design of the reconciliation process for this debtor balance between the housing benefit system and general ledger mean that the Council is not able to explain and support this difference. Officers are aware of this and are reviewing the approach taken to the reconciliation to address the errors. This may also require some input from Civica.</p>	<p>Although the difference between the value of relevant debtors on the housing benefit system and general ledger is not material to our responsibilities, we reviewed the progress made in this area as part of our continuous audit planning. It is important that the Council is able to fully support the value of year-end housing benefit debtors where recovery is being made by deduction from ongoing entitlement appearing in its general ledger and balance sheet by a full reconciliation to the value held in the housing benefit system.</p>	<p>We are satisfied that the year-end housing benefit debtor for amounts being recovered by deduction from ongoing entitlement included in the financial statements and general ledger has been reconciled to relevant output from the housing benefit system subject to an immaterial difference. Work has been done by the Council with its housing benefit provider to clarify the reports that should be used for the reconciliation.</p>

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council’s financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

There are two matters we wish to bring to your attention.

As planned we used our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools are designed to both help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests and give greater likelihood of identifying errors than random sampling techniques. They are becoming an increasingly essential audit tool that allow us to complete our work more quickly and efficiently and are important to us in being able to respond to the challenge of early closure and audit by 2017/18. We originally requested analytics data from the Council at the end of the interim stage of the audit in April 2016. Data was not made available to us until the start of our on-site visit in July 2016 and significant further work was required to make the data usable for our purposes. It is important that we

obtain the data more promptly for 2016/17 and that there is a better shared understanding of what is needed. This is an area we plan to work with the Council to address. The successful implementation of the Council's new general ledger system and a simplified and more logical coding structure in 2016/17 should also help to facilitate this.

See **Recommendation 1**

We undertook early substantive testing of transactions processed by the accounts payable, accounts receivable and payroll systems at the interim stage of the audit. We asked the Council to provide evidence to support the transactions tested in April and agreed a delivery date of 30 June 2016 for this. A significant proportion of this evidence was not available by 30 June, and subsequent progress in July and August was slow. Although we recognise this approach is new to the Council, to meet the requirements of earlier closure in 2017/18 we will need to gain more assurance from substantive testing earlier in the year. This is an area where we will work with you to improve the speed of response to requests for supporting evidence and appropriate escalation procedures.

See **Recommendation 2**

### **Recommendation 1**

Work with us to ensure that usable analytics data is available as quickly as possible after closedown of the general ledger at the end of 2016/17. This will require a collaborative approach and a clear shared understanding of what is needed and how we intend to use the data to support our programme of testing.

### **Recommendation 2**

Ensure that evidence to support substantive testing undertaken during the year is made available by the agreed date.

## **Control themes and observations**

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

## **Request for written representations**

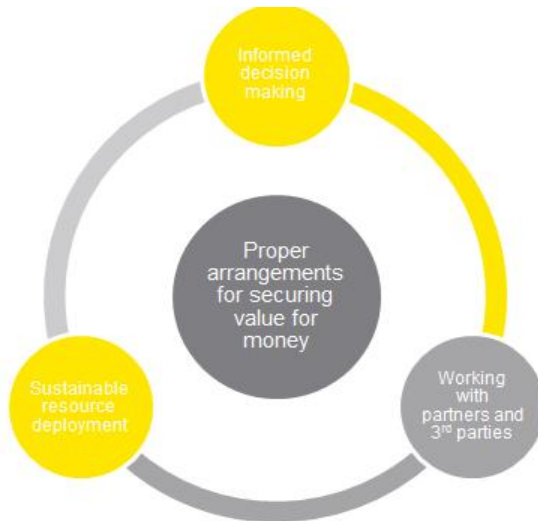
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix F.

## **Whole of Government Accounts**

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We have not yet undertaken our work in this area and will report any matters that arise to the Standards and General Purposes Committee.

## 4. Value for money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

### Overall conclusion

We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

We considered a variety of information sources at the planning stage and updated our understanding of your arrangements at the conclusion stage of the audit, including:

- *Our understanding of your business and entity level controls.* We identified no significant issues to bring to your attention.
- *The Council's own risk management arrangements.* Although we identified no significant issues the Council has considered matters relevant to our value for money conclusion responsibilities in its risk management reports during the year. In particular the Council continues to recognise a level of continued uncertainty effecting Children, Schools and Families services regarding changes to funding regimes and external grants including the Dedicated Schools Grant, together with concurrent additional statutory duties and further demand for services brought about by demographic pressures. In light of this the Council recognises the need to balance competing and increasing demands at a time of contracting resources and major change, and to make significant recurrent savings over the next three to four years.
- *The Council's current and prior year annual governance statements.* No issues were disclosed of which we were not otherwise aware or which we considered to be a significant risk to our VFM conclusion responsibilities.
- *Financial and budgetary control information including disclosures in the narrative statement contained in the Council's 2015/16 draft financial statements.* The Council's reported financial performance against budget improved considerably during the course of the year, and outturn performance was better than the £3 million general fund budget deficit forecast at the

planning stage of the our audit. At the end of 2015/16 net service expenditure was overspent by approximately £4.5 million compared to budget. The main causes of this were £2.7 million overspend in Adult Social Care, a £3.8 million shortfall in parking income and a £0.6 million overspend within social care, youth inclusion and commissioning. These were offset by a £2.6 million net underspend across all other services. Corporate provisions, including earmarked reserve transfers, underspent by £2.8 million and grant income exceeded the budgeted figure by £1 million. This reduced the overall net overspend to approximately £0.7 million, against the Council's planned bet budget which was broadly to breakeven. The resulting approximate £0.694 million net expenditure was met by an appropriation from earmarked reserves.

- *The medium term financial planning of the Council and its overall financial resilience.* We specifically considered the Council's updated medium term financial strategy (MTFS) set out in its 2016/20 business plan. Based on this, and after considering the impact of potentially uncertain grant funding and its planned call on earmarked reserves in its financial projections, we have concluded there is no significant risk to the Council's financial resilience over a three year period. We note, however, that the Council, in common with other public bodies, continues to face significant future financial challenges. At the time the MTFS was set the Council forecast a budget gap of approximately £3.5 million by 2019/20, with service departments still needing to identify approximately £7.8 million of target savings. The 2016/17 Local Government Finance Settlement includes figures for the four years 2016-17 to 2019-20. The Government have presented this as an offer to local government for the four year period. To qualify for the offer councils will have to publish an efficiency plan covering the same period of time. It is the Council's current intention to take up this offer.
- *The work of internal audit and other external regulators.* Although there has been some deterioration in the overall internal control environment based on the work of Internal Audit, as reported to Standards and General Purposes Committee members previously, with 72 per cent of Internal Audit reviews rated as satisfactory or above levels of assurance compared to 82 per cent in the previous year, we are satisfied that this is not a significant risk for the purposes of our VFM conclusion work.
- *The Public Sector Audit Appointment Limited (PSAA) value for money profiles.* We have used the profiles tool to assess Council spending against its statistical nearest neighbours and all other London Boroughs. The council tax financing requirement and net level of spending are low in absolute terms. Although the relative level of net spending increases when viewed on a per capita basis, it remains no higher than average against the comparative groups. The level of service spending at the Council is also average in relation to both comparative groups used. Our analysis in this area has not therefore highlighted a significant value for money risk.

Although not material to our value for conclusion responsibilities we have also considered the Council's developing arrangements for the Better Care Fund (BCF) as part of our work to inform the value for money conclusion. The BCF is a major policy initiative between local authorities, clinical commissioning groups (CCGs) and NHS providers. Its primary aim is to drive closer integration of care services and to improve outcomes for patients, service users and carers. In 2015/16, the Council commenced a partnership agreement, under Section 75 of the National Health Service Act 2006, with Merton CCG in respect of the BCF. The CCG receives the full BCF allocation from NHS England and transfers a proportion of this, approximately £5.5 million in 2015/16, into a pooled fund to be spent on services which is hosted by the Council. The Council makes a nominal contribution to the pool. Although the BCF partnership with Merton CCG has been established as a joint operation with joint governance arrangements and decision making, there is currently no sharing of financial risk or significant other changes in practice from previous years, for example the renegotiation of contracts with providers, that demonstrate evidence of further integration. It is not clear therefore that the arrangement is yet operating as a joint operation in substance.

Based on all of this we therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

## **Appendix A – Uncorrected audit differences**

There are no uncorrected misstatements greater than our nominal amount of £512,000 subject to completion of our outstanding work.

## **Appendix B – Corrected audit differences**

A number of corrections to the financial statements have been made a result of our audit. There are no corrections which we specifically wish to draw to your attention subject to the completion of our outstanding work.

## Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 10 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Standards and General Purposes Committee on 8 September 2016.

We confirm that we have met the reporting requirements to the Standards and General Purposes Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 10 March 2016.



## Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	143,498	143,498
Certification of claims and returns	41,242	41,242
Non-audit work – Teachers’ Pensions	8,500	N/A

Our actual fee in in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

The proposed non-audit work relates to the certification of the Council's Teachers' Pension return which is outside of claim certification work covered by the PSAA contract.

## Appendix E – Draft audit report

### Independent auditor's report to the members of the London Borough of Merton

#### Opinion on the Authority's financial statements

We have audited the financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement, and the related notes 1 to 44.
- The Collection Fund, and the related notes 1 to 5.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the London Borough of Merton, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of Responsibilities set out on pages 151 to 152, the Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Merton as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

### **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

## **Conclusion on the London Borough of Merton's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the London Borough of Merton had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Merton put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

### **Conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, the London Borough of Merton put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

### **Certificate**

We certify that we have completed the audit of the accounts of the London Borough of Merton in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Paul King

for and on behalf of Ernst & Young LLP, Appointed Auditor

Reading

xx September 2016

## Appendix F – Management representation letter

[To be prepared on the Council's letterhead]

xx September 2016

Ernst & Young LLP

Apex Plaza,

Forbury Road,

Reading

RG1 1YE

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Merton ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the London Borough of Merton as of 31 March 2016 and of its expenditure and income for the year then ended in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC

Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because;
  - a. ***At this stage of the audit we do not expect there to be any unadjusted audit differences***

## **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

## **C. Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including

sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

#### **F. Subsequent Events**

1. Other than described in Note 33 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. For accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **H Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement



benefits and all settlements and curtailments have been identified and properly accounted for.

**I. Comparative information – corresponding financial information**

1. Prior year adjustments have only been included in the financial statements to correct material prior year errors.

**J. Use of the Work of an Expert**

1. We agree with the findings of the experts engaged to evaluate the valuation of property, plant and equipment, and the pension fund liability and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours Faithfully,

---

Caroline Holland  
Director of Corporate Services

I confirm that this letter has been discussed and agreed at the Standards and General Purposes Committee on 8 September 2016

---

Councilor Peter McCabe  
Chair, Standards and General Purposes Committee

## Appendix H – Required communications with the Standards and General Purposes committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b> Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan.
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report.
<p><b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the London Borough of Merton's ability to continue as a going concern for the 12 months from the date of our report.
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p><b>Related parties</b> Significant matters arising during the audit in connection with</p>	We have not matters we wish to report.

Required communication	Reference
the entity's related parties including, when applicable: <ul style="list-style-type: none"><li>▶ Non-disclosure by management</li><li>▶ Inappropriate authorisation and approval of transactions</li><li>▶ Disagreement over disclosures</li><li>▶ Non-compliance with laws and regulations</li><li>▶ Difficulty in identifying the party that ultimately controls the entity</li></ul>	

Required communication	Reference
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management’s refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	We have received all requested confirmations.
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have not identified any material instances of non-compliance with laws and regulations.
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Plan and Audit Results Report
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	None identified
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Plan and Audit Results Report</p> <p>Our final fee will be confirmed in the Annual Audit Letter if considered necessary</p>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	Annual Certification Report

EY | Assurance | Tax | Transactions | Advisory

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# London Borough of Merton Pension Fund

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

August 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Standards and General Purposes Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit. We will also share the findings of our work with the Pension Fund Advisory Committee.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We report progress on our audit of the financial statements of Merton Pension Fund for the year ended 31 March 2016. A number of detailed work areas remain in progress at 30 August 2016. We will provide a verbal update on progress on outstanding work areas at the 8 September 2016 meeting of the Standards and General Purposes Committee. As at 30 August 2016 we have also not yet received a draft of the Pension Fund annual report.</p> <p>Based on the work undertaken to date we anticipate issuing an unqualified opinion on the Fund's financial statements. This is subject to the completion of our outstanding work.</p>
Audit differences	<p>There are no unadjusted or adjusted audit differences based on the work completed to date that we wish to bring to your attention.</p>
Scope and materiality	<p>In our Audit Plan presented at the 30 June Standards and General Purposes Committee meeting, we communicated that our audit procedures would be performed using a materiality of £5.42 million. We have reassessed this based on the actual results for the financial year and have decreased this amount to £5.30 million based on the reduced level of net assets reported in the financial statements compared to the prior year.</p> <p>The threshold for reporting audit differences which impact the financial statements has also decreased from £271,000 to £265,000. The basis of our assessment is 1% of net assets, which has remained consistent with prior years.</p> <p>We carried out our work in accordance with our Audit Plan subject to the outstanding areas of work as at 30 August 2016.</p>
Significant audit risks	<p>We identified the risk of management override during the planning phase of our audit, which we reported to you in our Audit Plan.</p> <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this.</p>
Other reporting issues	<p>There is one matter that we bring to your attention in the 'other matters' section of this report below.</p>
Control observations	<p>We have adopted a fully substantive approach and have therefore not tested the operation of controls.</p>

We would like to take this opportunity to thank the Pension Fund's staff for their assistance during the course of our work.

Melissa Hargreaves

Executive Director  
For and on behalf of Ernst & Young LLP

## 2. Responsibilities and purpose of our work

### **The Council's responsibilities**

The London Borough of Merton as the administering authority of the Pension Fund is responsible for preparing and publishing its Statement of Accounts which includes the financial statements of the Pension Fund.

The Council is also required to prepare a separate Annual Report and Statement of Accounts for the Pension Fund

### **Purpose of our work**

Our audit was designed to:

- Express an opinion on the 2015/2016 financial statements of the Pension Fund.
- Report on whether information in the Annual Report is consistent with the financial statements.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Pension Fund's accounting policies and key judgments.

### 3. Financial statements audit

#### Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• reviewing accounting estimates for evidence of management bias; and</li> <li>• evaluating the business rationale for significant unusual transactions</li> </ul>	<p>As at 30 August 2016 we have completed part of our planned programme of work in this area, although our work to test journals remains in progress. We have identified no evidence of management override or bias.</p> <p>We have also identified no significant unusual transactions in the course of our work undertaken to date.</p>

#### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

There is one matter which we wish to draw to your attention. We experienced delays in responses to queries arising throughout the course of the audit. This has been some improvement at the post-statement stage of the audit. It is important that this improvement is maintained for 2016/17 and all associated parties are aware of the shortened deadlines.

## **Control themes and observations**

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

## **Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix F. At this stage we are not expecting to request any non-standard representations.

## **Other matters to bring to your attention**

There are no other matters which we wish to bring to your attention subsequent to the completion of our outstanding work.

## Appendix A – Uncorrected audit differences

There are no uncorrected misstatements greater than our nominal amount of £265,000 subject to completion of our outstanding work.

## Appendix B – Corrected audit differences

A number of corrections to the financial statements have been made a result of our audit. There are no corrections which we specifically wish to draw to your attention subject to the completion of our outstanding work.



## Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 30 June 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Standards and General Purposes Committee on 8 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 30 June 2016.

## Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	21,000	21,000

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

## Appendix E – Draft audit report

### Independent auditor's report to the members of London Borough of Merton

#### Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of London Borough of Merton in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of Responsibilities set out on pages 151 to 152, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

### **Opinion on other matters**

In our opinion, the information given in the [*to be updated with the actual name of the annual report when received*] for the financial year for which the financial statements are prepared is consistent with the financial statements.

Melissa Hargreaves

for and on behalf of Ernst & Young LLP, Appointed Auditor

Manchester

Xx September 2016

## Appendix F – Draft management representation letter

[Date]

Melissa Hargreaves  
Ernst & Young  
100 Barbirolli Square  
Manchester  
M2 3EY

This representation letter is provided in connection with your audit of the financial statements of name of pension fund (“the Pension Fund”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether, the financial statements show a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016, and of the amount and disposition at the end of the year of its assets and liabilities, in accordance with applicable law and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of the Pension Fund’s financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and for keeping records in respect of contributions received in respect of active members of the Pension Fund and for making accurate representations to you.
2. We confirm that the Pension Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Pension Fund should change.
3. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above show a true and fair view of the financial position and the financial performance of the Pension Fund in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. We believe that the Pension Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2015/16 that are free from material misstatement, whether due to fraud or error.

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

## **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Pension Fund (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the Pension Fund involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

## **C. Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
2. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
3. We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
4. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Pension Fund year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Pension Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

4. We have made available to you all minutes of the Audit Committee and Pension Fund Advisory Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date [*list date*].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Pension Fund's related parties and all related parties and related party transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Pension Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Pension Fund members or the Pension Fund during the Scheme year or subsequently.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

#### **F. Subsequent Events**

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Advisory Reports**

1. We have not commissioned advisory reports except for give details which may affect the conduct of your work in relation to the Pension Fund's financial statements and schedule of contributions/payment schedule.

#### **H. Independence**

1. We confirm that no trustee of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

#### **I. Derivative Financial Instruments**

1. We confirm that the Pension Fund has made no direct investment in derivative financial instruments.

#### **J. Actuarial valuation**

1. The latest report of the actuary Barnett Waddingham LLP as at 31 March 2016 has been provided to you. To the best of our knowledge and belief we confirm that the information

supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

#### **K. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **M Investment managers' control reports ISAE 3402**

1. The latest reports available do not all cover the whole of the 2015/16 audit year. We can confirm that we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

*Yours Faithfully,*

---

*Caroline Holland*

*Director of Corporate Services*

*I confirm that this letter has been discussed and agreed at the Standards and General Purposes Committee on 8 September 2016*

---

*Cllr Peter McCabe*

*Chair, Standards and General Purposes Committee*



## Appendix G – Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the Pension Fund's ability to continue as a going concern for the 12 months from the date of our report.
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have not identified matters we wish to report.

Required communication	Reference
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>We have received all requested confirmations.</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	<p>We have not identified any material instances of non-compliance with laws and regulations.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Plan and Audit Results Report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>None identified</p>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Plan Audit Results Report</p>

EY | Assurance | Tax | Transactions | Advisory

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	A	B	C	D	E	F	G	
1								
2		<b>Comprehensive Income and Expenditure Accounts: Net Cost of Services</b>						
3								
4								
5		<b>Employees</b>			<b>£'000</b>	<b>£'000</b>		
6			Direct employee expenses					
7			Salaries & wages		136,518			
8			Employers NICs		11,543			
9			IAS19 Defined Benefit Pension Costs					
10			Employers pension current service costs		20,728			
11			Employers pension past service costs		0			
12			Recognition of gain/loss on settlement of pension liability		693			
13			Pension contributions defined contribution plans and other external schemes (includes Teachers Pension Scheme)		8,212			
14			Agency staff		15,017			
15			Employee expenses		0			
16			Indirect employee expenses					
17			Other employee expenses		4,869			
18			Employee-related provisions expense		0			
19			Debits resulting from soft loans to staff		0			
20			<b>Total Employee Costs</b>				<b>197,580</b>	
21		<b>Premises</b>						
22			Business Rates	[no CPID]	1,376			
23			Premises related provisions expense		0			
24			Other premises related expenditure		8,199			
25			<b>Total Premises Costs</b>				<b>9,575</b>	
26								
27		<b>Transport</b>						
28			Transport related provisions expense		0			
29			Other transport related expenditure		8,078			
30			<b>Total Transport</b>				<b>8,078</b>	
31								
32		<b>Supplies &amp; Services</b>						
33			Audit costs		193			
34			PFI service charge		3,063			
35			Provisions expense		2,570			
36			Other purchases of supplies & services		59,687			
37			<b>Total Supplies &amp; Services</b>				<b>65,513</b>	
38								
39		<b>Third-Party Payments</b>						
40			Independent units within the council					
41			Joint authorities		251			
42			Other local authorities		2,649			
43			Health Authorities (incl. NHS Trusts, Primary Care Trusts etc)		0			
44			Government departments		0			
45			Levies (included within service lines)		0			
46			All other bodies		83,139			
47			<b>Total Third-Party Payments</b>				<b>86,039</b>	
48								
49		<b>Transfer Payments</b>						
50			Housing benefit (payments to taxpayers)	[no CPID]	92,571			
51			Other transfer payments		12,987			
54			<b>Total Transfer Payments</b>				<b>105,558</b>	
55								
56		<b>Support Services</b>	Total recharged cost from support functions		32,238		<b>32,238</b>	
57								
58		<b>Depreciation &amp; Impairment Losses</b>						
59			Depreciation		16,711			
60			Amortisation of intangible assets		584			
61			Revaluations		-5,972			
62			Impairment		0			
63			Movement in fair value of investment property					
65			<b>Total Depreciation and Impairment Losses</b>				<b>11,323</b>	
66								
67		<b>Other Expenditure</b>						
69			Miscellaneous expenditure					
70			<b>Total other expenditure</b>				<b>0</b>	
71								
72		<b>Income</b>						
73			Dwelling rents (gross) within the Housing Revenue Account (HRA)					
74			Cost of NNDR Collection Allowance (treated as income)	[no CPID]	-277			
75			Miscellaneous income					
76			<b>Government Grants and Contributions (received from bodies within WGA boundary)</b>					
77			New Homes Bonus	CLG	-3,679			
80			PFI Special Grant (component recognised in NCS)		0			
81			Public Health Grant	PHE	-10,071			
82			Rent Allowance: subsidy	DWP	-91,149			
83			HRA Rent Rebates: subsidy	DWP	0			
84			Non-HRA Rent Rebates: subsidy	DWP	0			
85			Housing Benefit Subsidy Admin Grant	DWP	-1,074			
86			Pupil Premium	DfE	-5,991			
87			Dedicated Schools Grant	DfE	-138,183			
88			Education Services Grant	DfE	-2,594			
89			GLA Transport Grant	DfT				
90			EU current grants					
91			Other revenue grants & contributions (from Government and other WGA bodies)		-17,331			
92			Other <b>Non-Govt</b> revenue grants & contributions		-11,009			
93			<b>Capital Grants and Contributions</b>					
94			Capital grant income (from Govt bodies)					
95			Capital grant income (EU grants)					
96			Capital grants & contribution income (from non-Govt)					
97			Amounts released from receipts in advance (deferred income)	[no CPID]	-75			
98			<b>Customer &amp; client receipts</b>					
99			recharge receipts		-33,773			
100			external receipts (fees & charges for services)		-44,905			
101			Other Operating Income					
102			<b>Total Income</b>				<b>-360,111</b>	
110								
111		<b>Other items (Group Accounts Only)</b>						
112		Associates and joint ventures						
113			[SCOTLAND ONLY] Police, Fire, SESTRAN & Strathclyde Partnership for Transport					
114			Share of Surplus/Deficit of Assocs & JVs (Recognised within NCS, net of tax)					
115			<b>Total Other items (Group Accounts Only)</b>				<b>0</b>	
116								
117		<b>NET COST OF SERVICES</b>					<b>155,793</b>	

	A	B	C	D	E	F	G
1							
2			<b>CI&amp;E Account: Net Operating Expenditure and Surplus/Deficit for the year</b>				
3							
4							
5						£'000	
6							
7			<b>NET COST OF SERVICES</b>			155,793	
8							
9			<b>Corporate Income and Expenditure:</b>				
10			Provisions expense (any amount not in NCS)				
11			Trading operation results - Income			-10,759	
12			Trading operation results - Expense			10,928	
13			Other corporate income				
14			Other corporate expense				
15							
16			<b>(Following Group Accounts Only)</b>				
17							
18			[SCOTLAND ONLY] Police, Fire, SESTRAN & Strathclyde P'ship for Transport				
19			Share of Surplus/Deficit of assoc & JVs (not recognised within NCS, net of tax):				
20			Taxation payable of subsidiaries				
21			Minority interest share of profits or losses of subsidiaries				
22			<b>Corporate Income and Expenditure:</b>				169
23							
24			<b>Other Operating Expenditure</b>				
25			Levies (not included in service lines)			926	
26			Net gains/losses on disposal of PPE				
27			Net gains/losses on disposal of intangibles				
28			Net gains/losses on disposal of assets held for sale			-4,671	
29			Local (Parish Council) Precepts				
30			Amounts payable to Housing Capital Receipts Pool				
31			<b>Other Operating Expenditure</b>				-3,745
32							
33			<b>Financing and Investment Income and Expenditure</b>				
34			Interest Payable and similar charges				
35			Interest element of on-balance sheet PFI contract			3,473	
36			Finance charges for finance leases (non-PFI)			60	
37			Impairment losses - debtors				
38			Impairment losses on other financial instrumts in the loan & receivables (less debtor impmt shown separately above) & available-for-sale assets categories				
39			Losses arising on the derecognition of financial instruments			0	
40			Interest paid - within govt			3,035	
41			Interest paid - bank loans & overdrafts (Non-Govt)			3,426	
42			Interest paid - other borrowings (Non-Govt)			261	
43			Net interest on the net defined benefit liability (asset)			9,434	
44			Remeasurements of the net defined benefit liability (asset) for long term employee benefits				
45			Interest and investment income			-1,850	
46			Income & exp in relation to investment properties and changes in their fair value				
47			Rental Income from investment properties				
48			Direct operating expenses arising from investment properties				
49			Net Gains/Losses on disposal of investment properties				
50			Movement in fair value of investment property				
51			Dividends receivable - associates, joint ventures & subsidiaries			-800	
52			Dividends receivable - other (within Government)				
53			Dividends receivable - other (non-Government)				
54			Net gains/losses on financial instruments carried at fair value through profit or loss			0	
55			Financial instruments fee income/expense (from sheet Fin Inst (15))			0	
56			<b>Financing and Investment Income and Expenditure</b>				17,039
57							
58			<b>Taxation and Non Specific Grant Incomes</b>				
59			Income from Council Tax			-80,155	
60			CLG Grants: Revenue Support Grant	CLG		-30,425	
63			Non domestic rates retained income (Local Share)	[no CPID]		-25,695	
64			NDR Top up payments from central government	CLG		-7,841	
65			NDR Tariff payments to central government	CLG			
66			NDR Safety net payments from central government	CLG			
67			NDR Levy payments to central government	CLG			-33,536
68			Police Grant	HO			
69			Greater London Authority General Grant	CLG			
70			PFI Special Grant (not in NCS)			-4,797	
71			Other government grants (non-capital)			-8,718	
72			Other Grant Income & contributions (from non-Govt bodies)				
73			LA levy income				
74			Business Rates Supplement Income				
75			Amounts released from receipts in advance (deferred income)	[no CPID]		-4,504	
76			<b>Capital Grants and Contributions</b>				
77			Capital grant income (from Govt or other WGA bodies)			-9,118	
78			Capital grant & contribution income (from non-Govt bodies)			-2,705	
79			<b>Taxation and Non Specific Grant Incomes</b>				-173,958
80							
81			<b>SURPLUS(-)/DEFICIT ON THE PROVISION OF SERVICES</b>				-4,702
82							
83			Other comprehensive income and expenditure (as per row 15 to 20 of LP-Reserves worksheet)				-58,088
84							
85			<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>				-62,790
86							

If you are in a pool arrangement and allocate to other authorities  
Total NDR

## **Committee: Standards and General Purposes**

**Date: 8 September 2016**

Wards: All

**Subject: Regulation of Investigatory Powers Act**

Lead officer: Graham Owen, Interim Head of Information Governance

Lead member: Councillor Peter McCabe,  
Chair of Standards and General Purposes Committee

Contact officer: graham.owen@merton.gov.uk

---

### **Recommendations:**

- A. That Standards and General Purposes Committee note the action taken to address the recommendations of an inspection report of the council's arrangements for dealing with applications under the Regulation of Investigatory Powers Act.
- B. That the Standards and General Purposes Committee recommend to Council the update to Part 3-F of the Constitution, detailed within this report.
- C. That Standards and General Purposes Committee approve the revised Regulation of Investigatory Powers Act policy and procedure.
- D. That Standards and General Purposes Committee note the purposes for which investigations have been authorised under the Regulation of Investigatory Powers Act (RIPA) 2000.

## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. To inform the Committee of the actions taken to address the recommendations of an inspection of the Council's arrangements for covert surveillance to comply with the Regulation of Investigatory Powers Act (RIPA).
- 1.2. To report to Members on investigations authorised since February 2016 under RIPA.
- 1.3. To ask the Committee to recommend to Council an amendment to the Constitution to change the Senior Responsible Officer

## **2 DETAILS**

- 2.1 The Office of the Surveillance Commissioners (OSC) carries out periodic inspections of local authorities' arrangements for dealing with applications under RIPA. An OSC inspection of Merton was carried out in January 2016. The report of the inspection contained four recommendations which have been acted upon by the council. The recommendations are to:

- 1. revise and update the council's RIPA policy and procedure to reflect current guidance and legal requirements;

2. review the RIPA training needs of authorising officers and arrange necessary training involved in making and approving applications for RIPA
  3. ensure that future cancellations comply with OSC procedures and guidance;
  4. keep under review whether juvenile test purchase operations should be carried out under RIPA.
- 2.2 The OSC inspector also discussed in his report the role of the Senior Responsible Officer (SRO) in the council. The role of SRO is responsible for the effective operation of RIPA within the authority. The code of practice advises the SRO should be a member of the corporate leadership team and should be responsible for ensuring that all authorising officers are of an appropriate standard.
- 2.3 In Merton the Chief Executive is designated this role, however, it was noted by the inspector that the Assistant Director Corporate Governance has delegated powers to appoint authorising officers under RIPA and has been involved in past and current inspections, exercising de facto responsibility for RIPA matters. The inspector indicated it may be opportune therefore to appoint the Assistant Director Corporate Governance as SRO. He did not however make a formal recommendation in his report to this effect.
- 2.4 Officers propose that this change should be formalised as the arrangement is happening in practice. Accordingly it is proposed to designate the Assistant Director Corporate Governance as the SRO. To achieve this, the Committee is asked to agree that Part 3-F, Section 2 of the Constitution is updated to reflect the change in delegation to the Chief Legal Officer, and the Committee is asked to recommend to Council the following amendment:

The delegation should be: Assistant Director Corporate Governance  
The current delegation is: Chief Executive

### **Recommendation 1 - revise and update RIPA policy**

- 2.5 In his 2015/16 Annual Report the Chief Surveillance Commissioner noted a decline in the use of directed surveillance by local authorities. Inspection feedback has provided the reasons for the decline as reduced funding and limited resources, staffing shortages; partnership working with other bodies; more overt enforcement in town centres and local neighbourhoods; and the consequences of the reduced powers available to local authorities. However, the Chief Surveillance Commissioner makes clear that he expects local authorities to maintain what has been called 'match fitness' and have "appropriate structures and officials with the requisite training" to respond if called upon. In this context, the report of Merton's inspection recommends that the council revise and update its policy to reflect changes brought about by the Protection of Freedoms Act and by the growth in the use of social media.

The revised policy is attached in Appendix 1.



## **Recommendation 2 - training**

- 2.6 Training for appropriate officers was recommended in the inspection report to ensure that appropriate council officers maintain an up to date knowledge of RIPA matters and that authorising officers can make informed decisions on RIPA applications.

Merton organised a training day in July 2016 for ten officers who are involved in enforcement, regulatory and legal services or who act as authorising officers or in the administration of RIPA. The training was provided by an accredited training agency. The names and posts of the officers who attended the training is shown in Appendix 2.

## **Recommendation 3 – cancellations**

- 2.6 The inspection noted that cancellation of authorisations should comply with OSC Procedures and Guidance. Cancellation should record the following:
- date and times that surveillance took place and the order to cease the activity was made.
  - reason for cancellation.
  - that surveillance equipment has been removed and returned.
  - directions for the management of the product.
  - detail of property interfered with, or persons subjected to surveillance,
  - value of the surveillance or interference (i.e. whether the objectives as set in the authorisation were met).

The cancellation form has been amended to reflect these requirements.

## **Recommendation 4 – keep RIPA juvenile test purchases under review**

- 2.7 The inspector noted that RIPA applications reduced to zero in 2014 and that most of the applications previously made concerned juvenile test purchase operations. The inspector was concerned about the likelihood of private information about a third party being picked up during such an operation (therefore making the operation subject to RIPA approval) and discussed that matter with officers. The inspector was satisfied that Merton did give consideration as to whether RIPA would apply on a case by case basis, but made a recommendation that the council keep under review the question of carrying out juvenile test purchase operations under RIPA authorisation.

To meet this recommendation the council will review decisions made with regard to juvenile test purchase operations in the previous year (RIPA and non RIPA) and identify if each decision was appropriate in the circumstances.

## **Requests for authorisation under RIPA**

- 2.8 The council has a number of statutory functions that involve officers investigating the conduct of others with a view to bringing legal action against them. These functions include investigating anti-social behaviour, fly tipping, noise nuisance control, planning (contraventions), benefit fraud, contraventions of trading standards, licensing and food safety legislation.
- 2.9 Whilst the majority of investigations are carried out openly, some investigations must be carried out using covert surveillance techniques or involve the acquisition of communications data. Communications data is information about the times of calls or internet use and the location and identity of the callers, but not the content of the calls or details of the websites viewed.
- 2.10 RIPA regulates the authorisation and monitoring of these investigations to safeguard the public from unwarranted intrusion of privacy. With effect from 1 November 2012, the Protection of Freedoms Act 2012 requires local authorities to obtain the approval of a magistrate for the use of covert surveillance.
- 2.11 RIPA is in place to help protect authorities from Human Rights Act claims when carrying out surveillance operations and as such would not be used when an overt surveillance option is available. Each time an operation is under consideration officers will weigh up the surveillance alternatives available to them. The RIPA authorisation process challenges the applicant to consider non-intrusive forms of surveillance and to justify why these options were not considered suitable before an approval may be given.
- 2.12 In line with the revised Code of Practice, reports detailing the use of RIPA are submitted to Standards and General Purposes Committee on a quarterly basis.
- 2.13 Since February 2016:
- no covert surveillance has been authorised;
  - no requests for CCTV footage for RIPA investigations have been received;
  - no RIPA authorisations have been rejected by the Magistrates Court;
  - no applications have been made for the acquisition of communications data.
- 2.14 The annual statistics return to report on the conduct and use of directed surveillance and covert human intelligence was returned to the Office of Surveillance Commissioner on 11 April 2016.

## **3 ALTERNATIVE OPTIONS**

- 3.1. N/A.

## **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1. No consultation has been undertaken regarding this report.

## **5 TIMETABLE**

5.1. N/A.

## **6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

6.1. None.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

7.1. All investigation using covert surveillance techniques or involving the acquisition of communications data is in line with the Regulation of Investigatory Powers Act 2000.

## **8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

8.1.1 RIPA was introduced to regulate existing surveillance and investigations in order that they meet the requirements of Article 8 of the Human Rights Act. Article 8 states:

1) Everyone has the right for his private and family life, his home and his correspondence.

(2) There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others.

## **9 CRIME AND DISORDER IMPLICATIONS**

9.1. RIPA investigations are authorised for the prevention or detection of crime or the prevention of disorder.

## **10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

10.1. None.

## **11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

1. RIPA Policy and Procedure
2. List of attendees at RIPA training – July 2016

## **12 BACKGROUND PAPERS**

12.1. None.

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# **LONDON BOROUGH OF MERTON**

## **POLICY & PROCEDURE**

### **Regulation of Investigatory Powers act 2000 (RIPA)**

London Borough of Merton  
Policy date: 2010  
Revised and updated: July 2016

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*Acknowledgement: The London Borough of Merton is grateful to Birmingham City Council whose Policy and Procedure in this area has been most helpful and is adapted in this document.*

## A INTRODUCTION

---

### 1. **OBJECTIVE: SUSTAINABLE COMMUNITIES; SAFER AND STRONGER COMMUNITIES**

Merton Council is committed to improving the quality of life for its residents and businesses which includes benefiting from a cleaner and more attractive physical environment. It also wishes to maintain its position as a low crime borough and a safe place to live, work and learn. Although most of the community comply with the law, it is necessary for Merton to carry out enforcement functions to take full action against those who flout the law. Merton Council will carry out enforcement action in a fair, practical and consistent manner to help promote a thriving local economy.

### 2. **HUMAN RIGHTS ACT 1998 – ARTICLE 8 – RIGHT TO RESPECT FOR PRIVATE & FAMILY LIFE, HOME AND CORRESPONDENCE**

The Human Rights Act 1998 brought into UK domestic law much of the European Convention on Human Rights and Fundamental Freedoms 1950. Article 8 of the European Convention requires the Council to respect the private and family life of its citizens, their homes and their correspondence. Article 8 does, however, recognise that there may be circumstances in a democratic society where it is necessary for the state to interfere with this right.

### 3. **USE OF COVERT SURVEILLANCE TECHNIQUES AND HUMAN INTELLIGENCE SOURCES**

The Council has various functions which involve observing or investigating the conduct of others, for example, investigating anti-social behaviour, fly tipping, noise nuisance control, planning (contraventions), benefit fraud, contraventions of trading standards, licensing and food safety legislation.

In most cases, Council officers carry out these functions openly and in a way which does not interfere with a person's right to a private life. However, there are cases where it is necessary for officers to use covert surveillance techniques to undertake a specific investigation. The use of covert surveillance techniques is regulated by the Regulation of Investigatory Powers Act 2000 (RIPA), which seeks to ensure that the public interest and human rights of individuals are appropriately balanced.

This document sets out the Council's policy and procedures on the use of covert surveillance techniques and the conduct and use of a Covert Human Intelligence Source. You should also refer to the two Codes of Practice published by the Government. These Codes, which were revised in December 2014, are on the Home Office website and supplement the procedures in this document.

The Codes are admissible as evidence in Criminal and Civil Proceedings. If a provision of these Codes appear relevant to any court or tribunal, it must be taken into account.

Covert Surveillance and Property Interference Code of Practice:-  
The current policy is found at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/384975/Covert\\_Surveillance\\_Property\\_Interference\\_web\\_2\\_.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384975/Covert_Surveillance_Property_Interference_web_2_.pdf)

Covert Human Intelligence Sources Code of Practice:  
The current policy is found at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/384976/Covert\\_Human\\_Intelligence\\_web.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384976/Covert_Human_Intelligence_web.pdf)

#### **4. ACQUISITION OF COMMUNICATIONS DATA**

RIPA also regulates the acquisition of communications data. Communications data is data held by telecommunications companies and internet service providers. Examples of communications traffic data which may be acquired with authorisation include names, addresses, telephone numbers, internet provider addresses, geographical location of the calling or the called parties. Communications data surveillance does not monitor the content of telephone calls or emails

This document sets out the procedures for the acquisition of communications data. You should also refer to the Code of Practice which is available on the Home Office website.

Acquisition and Disclosure of Communications Data Code of Practice:  
The current code of practice is found at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/426248/Acquisition\\_and\\_Disclosure\\_of\\_Communications\\_Data\\_Code\\_of\\_Practice\\_March\\_2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/426248/Acquisition_and_Disclosure_of_Communications_Data_Code_of_Practice_March_2015.pdf)



## B AUTHORISING OFFICER RESPONSIBILITIES

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1. Local authorities will only be able to conduct directed surveillance under RIPA where the 'crime threshold' is satisfied (subject to exceptions) and judicial approval has been granted for the operation
2. It is essential that Chief Officers of the Council and Authorising Officers in their Departments, take personal responsibility for the effective and efficient observance of this document. It shall be the responsibility of Authorising Officers to ensure that their relevant members of staff are suitably trained as 'Applicants'.
3. Authorising Officers will also ensure that staff who report to them follow this Policy and Procedures Document and do not undertake or carry out any form of covert surveillance without first obtaining the relevant authorisations in compliance with this document.
4. Authorising Officers must also pay particular attention to health and safety issues that may be raised by any proposed surveillance activity. Under no circumstances, should an Authorising Officer authorise any surveillance unless, and until s/he is satisfied that
  - the health and safety of Council employees/agents are suitably addressed
  - risks minimised so far as is possible, and
  - risks are proportionate to the surveillance being proposed.
5. If an Authorising Officer is in any doubt, s/he should obtain prior guidance from his/her Chief Officer, the Council's Health & Safety Officer and/or the Assistant Director Corporate Governance. However, there is no sign-off or authorisation required other than by the Authorising Officer.
6. Authorising Officers must also ensure that, when sending copies of Forms to the Assistant Director Corporate Governance (or any other relevant authority), the forms are sent in **sealed** envelopes and marked '**Strictly Private & Confidential**'.
7. In Accordance with SI 2010 521, the Senior Responsible Officer with responsibility for Authorising Officers is the Assistant Director Corporate Governance. The Assistant Director Corporate Governance has delegated powers to appoint Authorising Officers. Authorising Officers will only be appointed if the Assistant Director Corporate Governance is satisfied that they have received suitable training on RIPA.
8. The Assistant Director Corporate Governance will review this policy periodically and annual reports on performance of the policy will be presented to the Standards Committee of the Council.

9. Quarterly reports on the use of RIPA will be considered by the Standards and General Purposes Committee.

## **C GENERAL INFORMATION ON RIPA**

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1. The Human Rights Act 1998 requires the Council, and organisations working on its behalf, pursuant to Article 8 of the European Convention, to respect the private and family life of citizens, their homes and their correspondence.
2. The European Convention did not, however, make this an absolute right, but a qualified right. Accordingly, in certain circumstances, the Council may interfere in the citizen's right mentioned above, if such interference is:-
  - (a) in accordance with the Law;
  - (a) necessary (as defined in this document); and
  - (b) proportionate (as defined in this document).
3. The Regulation of Investigatory Powers Act 2000 provides the statutory mechanism for authorising covert surveillance and the use of a 'covert human intelligence source' ('CHIS')– e.g. undercover agents. It seeks to ensure that any interference with an individual's right under Article 8 of the European Convention is necessary and proportionate. In doing so, RIPA and this Policy and Procedure document seeks to ensure both the public interest and the human rights of individuals are suitably balanced.
4. Directly employed Council staff and external agencies working for the Council are covered by the Act for the time they are working for the Council. All external agencies must, therefore, comply with RIPA and the work carried out by agencies on the Council's behalf must be properly authorised by one of the Council's designated Authorising Officers. Please refer to Section G and to the paragraph 2 on Authorising Officers.
5. If the correct procedures are not followed, evidence may be disallowed by the courts, a complaint of maladministration could be made to the Ombudsman, and/or the Council could be ordered to pay compensation.
6. A flowchart of the procedures to be followed appears at **Appendix 1**.

## **D WHAT RIPA DOES AND DOES NOT DO**

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### **1. RIPA does:**

- require prior authorisation of directed surveillance.
- prohibit the Council from carrying out intrusive surveillance.
- require authorisation of the conduct and use of a CHIS.
- require safeguards for the conduct and use of a CHIS.
- permit the council to obtain communications data from Communications service providers

### **2. RIPA does not:**

- make lawful conduct which is otherwise unlawful.
- prejudice or dis-apply any existing powers available to the Council to obtain information by any means not involving conduct that may be authorised under this Act. For example, it does not affect the Council's current powers to obtain information from the DVLA or from the Land Registry as to the ownership of a property.

### **3. If the Authorising Officer or any Applicant is in any doubt, s/he should ask the Assistant Director Corporate Governance before any directed surveillance and/or CHIS is authorised, renewed, cancelled or rejected.**

## E TYPES OF SURVEILLANCE

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1. **Surveillance** includes:

- monitoring, observing and listening to persons, watching or following their movements, listening to their conversations and other such activities or communications. It may be conducted with or without the assistance of a surveillance device.
- recording anything mentioned above in the course of authorised surveillance.
- surveillance, by or with, the assistance of appropriate surveillance device(s).

Surveillance can be overt or covert.

2. **Overt Surveillance**

Most of the surveillance carried out by the Council will be done overtly – there will be nothing secretive, clandestine or hidden about it. In many cases, Officers will be behaving in the same way as a normal member of the public (eg. in the case of most test purchases), and/or will be going about Council business openly.

3. Similarly, surveillance will be overt if the subject has been told it will happen (eg. where a noisemaker is warned (preferably in writing) that noise will be recorded if the noise continues.

4. **Covert Surveillance**

Covert Surveillance is carried out in a manner calculated to ensure that the person subject to the surveillance is unaware of it taking place. (Section 26(9)(a) of RIPA). It cannot however be necessary if there is reasonably available an overt means of finding out the information desired.

5. RIPA regulates two types of covert surveillance, directed surveillance and intrusive surveillance and the use of Covert Human Intelligence Sources (CHIS).

6. **Directed Surveillance**

Directed surveillance is surveillance which:-

- is covert; and
- is not intrusive surveillance
- is not carried out in an immediate response to events which would otherwise make seeking authorisation under the Act reasonable, eg. spotting something suspicious and continuing to observe it; and

- it is undertaken for the purpose of a specific investigation or operation in a manner likely to obtain private information about an individual (whether or not that person is specifically targeted for purposes of an investigation). (*Section 26(10) RIPA*).
7. *Private Information* in relation to a person includes any information relating to his private and family life, his home or his correspondence. The fact that covert surveillance occurs in a public place or on business premises does not mean that it cannot result in the obtaining of private information about a person. Prolonged surveillance targeted on a single person will undoubtedly result in the obtaining of private information about him/her and others with whom s/he comes into contact.
  8. Private information may include personal data such as names, addresses or telephone numbers. Where such information is acquired by means of covert surveillance of a person having a reasonable expectation of privacy, a directed surveillance authorisation is appropriate.
  9. Similarly, although overt town centre CCTV cameras do not normally require authorisation, if the camera is tasked for a specific purpose, which involves prolonged surveillance on a particular person, authorisation will be required. The way a person runs his/her business may also reveal information about his or her private life and the private lives of others.
  10. Privacy considerations are likely to arise if several records are examined together to establish a pattern of behaviour.
  11. Only officers authorised by the Assistant Director Corporate Governance as Authorising Officers for the purpose of RIPA may authorise directed surveillance'
  12. ***Intrusive Surveillance***  
This is when it:-
    - is covert;
    - relates to residential premises and private vehicles, even if used on a temporary basis. This includes the use of tracking devices on vehicles; and
    - involves the presence of a person in the premises or in the vehicle or is carried out by a surveillance device in the premises/vehicle. Surveillance equipment mounted outside the premises will not be intrusive, unless the device consistently provides information of the same quality and detail as might be expected if they were in the premises/vehicle.
  13. **Intrusive surveillance may only be carried out only by police and other law enforcement agencies. Intrusive surveillance relates to the location of the surveillance, and not any consideration of the information that is**

**likely to be obtained. Council officers may not carry out intrusive surveillance.**

14. **“Necessity”**

RIPA requires that the person authorising surveillance to consider it to be necessary in the circumstances of the particular case. Therefore, Applicants and Authorising Officers must consider why directed surveillance is necessary. In addressing the issues of necessity, information should include:

- Why directed surveillance is needed to obtain information that is sought from the operation?
- Why is it necessary to interfere with an individuals' privacy using covert surveillance
- Why covert surveillance is the best option to obtain the information having considered other alternatives?
- What other methods of obtaining the information has been considered and why they have been discounted?

15. Authorising Officers may not authorise directed surveillance unless:

It is for the purpose of preventing or detecting a criminal offence AND meets the 'crime threshold' set out in regulation 7A of the 2010 Order.

The 'crime threshold' is met if the purpose of the directed surveillance is to detect or prevent criminal offences for which the punishment on conviction is a term of imprisonment of not less than 6 months or the offences or the activity subject to directed surveillance constitute an offence under sections 146, 147, or 147A of the Licencing Act 2003 or section 7 of the Children and Young Persons Act 1933 (offences involving sale of alcohol and tobacco to underage children).

The crime threshold applies to directed surveillance, not to CHIS or Communications Data authorisations.

16. **Proportionality**

Proportionality encapsulates three concepts:-

- the surveillance should not be excessive in relation to the gravity of the offence being investigated;
- the least intrusive method of surveillance should be chosen; and
- collateral intrusion, the invasion of third parties' privacy, should, so far as possible, be minimised.

17. Proportionality involves balancing the intrusiveness of the activity on the target subject and the others who might be affected by it, against the need for

the activity in operational terms. The activity will not be proportionate if it is excessive in the circumstances (each case will be judged on its merits) or if the information which is sought could be reasonably be obtained by less intrusive means. All such activity must be carefully managed to meet the objective and must not be arbitrary or unfair.

**18. Collateral Intrusion**

Before authorising surveillance the Authorising Officer should also take into account the risk of intrusion into the privacy of persons other than those who are directly the subjects of the investigation or operation (collateral intrusion). Measures should be taken, wherever practicable, to avoid or minimise unnecessary intrusion into the lives of those not directly connected with the investigation or operation.

19. Those carrying out the surveillance should inform the authorising officer if the investigation or operation unexpectedly interferes with the privacy of individuals who are not covered by the authorisation. When the original authorisation may not be sufficient, consideration should be given to whether the authorisation needs to be amended and re-authorised or a new authorisation is required.



## F CONDUCT AND USE OF A COVERT HUMAN INTELLIGENCE SOURCE (CHIS)

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It is unlikely that a Local Authority will want to use a CHIS. If it appears that use of a CHIS may be required Authorising Officers must seek legal advice from the Assistant Director Corporate Governance.

### **Who is a CHIS?**

1. Someone who establishes or maintains a personal or other relationship for the covert purpose of helping the covert use of the relationship to obtain information.
2. RIPA generally does not apply in circumstances where members of the public volunteer information to the Council as part of their normal civic duties, or to contact numbers set up to receive information. This will depend on how the member of the public has obtained the information. If it is obtained in the course of a personal or other relationship or as a consequence of that relationship even if the relationship was not established or maintained for the purpose of obtaining the information then the informant is likely to be a CHIS. The Applicant should seek legal advice before acting on the information received from such an informant.
3. However, by virtue of section 26(8) (c) of the Act, there may be instances where an individual covertly discloses information obtained by the use of such a relationship or as a consequence of the existence of such a relationship. In such circumstances, where a member of the public, though not tasked to do so, gives information (or repeated information) about a suspect, then serious consideration should be given to designating the individual as a CHIS, particularly if the Council intends to act upon the information received. It is recommended that legal advice is sought in any such circumstances.

### **What must be authorised?**

4. The conduct or use of a CHIS requires prior authorisation.
  - **Conduct** of a CHIS means establishing or maintaining a personal or other relationship with a person for the covert purpose of (or incidental to) obtaining and passing on information.
  - **Use** of a CHIS means taking action to induce, ask or assist a person to act as a CHIS and the decision to use a CHIS in the first place.
5. The Council may use CHIS's if, and only if, the RIPA procedures detailed in this document, are followed. Authorisation for CHIS's may only be granted if it is for the purposes of preventing or detecting crime or of preventing disorder.

### **Juvenile Sources**

6. Special safeguards apply to the use or conduct of juvenile sources (i.e. those under the age of 18 ). On no occasion can a child under 16 years of age be authorised to give information against his or her parents or any person with parental responsibility for him or her. Only the Chief Executive, or in his or her absence, a Chief Officer can authorise the use of a juvenile as a source.

### **Vulnerable Individuals**

7. A vulnerable individual is a person who is or may be in need of community care services by reason of mental or other disability, age or illness and who is or may be unable to take care of himself or herself, or unable to protect himself or herself against significant harm or exploitation.
8. A vulnerable individual will only be authorised to act as a source in the most exceptional of circumstances. Only the Chief Executive, or in his or her absence, a Chief Officer can authorise the use of a vulnerable individual as a source.

### **Test Purchases**

9. Carrying out test purchases will not (as highlighted above) require the purchaser to establish a relationship with the supplier with the covert purpose of obtaining information and, therefore, the purchaser will not normally be a CHIS. For example, authorisation would not normally be required for test purchases carried out in the ordinary course of business (e.g. walking into a shop and purchasing a product over the counter).
10. By contrast, developing a relationship with a person in the shop, to obtain information about the seller's suppliers of an illegal product (e.g. illegally imported products) shall require authorisation as a CHIS. Similarly, using hidden body video cameras to record what is going on in the shop may require authorisation as directed\_surveillance. A combined authorisation can be given for a CHIS and also directed\_surveillance.
11. Authorising Officers should consider the likelihood that the test purchase will lead to a relationship being formed with a person in the shop. If the particular circumstances of a particular test purchase are likely to involve the development of a relationship Authorising Officers must seek legal advice from the Assistant Director Corporate Governance.

### **Anti-Social Behaviour Activities (eg. Noise, Violence, Race etc)**

12. Persons who complain about anti-social behaviour, and are asked to keep a diary, will not normally be a CHIS, as they are not required to establish or maintain a relationship for a covert purpose. Recording the level\_of noise (eg. the decibel level) will not normally capture private information and, therefore, does not require authorisation.

13. Recording sound (with a DAT recorder) on private premises could constitute intrusive surveillance, unless it is done overtly. For example, it will be possible to record without RIPA authorisation if the noisemaker is warned that this will occur if the level of noise continues. Placing a covert stationary or mobile camera outside a building to record anti-social behaviour on residential estates will require prior authorisation.

## **G AUTHORISATION PROCEDURES**

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1. Directed surveillance and the use of a CHIS can only be lawfully carried out if properly authorised, and in strict accordance with the terms of the authorisation.

**Appendix 1** provides a flow chart of the process from application consideration to recording of information.

### **Authorising Officers**

2. Forms can only be signed by Authorising Officers appointed by the Assistant Director Corporate Governance. Officers can only be Authorising Officers if they are the Chief Executive, Chief Officers, Heads of Service, or other Level 3 Unit Managers who are considered to be suitable by the Assistant Director Corporate Governance. Appointments of these officers are subject to the training requirements set out in paragraph 4 below.
3. Graham – Is 'Level 3' manager a current term? If so, is John Hillarby Level 3? He reports to Paul Foster who reports to John Hill? If so, it may imply John Hillarby is not eligible to be an Authorised Officer (despite being the most qualified person to hold such a position).
4. Authorisations under RIPA are separate from delegated authority to act under the Council's Scheme of Delegation and internal departmental Schemes of Management. RIPA authorisations are for specific investigations only, and must be renewed or cancelled once the specific surveillance is complete or about to expire. **The authorisations do not lapse with time.**

### **Training Records**

5. The Assistant Director Corporate Governance will only appoint Authorising Officers if satisfied that they have undertaken suitable training on RIPA. The Assistant Director Corporate Governance will usually expect that evidence of suitable training to be supplied in the form of a certificate from the relevant Chief Officer to the effect that the Authorising Officer has completed a suitable course of instruction.
6. The Assistant Director Corporate Governance will maintain a Register of Authorising Officers and details of training undertaken by them.
7. If the Assistant Director Corporate Governance is of the view that an Authorising Officer has not complied fully with the requirements of this document, or the training provided to him, the Assistant Director Corporate Governance is duly authorised to withdraw that Officer's authorisation until s/he has undertaken further approved training or has attended a one-to-one meeting with the Assistant Director Corporate Governance.

### **Application Forms**

8. Only the approved RIPA forms set out in this document must be used. The forms are also on the Intranet.

9. **'A Forms' (Directed Surveillance) – See Appendix 2**

Form A 1	<b>Application</b> for Authority for Directed Surveillance
Form A 2	<b>Renewal</b> of Directed Surveillance Authority
Form A3	<b>Review</b> of Directed Surveillance Authority
Form A4	<b>Cancellation</b> of Directed Surveillance

10. **'B' Forms (CHIS) – See Appendix 3**

Form B 1	<b>Application</b> for Authority for Conduct and Use of a CHIS
Form B 2	<b>Renewal</b> of Conduct and Use of a CHIS
Form B 3	<b>Review</b> of Conduct and Use of a CHIS
Form B 4	<b>Cancellation</b> of Conduct and Use of a CHIS

### **Grounds for Authorisation**

11. Directed Surveillance (A Forms) or the Conduct and Use of the CHIS (B Forms) can be authorised by the Council only on the grounds of preventing or detecting crime or preventing disorder. No other grounds are available to local authorities.

### **Assessing the Application Form**

12. The following information should be included on the application form:

- the reasons why the authorisation is necessary in the particular case and on the grounds listed in s 28(3)b of the 2000 Act;
- the nature of the surveillance and the precise location it is to take place;
- the identities, where known, of those to be the subject of the surveillance;
- a summary of the intelligence case and appropriate unique intelligence references where applicable;
- an explanation of the information which it is desired to obtain as a result of the surveillance;
- the details of any potential collateral intrusion and why the intrusion is justified;
- the details of any confidential information that is likely to be obtained as a consequence of the surveillance;
- the reasons why the surveillance is considered proportionate to what it seeks to achieve and detail of less intrusive options that have been considered.

13. Before an Authorising Officer signs a Form, s/he must:-

- (a) Be mindful of this Policy & Procedures document and the training s/he has undertaken
- (b) Satisfy his/herself that the RIPA authorisation is:-
  - (i) in accordance with the law;
  - (ii) that the offence being investigated satisfies the crime threshold test).;
  - (iii) necessary in the circumstances of the particular case on the ground mentioned in paragraph 10 above; and
  - (iv) proportionate to what it seeks to achieve.
- (c) In assessing whether or not the proposed surveillance is proportionate, consider other appropriate means of gathering the information. The least intrusive method will be considered proportionate by the courts.
- (d) Take into account the risk of intrusion into the privacy of persons other than the specified subject of the surveillance (collateral intrusion). Measures must be taken wherever practicable to avoid or minimise (so far as is possible) collateral intrusion. This matter may be an aspect of determining proportionality;
- (e) Set a date for review of the authorisation and review on only that date;
- (f) Obtain a Unique Reference Number (URN) for the application from the Information Governance Team on 020 8545 4182
- (g) Ensure that a copy of the RIPA Forms (and any review/cancellation of the same) is forwarded to the Assistant Director of Corporate Governance, Central Register, within 5 days of the relevant authorisation, review, renewal, cancellation or rejection.

14. For Communications and CHIS applications, the Authorising Officer should:

- (h) Set a date for review of the authorisation and review on that date using the relevant form;
- (i) Allocate a Unique Reference Number (URN) for each form:-  
Year / Department / Number of Application;
- (j) Ensure that any RIPA Central Register is duly completed, and that a copy of the RIPA forms (and any review / renewal / cancellation of the same) is forwarded to the Assistant Director of Corporate Governance, within 5 days (Graham – (as was) paragraph 12(g) cites “5 days” rather than “1 week” – it would be better to be consistent) of the relevant authorisation, review, renewal, cancellation or rejection;
- (k) In the case of notices relating to communications data, these will be kept by a ‘Designated Person’ selected by the Assistant Director of

Corporate Governance,. The Assistant Director of Corporate Governance shall have access to such forms and as when required;

- (l) If unsure on any matter, authorising officers should obtain advice from the Assistant Director of Corporate Governance, before signing any forms.

### **Additional Safeguards when Authorising a CHIS**

15. When authorising the conduct or use of a CHIS, the Authorising Officer must also:-
  - (a) be satisfied that the conduct and/or use of the CHIS is proportionate to what is sought to be achieved.
  - (b) Be satisfied that appropriate arrangements are in place for the management and oversight of the CHIS and this must address health and safety issues through a risk assessment;
  - (c) Consider the likely degree of intrusion of all those potentially affected;
  - (d) Consider any adverse impact on community confidence that may result from the use or conduct or the information obtained; and
  - (e) Ensure records contain particulars and are not available except on a need to know basis.
  - (f) Ensure that if the CHIS is under the age of 18 or is a vulnerable adult the Authorising Officer has to be the Chief Executive or in his absence, a Chief Officer.

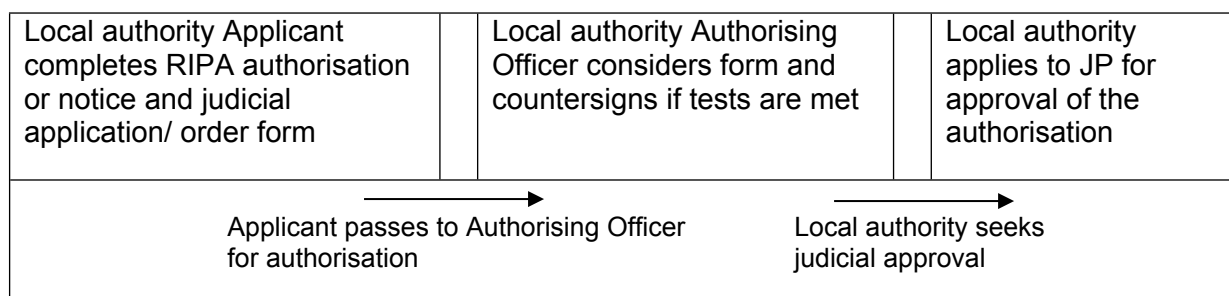
The Authorising Officer must attend to the requirement of section 29(5) RIPA and of the Regulation of Investigatory Powers (Source Records) Regulations 2000. It is strongly recommended that legal advice is obtained in relation to the authorisation of a CHIS.

16. Approval by a Justice of the Peace (JP)  
Judicial approval is required before acting on the authorisation to carry out directed surveillance; conduct or use of a CHIS; or obtaining communications data.
17. Judicial approval is also required on the renewal of an authorisation.
18. The JP must decide whether the grant or renewal of an authorisation to use RIPA should be approved and it will not come into effect unless and until it is approved by a JP (sometimes referred to as a Magistrate). Although it is possible to request judicial approval for the use of more than one technique (i.e. directed surveillance, CHIS and communications data) at the same time,

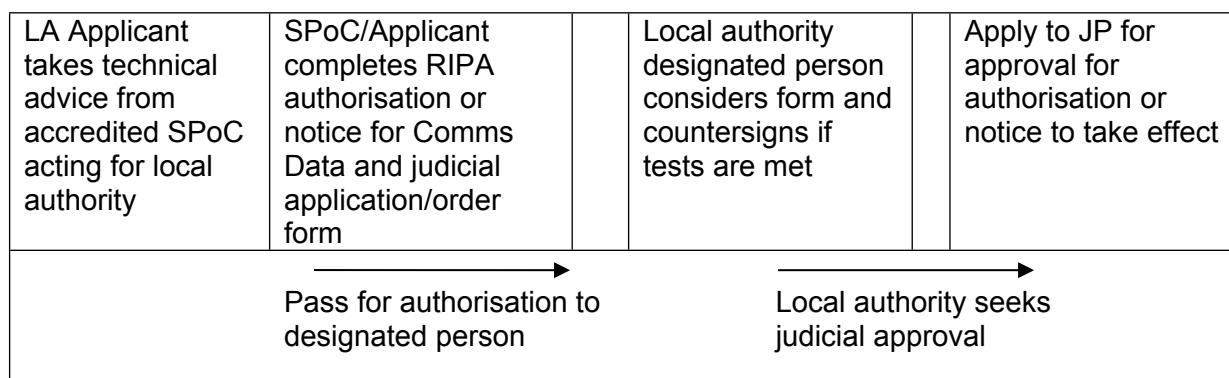
in practice, it is better to separate the applications for approval as different considerations apply to these different techniques, this may prove difficult to perform with the degree of clarity required. It is recommended that separate authorisations or notices to use different RIPA techniques should be submitted.

19. Please note that the application and any renewal of the application require magistrates' approval. Reviews and cancellations of authorisations do not require judicial approval and remain an internal process. The process is outlined below:

Directed Surveillance / CHIS (Covert Human Intelligence Source)



Communications Data



**20. The Role of the JP**

The role of the JP is set out in section 23A RIPA (for Communications Data) and section 32A RIPA (for directed surveillance and CHIS).

21. The Act provides that the authorisation, or in the case of communications data, the notice, shall not take effect until the JP has made an order approving such an authorisation or notice. The matters on which the Magistrate needs to be satisfied before giving judicial approval are:

- there were reasonable grounds for the local authority to believe that the authorisation or notice was necessary and proportionate and there remain reasonable grounds for believing that these requirements are satisfied at the time when the JP is considering the matter;



- in the case of a CHIS authorisation, that there were reasonable grounds for the local authority to believe that arrangements exist for the safety and welfare of the source that satisfy section 29(5) RIPA and there remain reasonable grounds for believing that these requirements are satisfied at the time when the JP is considering the matter;
- in the case of a CHIS authorisation, that there were reasonable grounds for the local authority to believe that the requirements imposed by Regulation of Investigatory Powers (Juveniles) Order 2000<sup>3</sup> were satisfied and there remain reasonable grounds for believing that these requirements are satisfied at the time when the JP is considering the matter;
- the local authority application has been authorised by a designated person;
- the grant of the authorisation or in the case of communications data, notice was not in breach of any restriction imposed by virtue of an order made under the following sections of section 25(3) RIPA(for communications data),

### **Urgent Authorisations**

22. Because an authorisation under RIPA requires judicial approval urgent oral authorisations are no longer permitted.

### **Duration**

23. The Form must be reviewed in the time stated and cancelled once it is no longer needed. The authorisation to carry out/conduct the surveillance lasts for 3 months (from authorisation) for directed surveillance, and 12 months (from authorisation) for a CHIS. However, whether the surveillance is carried out/conducted or not, in the relevant period, does not mean the authorisation is spent. In other words, the forms do not expire. The forms have to be reviewed, renewed and/or cancelled (once they are no longer required).
24. Notices/Authorities issued under s22 compelling disclosure of Communications Data are only valid for one month, but can be renewed for subsequent periods of month, at any time.
25. Authorisations can be renewed in writing when the maximum period has expired. The Authorising Officer must consider the matter afresh, including taking into account the benefits of the surveillance to date, and any collateral intrusion that has occurred.

26. All authorisations should be reviewed based on the level of collateral intrusion or the amount of confidential information obtained. Authorising Officers should set review dates based on the likelihood of this information being captured.
27. The renewal will begin on the day when the authorisation would have expired. In exceptional circumstances, renewals may be granted orally in urgent cases and last for a period of seventy-two hours.

## **H WORKING WITH / THROUGH OTHER AGENCIES**

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1. When some other agency has been instructed on behalf of the Council to undertake any action under RIPA, this document and the forms in it must be used (as per normal procedure) and the agency advised or kept informed, as necessary, of the various requirements. The agency must be made aware explicitly what they are authorised to do.
2. When another agency (eg. Police, HMRC etc):-
  - (a) wishes to use the Council's resources (eg. CCTV surveillance systems), that agency must use its own RIPA procedures and, before any officer agrees to allow the Council's resources to be used for the other agency's purposes, s/he must obtain a copy of that agency's RIPA form for the record (a copy of which must be passed to the Assistant Director of Corporate Governance for the Central Register) and/or relevant extracts from the same which are sufficient for the purposes of protecting the Council and the use of its resources;
  - (b) wish to use the Council's premises for their own RIPA action, the Chief Officer or Head of Service should, normally, co-operate with the same, unless there are security or other good operational or managerial reasons as to why the Council's premises should not be used for the agency's activities. Suitable insurance or other appropriate indemnities may be sought, if necessary, from the other agency for the Council's co-operation in the agent's RIPA operation. In such cases, however, the Council's own RIPA forms should not be used as the Council is only assisting not being involved in the RIPA activity of the external agency.
3. In terms of 2(a), if the Police or other Agency wish to use Council resources for general surveillance, as opposed to specific RIPA operations, an appropriate letter requesting the proposed use, extent of remit, duration, who will be undertaking the general surveillance and the purpose of it must be obtained from the police or other Agency before any Council resources are made available for the proposed use.

4. Any person granting or applying for an authorisation will also need to be aware of particular sensitivities in the local community where the surveillance is taking place and of any similar activities being undertaken by other public authorities which could impact on the deployment of surveillance. It is therefore recommended that where an authorising officer considers that conflicts might arise they should consult a senior officer within the police force area in which the investigation or operation is to take place.
5. **If in doubt, please consult with the Assistant Director Corporate Governance at the earliest opportunity.**

## **I. DIRECTED SURVEILLANCE - SOCIAL MEDIA POLICY**

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### **Background**

1. The growth of social media usage has increased the volume of personal information available online covering such details as an individual's employment, friends and personal life.
2. The Chief Surveillance Commissioner has identified that public authorities might be

*“tempted to conduct on line investigations from a desktop, as this saves time and money, and often provides far more detail about someone's personal lifestyle, employment, associates, etc. But just because one can, does not mean one should. The same considerations of privacy, and especially collateral intrusion against innocent parties, must be applied regardless of the technological advances.” (Annual Report 2013/14)*
3. The Office of the Surveillance Commissioner advises that gathering intelligence and data through repeated viewing of the internet should be considered within the context of the protection that RIPA provides.
4. If you are considering monitoring social media such as Facebook in connection with an investigation you should first seek advice on whether RIPA authorisation is needed.
5. There may be situations where individuals publish information freely using Twitter accounts or LinkedIn profiles if so there is unlikely to be any interference with an individual's right to privacy as provided for by Article 8 of the Human Rights Act). This is also likely to be the case with other information published openly on the Internet.
6. Even if the user has not used privacy settings to restrict access, this does not necessarily mean that they have made a decision to publish personal information to the world.

7. In the event that your proposed use of social media in connection with an investigation amounts to covert directed surveillance within the scope of RIPA by electronic means, a RIPA authorisation for directed surveillance will be required. It should be noted that it is likely to be proportionate, in connection with an investigation (e.g. benefit fraud), to make a single visit to an unsecured Facebook profile. Further visits could amount to surveillance.
8. Merton's policy in relation to the use of social media for the gathering of evidence to assist in its enforcement activities is set out below:
  - The use of the internet may be required to gather information prior to and/or during an operation, which may amount to directed surveillance.
  - Whenever you intend to use the internet as part of an investigation, you must first consider whether the proposed activity is likely to interfere with a person's Article 8 rights. As a rule, directed surveillance should be the choice of last resort.
  - Any activity likely to interfere with an individual's Article 8 rights should only be used when necessary and proportionate to meet the objectives of a specific case.
  - Where an investigator may need to communicate covertly online, for example contacting individuals using social media websites, a CHIS authorisation should be considered.
  - Officers must not "friend" individuals on social networks
  - Officers must not use their own private accounts to view the social networking accounts of other individuals.
  - Officers viewing an individual's profile on a social networking site should do so only once in order to obtain evidence to support or refute their investigation
  - Further viewing of open profiles on social media networking sites to gather evidence or to monitor an individual's status must only take place once a RIPA Authorisation has been granted and approved by a JP
  - Officers should be aware of the importance to verify the accuracy of information on social networking sites if such information is to be used as evidence. An individual may post information that inflates, exaggerates or embellishes the truth.

#### **Non RIPA Activity.**

9. It has been acknowledged that there may be occasions when during the course of an investigation that it may become necessary to conduct

surveillance of individuals in respect of matters that do not satisfy the crime threshold.

10. In these circumstances, the Office of the Surveillance Commissioner ('the OSC') has stated that it would be "good practice" for the investigating officer to go through the RIPA authorisation process in terms of:-

- i. Why there is no other alternative to undertaking the directed surveillance
- ii. Why the surveillance is necessary; and
- iii. How it is proportionate in the circumstances.

11. Where it is deemed that the above-mentioned criteria have been satisfied, the non RIPA surveillance should be monitored and reviewed in accordance with the existing Council policy.

Test purchase exercises

12. If no application for directed surveillance is made in relation to a test purchase exercise involving juveniles the 'Non RIPA Activity' procedure shall be followed. On completion of the test purchase exercise a written record shall be made of the review of the exercise, including an assessment of the risks of private information being obtain and the risk of collateral intrusion. Regard shall be had to the reviews before embarking on successive test purchase exercises.

## **J RECORDS MANAGEMENT**

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1. **The Council must keep a detailed record of all authorisations, renewals, cancellations and rejections in Departments and a Central Register of all Authorisation Forms will be maintained and monitored by the Assistant Director Corporate Governance.**

### **Records Maintained in the Department**

2. The following documents must be retained by the Department authorising the surveillance:
- a copy of the Forms together with any supplementary documentation and notification of the approval given by the Authorising Officer;
  - a record of the period over which the surveillance has taken place;
  - the frequency of reviews prescribed by the Authorising Officer;
  - a record of the result of each review of the authorisation;
  - a copy of any renewal of an authorisation, together with the supporting documentation submitted when the renewal was requested;

- the date and time when any instruction was given by the Authorising Officer;
- the Unique Reference Number for the authorisation (URN).

**Central Register maintained by the Assistant Director Corporate Governance**

3. Authorising Officers must forward a copy of the form to the Assistant Director Corporate Governance for the Central Register, within 5 days of the authorisation, review, renewal, cancellation or rejection. The Assistant Director Corporate Governance will monitor the same and give appropriate guidance to Authorising Officers from time to time, or amend this document in the light of changes of legislation or developments through case law.
8. The Council shall retain records for a period of at least three years from the ending of the authorisation. The Office of the Surveillance Commissioners (OSC) can audit/review the Council's policies and procedures, and individual authorisations.
5. The Office of the Surveillance Commissioners will also write to the Council from time to time, requesting information as to the numbers of authorisations made in a specific period. It will be the responsibility of the Assistant Director Corporate Governance to respond to such communications.

## K ACQUISITION OF COMMUNICATIONS DATA

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### What is Communications Data?

1. Communications data means any traffic or any information that is or has been sent by or over a telecommunications system or postal system, together with information about the use of the system made by any person.

### Powers

2. There are two powers granted by s22 RIPA in respect of the acquisition of communications data from telecommunications and postal companies (the Communications Service Provider) – s22(3) and s22(4).
3. s22 (3) provides that an Authorising Officer can authorise another person within the same local authority to collect the data. This allows Merton as a local authority to collect the communications data themselves i.e. if a communications service provider is unable to collect the data, an authorisation under this section would permit Merton to collect the communications data itself.
4. Under s22 (4) an Authorising Officer may serve a notice to compel a communications service provider to obtain and disclose, or just disclose communications data in their possession. The only ground on which Merton may permit the issuing of a s22 notice is **to prevent or detect crime or prevent disorder**.
5. The appropriate form should be used when the communications service provider is being required to disclose or obtain and disclose the specified information.
7. Once issued the notice must be sent to the communications service provider. In issuing a notice, the Authorising Officer can authorise another person to liaise with the communications service provider covered by the notice.
9. Authorising Officers may sign the forms for the acquisition of communications data. These forms will be retained by the Single Point of Contact (SPoC) as part of a record of compliance with the relevant provisions.

### Who does what

There are four different roles that are involved in the authorisation of applications.

#### Applicant

10. The Applicant will be an officer who is involved in the investigation or operation for the council and who will make the written application for the acquisition of communications data. The Applicant will set out the necessity and proportionality of the need to obtain the communications data.

### **Designated Person (also known as Authorising Officer)**

11. The designated person is also known as the Authorising Officer. They will consider the application and decide whether the acquisition of communications data is necessary and proportionate. If they believe it is, they will authorise the application or give a notice.
12. The Authorising Officer will assess the need to acquire or obtain communications data taking account of any advice provided by the single point of contact (SPoC).
13. The Authorising Officer must be independent from operations and investigations when granting authorisations or giving notices related to those operations.

### **Single Point of Contact**

14. The role of the single point of contact (SPoC) is to maintain effective co-operation between the council and communications service providers in the lawful acquisition and disclosure of communications data.
15. To be a SPoC the officer must undertake specialist training recognised by the Home Office and register his or her details with the Home Office. A Register of the council's SPoCs is held by the Assistant Director Corporate Governance together with details of the training undertaken.
16. The SPoC will:
  - assess whether access to communications data is reasonably practical for the postal or telecommunications operator;
  - advise Applicants and Authorising Officers on the practicalities of accessing different types of communications data from different postal or telecommunications operators
  - advise Applicants and Authorising Officers on whether communications data falls under section 21(4)(a), (b) or (c) of RIPA
  - provide safeguards for authentication
  - assess any cost and resource implications to both the council and postal or telecommunications operator.

### **Senior Responsible Officer**

17. Each council must have a Senior Responsible Officer who will:
  - ensure there is a proper process in place in the council to acquire communications data;
  - ensure compliance with Chapter II of Part 1 of RIPA and with the relevant Codes of Practice;



<https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice>

- ensure that any errors are reported to the Interception of Communications Commissioner's Office (IOCCO), including the cause of errors and remedial action to minimise any repetition;
  - meet the IOCCO inspectors when they conduct their inspections and;
  - oversee the implementation of post –inspection action plans approved by the Commissioner.
18. Merton Council's Senior Responsible Officer is the Assistant Director Corporate Governance.
19. Merton uses the National Anti Fraud Network (NAFN) system to make applications for communications data. NAFN is government funded organisation providing data and intelligence services. It provides the SPoC for applications and access to a secure online system. The system takes the Applicant through the process and offers online guidance.

### **Application Forms**

20. The system contains the forms the Applicant must complete in order to progress the application to completion. It allows the Applicant to submit and receive approval online and to track progress.

### **Procedure**

21. All applications to obtain communications data must be channelled through the NAFN SPoC. In considering making an application to obtain communications data the Applicant should contact the SPoC for advice.
22. In completing the application the Applicant must address the issues of necessity, proportionality and collateral intrusion as contained in the Acquisition and Disclosure of Communications Data Code of Practice (2015)

#### **Necessity**

The Applicant should consider the necessity of obtaining communications data by addressing three points  
The event under investigation, such as a crime  
the person, such as a suspect, and how they are linked to the event; and  
the communications data, such as a telephone number or IP address and how this is linked to the person and the event.

The Applicant should explain the event, the person and the communications data and how these three are linked. The link must be established to demonstrate the acquisition of communications data is necessary for the statutory purpose specified.

### **Proportionality**

The application should explain how obtaining the data will benefit the investigation or operation. It should explain how the benefit of obtaining the data justifies the level of intrusion and confirm that other less intrusive investigations have already been undertaken where possible. Any time periods requested must be explained, outlining how these periods are proportionate to the event under investigation.

The application should also consider the rights (to privacy and, in relevant cases, freedom of expression) of the individual and balance these rights against the benefit to the investigation.

“Collateral intrusion is the obtaining of any information relating to individuals other than the subject(s) of the investigation.” The application should identify the details of what collateral intrusion may occur and how the time periods requested impact on the collateral intrusion. If no collateral intrusion risk is identified such absence should be noted.

“Unintended consequences of an application are outcomes that are not intended by the application.” These are more likely to occur in more complicated requests for traffic data or in applications for the data of those in professions with duties of confidentiality. Such an application may still be necessary and proportionate but the risk of unintended consequences should be considered.

23. The Applicant will log in and complete the required fields in the NAFN system.
24. The Applicant will submit the completed fields to the NAFN SPoC who will check whether the application can go forward for authorisation.
25. When checked the application will be routed to the Authorising Officer for authorisation. The Authorising Officer must be someone in the council who is independent from the operation and investigation to be undertaken when granting authorisation or giving notices related to those operations.
26. The Authorising Officer will consider:
  - (a) whether the case justifies the accessing of communications data for the **purposes of preventing or detecting crime or of preventing disorder** and why obtaining the data is **necessary**; and
  - (b) whether obtaining access to the data by the conduct authorised, or required of the postal or telecommunications operator in the case of a notice, is **proportionate** to what is sought to be achieved.

27. The Authorising Officer will complete the application as required on the NAFN system.
28. Within the NAFN system, when the application is authorised, the paperwork required for the magistrate's hearing will be generated.
29. Upon authorisation, the Applicant should contact the court to arrange a suitable hearing date. The Applicant will attend court.
30. If the application is approved by the court the Authorising Officer will sign the Notice to the Communication Service Provider, complete the date/time of issue and pass to the SPoC. If the SPoC is satisfied that the application should proceed, the SPoC will then issue the Notice to the Communications service provider and

### **Duration**

31. Authorisations and notices are only valid for one month. A shorter period should be specified if this is satisfied by the request. To renew an authorisation or notice during the month the Applicant must follow the same procedure as obtaining a fresh authorisation or notice.
32. An Authorising Officer must cancel an authorisation or notice as soon as it is no longer necessary or the conduct is no longer proportionate to what is sought to be achieved. The duty to cancel a notice falls on the Authorising Officer who issued it.

### **Record Management**

33. Applications, authorisations and notices for communications data must be retained by the SPoC until audited by the IOCCO. All such documentation must be kept in locked storage.

### **Errors**

34. Where any errors have occurred in the granting of authorisations or the giving of notices, a record shall be kept and a report and explanation sent to the IOCCO as soon as reasonably practicable.

### **Oversight**

35. The IOCCO will write to the council from time to time requesting information as to the numbers of applications for communications data and confirmation as to whether there have been any errors which have occurred when obtaining data communications. It will be the responsibility of the Assistant Director Corporate Governance to respond to such communications with the assistance of the SPoC.



## Appendix 2 Direct Surveillance Forms

These forms may be downloaded from <http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/>

**Application**            <http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/application-directed-surveillanc>

**Renewal**              <http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/renewal-directed-surveillance>

**Review**                <http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/review-directed-surveillance>

**Cancellation**        <http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/cancellation-directed-surveillan>

## Appendix 3 CHIS Forms

These forms may be downloaded from <http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/>

**Application**            <http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/chis-application>

**Renewal**                <http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/chis-renewal>

**Review**                 <http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/chis-review>

**Cancellation**        <http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/chis-cancellation>

## Appendix 4 Accessing Communications Data

These forms may be downloaded from <http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/>

**Application**            <http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/communications-data1.doc>

**Notice**                 <http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/RIPAschedule-for-subscriber-info>

**Log Sheet**             **Please contact the SPoC**

**Cancellation**        **Please contact the SPoC**

Reporting an error to the Interception of Communications Commissioner's Office

<http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/reporting-public-authority-error>

## Appendix 5

### USE OF COVERT SURVEILLANCE EQUIPMENT - Technical Guidance

#### 1. Introduction

The use of covert CCTV systems across the London Borough Of Merton is governed by law and policy. The Enforcement and Inspection Team EOI has to comply with the provisions of the Data Protection Act 1998, the Human Rights Act 1998 and the Regulation of Investigatory Powers Act 2000. Compliance with these Acts, their associated Codes of Practice and the council's RIPA Policy will assist the users of the surveillance equipment in meeting their legal obligations.

#### 2. Initial Assessment Procedures

Before installing and using covert surveillance equipment users will need to ENSURE authorisation to install surveillance had been obtained and establish the purpose or purposes for which they intend to use the equipment, as the First Data Protection Principle requires Data Controllers to have a legitimate basis for processing personal data, in this case images of individuals. Hence the following procedures should be carried out:

1. Assess the appropriateness of, and reasons for, using CCTV or similar surveillance equipment and document this process.
2. Establish the purpose of the operation.
3. Establish the person or persons responsible for ensuring the day-to-day compliance with this Code of Practice.
4. Establish the associated security and disclosure policies.
5. Obtain the approval of the Authorising Officer for this activity by using the specified forms and processes set out in the RIPA Policy. There are only 3 persons in the London Borough Of Merton who can authorise surveillance operations. Helen Catling – Transport, Ian Murrell-Trading Standards and Chris Johnson-Internal Audit.

#### 3. Equipment

The team currently has access to 5 surveillance systems. The system consist of 22 bullet cameras of varying sizes, x 3- 35mm zoom cameras and 18 hard disc cartridges of varying sizes. All the equipment is kept in a locked cupboard and can only be accessed by key, which is managed by a diary. All equipment being removed MUST be logged out in the dairy.

#### 3. Deploying the Systems/cameras

1. The equipment should be sited in such a way that it monitors only the area intended, i.e where the incident of flytipping is likely to occur.

2. The user/s should only use the covert system/s as set out in the authorisation document.
3. Investigating officers must be aware of the purpose(s) for which the operation has been established.
4. Investigating officers are expected to fill in the appropriate risk assessment and premises consent forms when necessary.

#### **4. Handling of the Images**

It is important that the images produced by the equipment are as clear as possible in order that they are effective for the purpose(s) for which they are intended. The following standards should therefore be observed:

1. Carry out an initial check on installation to ensure that the equipment performs properly.
2. Ensure that, where tapes are used they are of good quality.
3. Images should be retained until prosecution is completed.
4. ALL storage discs must be kept in the metal locked cupboard except in the case of viewing, production as evidence of court proceeding.
5. Media should not continue to be used once it becomes clear that the quality of the images has begun to deteriorate.
6. All systems and cameras should be properly maintained and serviced to ensure that clear images are recorded and a maintenance log kept.
7. Cameras should be protected from vandalism in order to ensure that they remain in working order.

#### **5. Processing the Images**

To maintain the integrity of the images and to protect the rights of the individual, the following standards should be maintained:

1. Access to recorded images should be restricted to the person responsible for managing the investigation (the Data Owner) or his/her nominee who will decide whether to allow requests for access by third parties.
2. Where images are retained, it is essential that their integrity be maintained, whether to ensure their evidential value or to protect the rights of the people whose images may have been recorded.
3. Images should not be retained for longer than is necessary; once the retention period has expired, the images should be removed or erased. If in doubt. Speak to the Information Governance Team or Legal Services.
4. If the images are retained for evidential purposes, they should be kept in a secure place (locked metal cupboard) to which access is controlled.



5. On removing the medium on which images have been recorded for use in legal proceedings, the operator should ensure that s/he has documented the date on which the images were removed from the general system for such use, the reason for doing so, any crime incident number to which the images may be relevant, the new location of the images and the signature of the person collecting the images. In such instances this will only be officer from the Metropolitan Police or an authorised officer within the Council.

## **6. Access to and Disclosure of Images to Third Parties**

It is important that access to, and disclosure of, the images recorded by CCTV and similar surveillance equipment is restricted and carefully controlled, not only to ensure that the rights of the individual are preserved, but also to ensure that the chain of evidence remains intact should the images be required for evidential purposes. Staff should maintain the following standards:

1. Access to recorded images should be restricted to those staff who need to have access in order to achieve the purpose(s) of using the recording equipment.
2. All access to the medium on which images are recorded should be documented.
3. Disclosure of recorded images to third parties, whether officers of the Enforcement Team or not, should only be made in limited and prescribed circumstances.
4. All requests for access or for disclosure should be recorded and, if access is denied, the reason should be documented.
5. If access to or disclosure of images is allowed, then the following should be recorded:
  - The date and time access was allowed or disclosure made.
  - The identification of any third party who was allowed access or to whom disclosure was made.
  - The reason for allowing access or disclosure.
  - The extent of the information to which access was allowed or which was disclosed.

## **8. Monitoring Compliance with this Code of Practice**

1. The Enforcement and Inspection Manager will undertake regular reviews of the documented procedures and the above processes to ensure that the provisions of this Code are being complied with.

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### List of attendees – RIPA Training – 27 July 2016

1. John Hillarby (Trading Standards Manager Regulatory Services Partnership )
2. Margaret Culleton (Head of Internal Audit)
3. Jonathan Lynch (Enforcement FLAG team)
4. Karin Lane (substantive Head of Information Governance)
5. Mel Higgs (Street Scene /Waste Operations)
6. Roy Harper (Street Scene /Waste Operations)
7. Richard Anderson ( Community Safety Team)
8. Graham Owen (Interim Head of Information Governance)
9. Dan Voller (Fraud Investigator LB Wandsworth - [dvoller@wandsworth.gov.uk](mailto:dvoller@wandsworth.gov.uk))
10. Saima Khan SLLP.

All 10 people listed above attended the training on 27.7.16.

Graham Owen  
Interim Head of Information Governance

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## **Committee: Standards and General Purposes**

**Date: 8 September 2016**

Wards: All

### **Subject: Use of temporary workers and consultants**

Lead officer: Kim Brown, HR Lead

Lead member: Councillor Mark Allison, Deputy Leader and Cabinet Member for Finance

Contact officer: Kim Brown, HR Lead, tel: 020 8545 3152

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#### **Recommendations:**

- A. To note progress made to monitor and control the use of temporary workers and consultants.
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#### **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 Following the Committee's adoption of recommendations from the Ernst and Young report presented on 12<sup>th</sup> March 2014, a number of progress reports have been provided to committee, the last being in June 2016. This latest report provides Members with an update and the monitoring data of all current interim appointments (attached as Appendix 1)

#### **2. DETAILS**

- 2.1 Appendix 1 attached to this report sets out the latest central monitoring database for all types of interim/temporary placement at a rate of £30 per hour or more across the Council, shown by department.
- 2.2 The database is updated on a monthly basis and double-checked with departments for accuracy.
- 2.3 The data about interim and consultancy placements is broken down by department and sent to each Department Management Team (DMT) on a monthly basis to review. HR attends monthly meetings of each DMT to review all the placements and to challenge on-going placements, especially where they are longer term. Each and every placement is reviewed with the respective DMT senior managers.
- 2.4 Arrangements are in place for HR to be involved in all interim appointments and the single database provides a means of HR taking an overview of such appointments, together with the capability to ensure managerial compliance. In order to extend a placement, Comensura require written confirmation along with the signed Recruitment Authorisation form from either the HR Contracts Manager, or the Comensura Relationship Adviser. This measure ensures further control and compliance of hiring managers' activities. In recent months HR have actively challenged the completion of the ways the forms have been completed and have requested additional information.

- 2.5 The previously reported situation continues with by far the largest group of temporary workers being “on contract” agency and temporary staff appointed through the Council’s corporate contract with Comensura for the supply of agency staff. These are all engaged with the involvement and oversight of the HR function with a database that supplies monthly spend and usage reports to Council managers.
- 2.6 As at the end of July 2016, the Council employed 146 interim/temporary workers at £30 per hour (or more) compared to 159 for April 2016 (a 8.18% decrease). **Appendix 1** refers to the detail and composition of the interim workforce. Where possible, corporate contracts are used as they provide better value for the Council.
- 2.7 Running concurrently with the work to monitor and control interim placements has been a Council-wide staffing establishment exercise completed within iTrent to provide a comprehensive view of a fully budgeted workforce. This provides a clear picture of the workforce, including vacancies and reconciliation with temporary worker appointments. We will be reporting the most recent quarterly position to the Financial Monitoring Task Group in November.
- 2.8 HR is developing “temp to perm” guidance whereby longer-term agency workers can be converted into “perm” direct employees subject to safeguards to ensure a competitive recruitment process was followed when the worker(s) were first commissioned and establishment control procedures are followed.
- 2.9 Where difficulty in recruiting has been cited as a reason of long-term cover, HR will continue to work with client managers to identify what recruitment and retention measures are necessary, if any, to improve the recruitment offer. This will include review of recruitment efforts, pay market data and turnover statistics as well as a supporting business case.
- 2.10 The management and sourcing of temporary and interim arrangements are carefully scrutinised and Directors attended the last committee in June to explain why the use of these workers were necessary.
- 2.11 Directors have been invited to provide short overall summary comments on agency/consultant usage and action being taken in their area and these are:

### **Children, Schools and Families**

In all but a few exceptions the CSF agency workers and consultants are covering social work posts including frontline social workers and other regulatory posts such as Independent Reviewing Officers (IROs), Adoption Manager and the Local Authority Designated Officer for Child Protection. The others are for specialist posts such as speech and language therapy which are also statutorily required as part of children’s Education, Health and Care Plans. 17% of our agency SW are covering maternity leave or other long term absence. Social workers have to have professionally manageable caseloads and the authority is funding 8 additional frontline posts currently to be able to deliver a caseload of c15 children per social worker. This is in line with the London average. When necessary we use further additional staff to manage peaks in volume and to protect caseloads.

Recruitment has continued strongly with 13 new starters during January to March 2016. Our vacancy rates and turnover rates are reducing with vacancies at 22% compared to 38% in October 2014 when they were at a peak. We now have a good flow of newly qualified social workers but have to carefully manage the balance of experienced and inexperienced workers given the nature of our work.

### **Community and Housing**

Within Community and Housing, use of agency staff is predominantly within adult social care and in specialist, hard to recruit to posts. For adult social care, in anticipation of a restructure involving the loss of many posts, the service ceased recruiting substantively in order to minimise redundancies. With the restructure now complete and with few redundancies, active recruitment is underway to appoint to vacant posts and therefore reduce our usage of agency staff.

### **Corporate Services**

For Corporate Services, the nature of some key corporate projects is such that specific skills are required for a fixed period of time, often where the skills are not available in the existing workforce. Engagement on an agency or consultancy basis reflects the nature of the market for these specialised skill sets as there are instances where we have gone out to recruit three times, once on a permanent basis to attract candidates when the role was still fixed term. This approach also protects the Council from termination costs at the end of the project(s). The resources are also reviewed alongside the projects' progress to ensure optimum utilisation. Other usage is to cover hard to recruit vacancies, particularly within the four borough South London Legal Partnership and shorter-term cover to meet work demand.

### **Environment and Regeneration**

Usage is relatively low in E&R. A number of workers are covering positions which are subject to a service review, and others are providing specialist skills or are covering externally funded roles. There are a number of professional areas where there is an extremely competitive market in which all London boroughs are struggling to recruit and retain permanent staff. This includes Traffic engineers, Planning officers and Building control surveyors where the emergence of a strong interim market has changed employment patterns.

Work on a shared Planning and Building control service together with the finalisation of the Phase C externalisation will assist in reducing the need for interim appointments.

E&R DMT reviews this matter on a monthly basis in order to manage risk including the financial impact.

## **3. CONSULTATION UNDERTAKEN OR PROPOSED**

- 3.1 CMT receives monthly updates on agency usage and activity. Detailed below is a synopsis of the current themes on which CMT have requested assurance:
  - The need for hiring manager compliance to complete agency placement extension arrangements and to seek proper authorisation. HR has put in place measures to improve such compliance with tighter authorisation controls.

- The trend for overall decreased usage of agency staff but rising costs due to the type of worker that we need to source e.g. specialist technical or niche professional skills such as children's social workers, project managers, IT specialists and business analysts. The marketplace for such posts is competitive and supply and demand dictate increased charge rates.
- An increasing trend of agency workers working for longer periods of time - in particular covering essential services. This reflects service demands and the need to cover statutory functions, and remains under regular review.

#### **4. TIMETABLE**

- 4.1 Regular monthly reports of all interim/temporary placements are sent to departments and suitable “challenge” meetings are held with DMTs, also on a monthly basis. Agency spend and number of agency staff forming part of the workforce are reported to CMT on a monthly basis as part of the HR Metrics.

#### **5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 5.1 The aim is to challenge hiring managers’ interim/temporary placements and reduce overall costs associated with interim workers where possible, noting that in many cases the Council has to cover statutory functions.

#### **6. LEGAL AND STATUTORY IMPLICATIONS**

- 6.1 There are no specific legal implications arising from the report

#### **7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 7.1 The amendments that have been made to the Council’s HR policies and processes will improve confidence in the Council’s HR recruitment procedure and the maintenance of the interim position database to provide the means to ensure compliance with Members’ requirements.

#### **8. CRIME AND DISORDER IMPLICATIONS**

- 8.1 None

#### **9. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 9.1 These are detailed in the Ernst and Young report of 12 March 2014.

#### **10. APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

- 10.1 Appendix 1 - Summary data of the Council’s current interim positions.

#### **11. BACKGROUND PAPERS**

- 11.1 None



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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## **Standards and General Purposes Committee Forward work plan 16/17**

### 30 June 2016

- Annual Governance Statement 15/16
- Internal Audit Annual Report
- Expansion of the Shared Audit Partnership
- External Audit – Fee Letters for the Council and Pension Fund Accounts
- Draft Accounts
- Update on RIPA authorisations
- Complaints against Members
- Agree forthcoming meeting dates
- Temporary and Contract Staff update
- Work Programme

### 8 September 2016

- External Audit of the Council and Pension Fund Accounts
- Final Accounts
- Review and update of RIPA policy
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

### 3 November 2016

- External Audit Annual Letter
- Internal Audit progress report on annual audit plan
- Annual Gifts and Hospitality report (members)
- Annual Gifts and Hospitality report (officers)
- Annual Complaints report
- Review of Contract Standing Orders
- Update on RIPA authorisations
- Complaints against Members
- Member Learning and Development
- Temporary and Contract Staff update
- Review the Committee's terms of reference
- Work programme

9 March 2017

- External Audit Certification of Claims report
- External Audit progress report
- External Audit Plans for Council and Pension Fund accounts
- Internal Audit Plan
- Internal Audit progress report
- Update on RIPA authorisations
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

**Add as required:**

- Polling Places
- Constitutional amendments
- Review of members' interests
- Independent / co-opted members
- Reports on dispensations issued by Monitoring Officer
- Report on payment exceeding £1000 as a result of maladministration as directed by the LGO.