

Merton Council

Standards and General Purposes Committee Agenda

Membership

Councillors:

Peter McCabe (Chair)
Janice Howard (Vice-Chair)
Agatha Mary Akyigyina OBE
Adam Bush
John Dehaney
Mary-Jane Jeanes
Ian Munn BSc, MRTPI(Rtd)
Gregory Patrick Udeh
David Williams
Martin Whelton
John Bowcott
Mary Curtin

Substitute Members:

Michael Bull
Sally Kenny
Oonagh Moulton

Date: Thursday 7 September 2017

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, 020 8545 3181

Standards and General Purposes Committee Agenda

7 September 2017

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2	Declarations of Pecuniary Interest	
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7	Complaints against Members <i>A verbal update to be provided at the meeting.</i>	
8	Temporary and Contract Staff update <i>Appendix in Exempt Supplementary Agenda</i>	339 - 346
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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 29 JUNE 2017

(7.15 pm - 8.15 pm)

PRESENT Councillors Councillor Peter McCabe (in the Chair),
Councillor Agatha Mary Akyigyina, Councillor Adam Bush,
Councillor John Dehaney, Councillor Mary-Jane Jeanes,
Councillor Ian Munn, Councillor David Williams,
Councillor John Bowcott and Councillor Mary Curtin

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies for absence were received from Councillor Janice Howard and Councillor Martin Whelton. Councillors Oonagh Moulton and Sally Kenny attended as their respective substitutes.

Apologies were also received from Councillor Greg Udeh, Independent Person Derek Prior and apologies for lateness were received from Councillor Agatha Akyigyina.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of interest.

3 MINUTES OF THE PREVIOUS MEETINGS (Agenda Item 3)

RESOLVED: That the minutes of the previous meetings are agreed as a correct record.

4 DRAFT ACCOUNTS (Agenda Item 4)

Caroline Holland, Director of Corporate Services presented the report, advising that timescales had been missed due to the introduction of the new financial system in February 2017, however there should be a faster close down next year. It was noted that there was an overspend of £5.4 million against a forecast of £6.4million.

Councillor David Williams raised concern regarding the overspend and The Director Corporate Services advised that there were a number of increases particularly in relation to care packages which were not anticipated as well as increasing numbers in homecare.

Councillor Peter McCabe asked if this was unpredictable and whether this was an issue in other places. Suresh Patel, Ernst and Young advised that this was a national issue with other authorities experiencing similar increases and re-assured members that they were looking into how it was reported and dealt with, and would report back to Committee in September with their findings.

RESOLVED: That the Committee noted and commented on the unaudited Statement of Accounts for the Council for the year ended 31st March 2017.

5 EXTERNAL AUDIT - FEE LETTERS FOR THE COUNCIL AND PENSION FUND ACCOUNTS (Agenda Item 5)

Suresh Patel, Ernst & Young presented the report, advising that the fees for 2017/18 were indicative and due to be signed off in July 2018. The Audit Appointments were in the final year of the contract, and had recently tendered for 2017/18 which Ernst and Young had been successful in retaining, with consultation on 2018/19 to take place shortly.

Mr Patel advised the Committee that the indicative summary fee for Certification of Housing benefit subsidy claim was not yet calculated, but expected to be similar to the previous year.

6 FREEDOM OF THE BOROUGH (Agenda Item 6)

Julia Regan, Head of Democracy Services presented the report. A working group had been established in March 2017 and had discussed a number of nominations, bringing forward two recommendations to Committee.

Councillor David Williams spoke on the reasons for the nominations as detailed in the report.

Councillor Peter McCabe thanked the working group for their hard work.

RESOLVED: That the Standards and General Purposes Committee recommended to Council that the award of Freedom of the Borough be made posthumously to the late Reverend Andrew Wakefield in recognition of the substantial contribution he made to the borough.

RESOLVED: That the Standards and General Purposes Committee recommended to Council that it records its thanks and presents a certificate to the 210 squadron to congratulate it on its 50th anniversary and recognises the Squadron's long service to the borough.

7 COMPLAINTS AGAINST MEMBERS (Agenda Item 7)

The Monitoring Officer informed the Committee that since the last meeting he had received one complaint, which would be considered by the Independent Person shortly, and this would be reported back if it needed to be considered by the Standards Committee.

8 TEMPORARY AND CONTRACT STAFF UPDATE (Agenda Item 8)

Simon Williams, Director of Community and Housing presented the report, which covered January to March 2017.

The Director of Community and Housing noted that there had been a 10% reduction in the use of agency staff and progress had been made on recruiting staff from a temporary to permanent basis, as well as spending time on ensuring compliance with IR35 legislation.

The Director of Community and Housing advised the Committee that there were a number of major projects that were nearing completion which would reduce the number of agency staff, as well as a recent decrease in the Environment and Regeneration Directorate due to the TUPE transfer of staff as part of the recent outsourcing of services.

Kim Brown, HR Lead assured the Committee that this was an area taken seriously by all officers.

Chair Councillor Peter McCabe thanked Simon Williams for his outstanding contribution to the London Borough of Merton during his time at the authority.

RESOLVED: That members noted the progress made to monitor and control the use of temporary workers and consultants.

9 ANNUAL GOVERNANCE STATEMENT 16/17 (Agenda Item 9)

Paul Evans, Assistant Director Corporate Governance presented the report outlining the new Framework and improvement actions proposed as detailed in the report.

RESOLVED: That the Committee agreed the Annual Governance Statement.

10 INTERNAL AUDIT ANNUAL REPORT (Agenda Item 10)

Caroline Holland, Director Corporate Services presented the report.

Members raised concern over a couple of areas which had not yet been done, accounts payable and pension investments.

The Director of Corporate Services advised that 2017/18 and controls around that had been looked at, and that where areas of concern had been raised, there were plans in place to do more to improve.

RESOLVED: That the Standards and General Purposes Committee reviewed and commented on the Internal Annual Report 2016/17.

11 WORK PROGRAMME (Agenda Item 11)

Councillor David Williams asked if there were any plans to update the Constitution.

The Monitoring Officer advised that aside from updates which were brought forward when required, there was no intention to full review it at present, however he would be happy to do so should members request it.

The Director of Corporate Services advised that the Review of Polling Places would be brought to the Committee in September.

The work programme was agreed.

Committee: Standards and General Purposes

Date: 7 September 2017

Wards: All

Subject: Audited Final Accounts 2016/17

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Mark Allison – Cabinet Member for Finance

Contact officer: Roger Kershaw: Interim AD of 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.

Recommendations:

1. That Committee approve the audited Statement of Accounts, including the Pension Fund Accounts (Appendix 2), subject to any further comments from the External Auditor.
 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 31st March 2017 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 2016/17 Statement of Accounts, including the Pension Fund accounts, have been audited (although the audit work is not quite complete- see paragraph 2.5) and these 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 30th June 2017 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 30th September 2017. 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 30th June 2017.
- 2.5 **Audit of the Council’s accounts:** (a) Completion of audit work and approval of accounts: Ernst & Young have substantially completed their audit work on the Council’s accounts and expect to complete their work by the date of the committee. Until the audit work is complete, further amendments may arise and if they do, they will be reported to this committee. Subject to satisfactory completion of the remaining audit work, 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 £62.65m. There is no change from the draft accounts.

Table 1: Reserves

Reserves	2015/16 Audited Accounts £000	2016/17 Audited Accounts (unchanged from draft accounts) £000
1. Usable reserves		
General fund balance	15,151	12,778
General fund-schools	10,504	8,246
Earmarked reserves (excluding schools)	32,621	31,639
Earmarked reserves- schools	9,069	8,596
Revenue reserves and balances	67,345	61,259
Unapplied capital receipts	29,582	22,986
Unapplied capital grants	4,153	7,251
Other usable reserves	33,735	30,237
Total usable reserves	101,080	91,496
2. Unusable reserves		
Collection fund	1,703	1,395
Other unusable reserves	11,025	(35,479)
Total unusable reserves	12,728	(34,084)
Total reserves	113,808	57,412

2.12 The £47m decrease in unusable reserves was due to a £105m deterioration in the long-term pension liability following unfavourable changes to the financial assumptions used by the actuary, offset by a £58m increase in capital accounting reserves resulting from upward revaluations of land and buildings.

- 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 29th June 2017.

Table 2: 2016/17 Outturn and Budget Variances (following audit)

Cabinet Outturn Report	2016/17 Current Budget £000	2016/17 Outturn £000	2016/17 Variance £000
Department			
Corporate Services	10,231	9,011	(1,220)
Children, Schools & Families	51,643	52,806	1,163
Community & Housing	56,743	67,115	10,372
Public Health	(347)	(331)	16
Environment & Regeneration	21,999	21,698	699
Other			
Net Service Expenditure	140,269	151,299	11,030
Corporate Provisions	5,107	60	(5,047)
Total General Fund	145,376	151,359	5,983
Grants	(32,967)	(34,230)	(536)
Business Rates	(34,230)	(34,230)	0
Council Tax and Collection Fund	(80,399)	(80,399)	0
Funding	(147,596)	(148,132)	(536)
Net overspend (funded from earmarked reserves)	(2,220)	3,227	5,447

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 2017 and was advertised on the Council's website at 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-September. 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 31st March 2017
- Appendix 2: Statement of Accounts for the year ended 31st March 2017
- 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: Draft Whole of Government Accounts Revenue Account 2016/17

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 2016/17
- Working papers for the accounting entries
- Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- CIPFA- technical bulletins

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Summary Statement of Accounts

31st March 2017

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.

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 2016/17

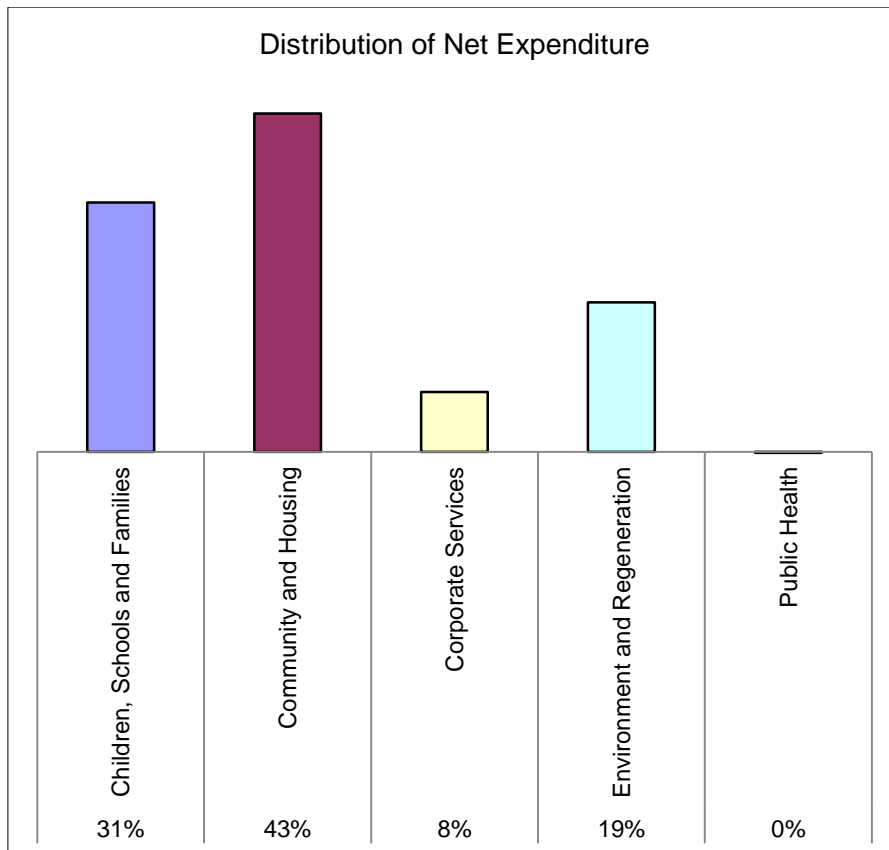
- The Council spent £31m (£29m in 2015/16) on capital schemes.
- Total net assets decreased by £57m, comprising a £47m decrease in unusable reserves and a £10m reduction in usable reserves. The £47m movement in unusable reserves was due to a £105m deterioration in the long-term pension liability, offset by a £58m increase in capital accounting and other reserves.
- Borrowing decreased from £133m at 31/03/16 to £128m at 31/03/17.
- The Council had a net £5.4m over spend against its budget in 2016/17, which has been funded from general fund balances and earmarked reserves.

REVENUE SPENDING

Merton’s net cost of services was £162.5m, attributable to services as shown below:

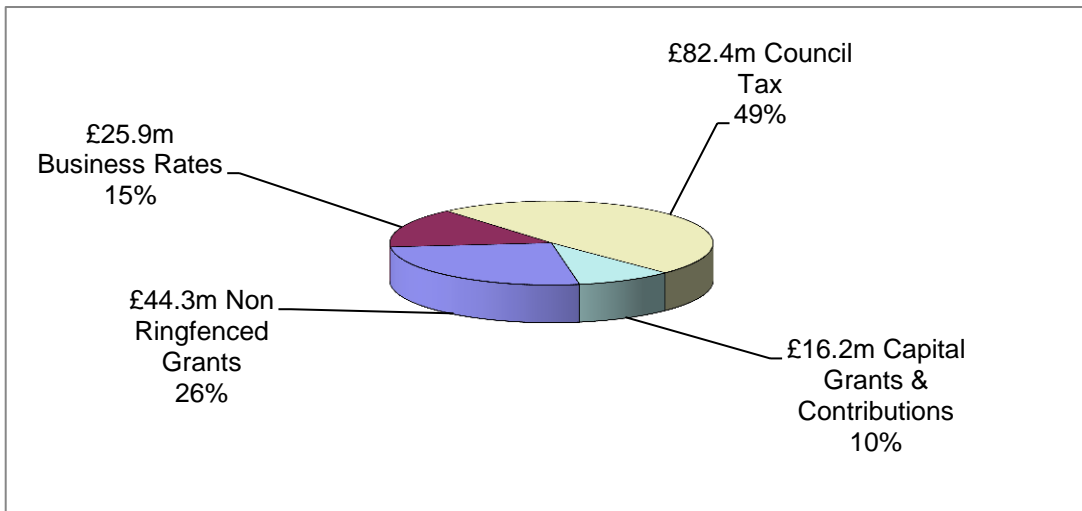
Service Areas	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Children, Schools and Families	211.6	(160.7)	50.9
Community and Housing	87.4	(18.3)	69.1
Corporate Services*	118.2	(106.0)	12.2
Environment and Regeneration	64.2	(33.7)	30.5
Public Health	11.1	(11.4)	(0.2)
Net Cost of Services	492.5	(330.0)	162.5

* Includes Housing Benefits



How was expenditure funded?

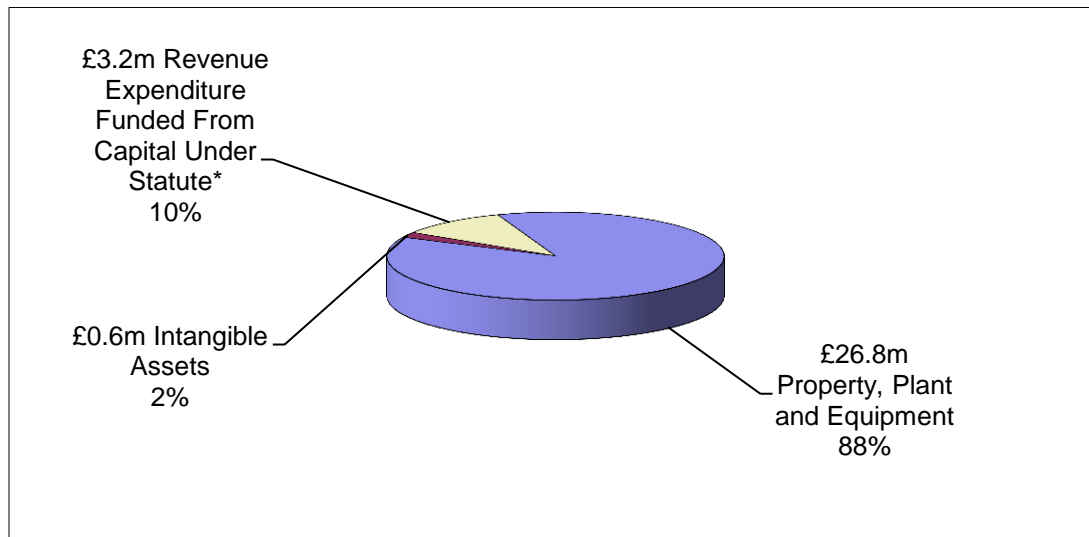
Other than income collected by departments from fees, charges and specific government grants, services are paid for from revenue support grant, which is money from Central Government, contributions from the business rates pool, council tax and special grants for specific purposes. The following chart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



In 2016/17, Merton's Council Tax was the 7th lowest Council Tax (Band D) of the twenty outer London boroughs.

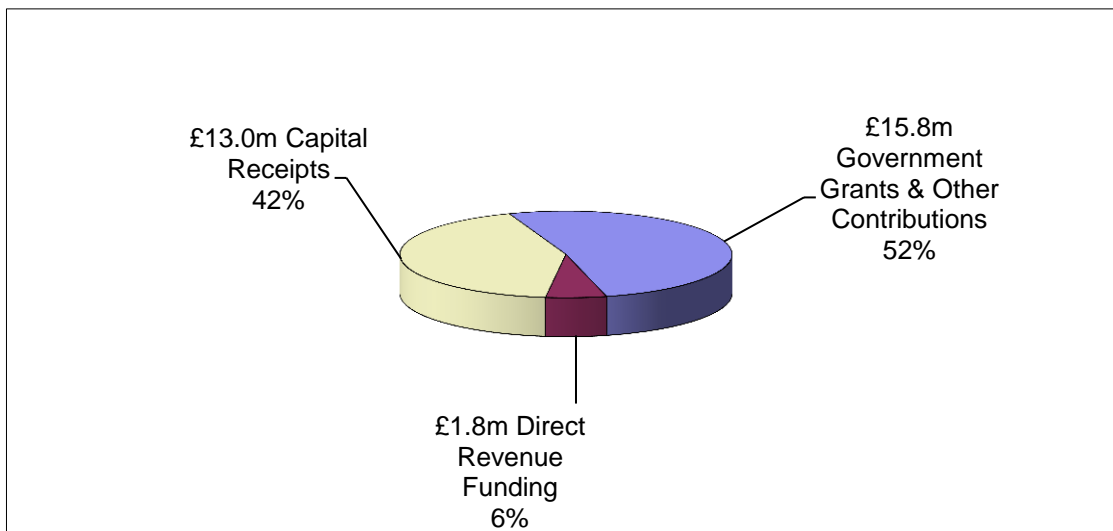
CAPITAL SPENDING

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 £30.6m in 2016/17 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 2016/17 £000s	Capital Budget			
		2017/18* £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Children, Schools & Families	12,506	13,955	12,116	6,236	650
Community and Housing	1,663	1,569	629	280	630
Corporate Services	3,911	25,875	16,813	10,626	2,135
Environment & Regeneration	12,546	19,852	19,295	7,241	5,017
Total	30,626	61,251	48,853	24,383	8,432

*The 2017/18 budget was approved in March 2017 and includes £7.5m slippage from 2016/17, plus capital budgets for the Housing Company, Acquisitions Budget and CIL for Morden Leisure Centre.

FINANCIAL HEALTH

The Balance Sheet gives a snapshot of the Council's financial position at the year-end (i.e. 31st March 2017). It shows what the Council owns (its assets) and what it owes (its liabilities) and the funds which support them.

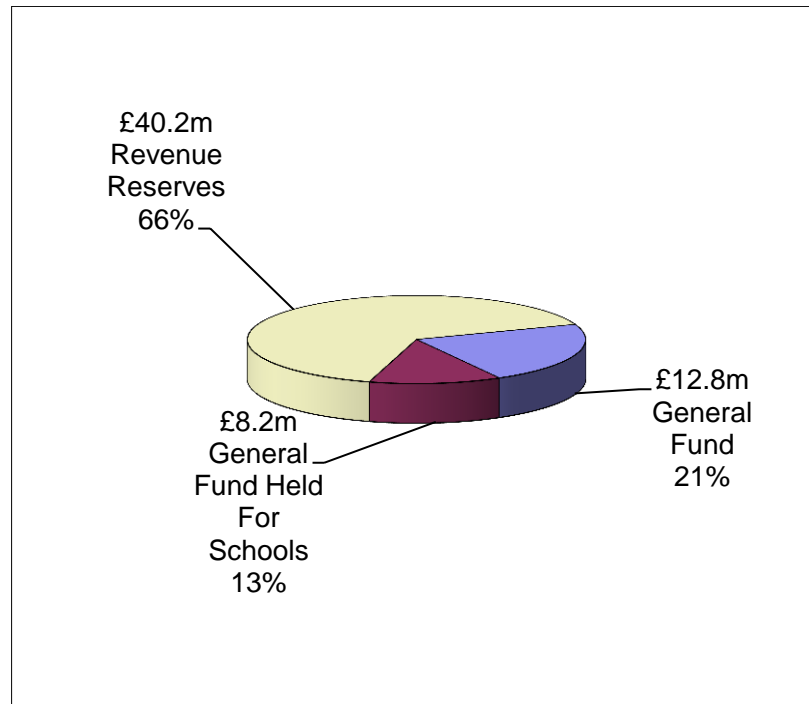
Summary Balance Sheet

Assets	As at 31 st March 2016 £m	As at 31 st March 2017 £m
Fixed and Other Long Term Assets	476	529
Current Assets including investments, cash and debtors	142	134
Current Liabilities including creditors and short term borrowing	(77)	(79)
Total Assets Less Current Liabilities	541	584
Long term borrowings	(117)	(113)
Other liabilities and provisions	(47)	(46)
Pension Fund Liability	(263)	(368)
Total Long Term Liabilities	(427)	(527)
Total Net Assets	114	57
Represented by:		
Reserves and balances which can be spent	(101)	(91)
Reserves and balances which cannot be spent	(13)	34
Total Net Worth	(114)	(57)

RESERVES AND FUND BALANCES

In total, the Council now has usable reserves and fund balances amounting to £91m, £30m capital receipts and grants, and £61m fund balances and revenue reserves which are broken down below.

Breakdown of Fund Balances and Revenue Reserves



PENSION FUND

The pension scheme is financed by contributions from employees and the employer, together with income and proceeds from investments administered by the Council. The Council is required to report the assets and liabilities on an IAS19 commitment basis. On this basis, the assets in the scheme increased by £116m during the year to £599m and the estimated pension liability increased by £221m to £967m, leading to a £105m increase in the pension deficit, which stands at a notional £368m. Although this is a significant notional liability, the basis on which the pension deficit is valued for funding purposes is determined by a separate triennial actuarial valuation. Under the latest actuarial valuation, the Council has a 12 year plan to eliminate the deficit.

CABINET REPORTING

The revenue outturn in the Statement of Accounts has been prepared in accordance with the CIPFA Code of Practice, which is based on IFRS accounting. A reconciliation of the Cabinet reporting, which is used for management purposes, to the CIPFA Code of Practice reporting is provided within the 2016/17 Statement of Accounts as disclosure note 1.

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

Statement of Accounts

For the year ending 31st March 2017

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Narrative Statement

1. Introduction

Welcome to London Borough of Merton's 2016/17 Statement of Accounts, which reports the Authority's financial performance during the year, showing expenditure on all services and the financial position at 31st March 2017.

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 July 2017:

Cabinet Outturn Report	2016/17 Current Budget £000	2016/17 Outturn £000	2016/17 Variance £000
Department			
Corporate Services	10,231	9,011	(1,220)
Children, Schools & Families	51,643	52,806	1,163
Community & Housing	56,743	67,115	10,372
Public Health	(347)	(331)	16
Environment & Regeneration	21,999	22,698	699
Net Service Expenditure	140,269	151,299	11,030
Corporate Provisions	5,107	60	(5,047)
Total General Fund	145,376	151,359	5,983
Grants	(32,967)	(33,504)	(536)
Business Rates	(34,230)	(34,230)	0
Council Tax and Collection Fund	(80,399)	(80,399)	0
Funding	(147,596)	(148,132)	(536)
Net overspend	(2,220)	3,227	5,447
Transfers from Earmarked Reserves	2,220	(3,227)	(5,447)

Net service expenditure was overspent by £11.03m due to a number of variances, the three largest overspends being £9.06m in Adult Social Care (Community and Housing department), £1.44m in Parking income (Environment and Regeneration department) and £1.83m within Social Care, Youth Inclusion and Commissioning (Children, Schools and Families department). These overspends were offset by a £1.30m net underspend across all other services.

Corporate provisions underspent by £5.05m and grant income exceeded the budgeted figure by £0.54m.

This reduced the net overspend to £5.45m, which has been met by appropriations from earmarked reserves and general fund balances.

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 2016/17 the Authority's overall usable reserves decreased by £9.58m.

This was composed of a £2.26m* decrease in the schools' general fund balance, a £0.86m decrease in earmarked revenue reserves in addition to a £0.60m* decrease in the dedicated schools' grant reserve, a £6.60m decrease in the capital receipts reserve and a £3.10m increase in capital grants unapplied. The general fund balance reduced by £2.37m.

*In the preceding Cabinet outturn table, these reserve transfers are reported within Children, Schools and Families expenditure.

Usable Reserves	2016/17 Opening Balance	2016/17 Movement	2016/17 Closing Balance
	£000	£000	£000
General Fund Balances	15,151	(2,372)	12,779
General Fund Balances held by schools	10,504	(2,258)	8,246
Earmarked Revenue Reserves	41,690	(1,455)	40,235
Sub Total-Fund Balances and Revenue Reserves	67,345	(6,086)	61,259
Capital Receipts Reserve	29,582	(6,596)	22,986
Capital Grants Unapplied	4,153	3,098	7,251
Total Usable Reserves	101,080	(9,584)	91,496

2.2 Capital Summary

Capital investment amounted to £30.6m in 2016/17 (£29.1m in 2015/16). The programme was financed through the application of capital grants/contributions (£15.8m), capital receipts (£13.0m) and revenue contributions (£1.8m). Capital receipts received in year totalled £6.4m (£7.4m in 2015/16).

Of the total £30.6m capital expenditure, £26.8 million was spent on the purchase/enhancement of property, plant and equipment, £0.6 million on the purchase/enhancement of intangible assets and £3.2 million was revenue expenditure funded from capital under statute.

Capital Investment Plans

The Authority's capital investment budget for the next four years, as at June 2017, is shown in the following table, alongside 2016/17 outturn. Capital investment is required both to maintain existing levels of service and to expand service provision in some areas.

Department	Outturn 2016/17 £000s	Capital Budget (£000's)			
		2017/18*	2018/19	2019/20	2020/21
Children, Schools & Families	12,506	13,955	12,116	6,236	650
Community and Housing	1,663	1,569	629	280	630
Corporate Services	3,911	25,875	16,813	10,626	2,135
Environment & Regeneration	12,546	19,852	19,295	7,241	5,017
Total	30,626	61,251	48,853	24,383	8,432

*The 2017/18 budget was approved in March 2017 and includes £7.5m slippage from 2016/17, plus capital budgets for the Housing Company, Acquisitions Budget and CIL for Morden Leisure Centre.

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)			
	2017/18	2018/19	2019/20	2020/21
Primary school expansions	252	0	0	0
Secondary school expansions	9,262	6,156	4,481	0
Special Educational Needs school expansions	3,389	5,310	1,000	0
Replace Morden Leisure Centre and Lake De-silting	9,666	1,817	8	0
Total	22,569	13,283	5,489	0

Further information about 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 2017, is available on the Authority's website. In short, borrowing strategy is to utilise capital grants, capital receipts, earmarked reserves, as well as 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 31st March 2017 the Authority held short-term and long-term deposits totalling £66.0m and £5.0m respectively (£80.9m and £5.0m at 31/03/16). The Authority generated £0.83m of investment income from these deposits (£1.12m in 2015/16).

Long-term borrowing at 31st March 2017 decreased to £113.0m, from £117.0m at 31/03/16. Short-term borrowing, including accrued interest, also decreased to £15.1m, from £16.2m at 31st March 2016. The Authority paid £6.8m in interest on these borrowings during 2016/17 (£6.7m in 2015/16).

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 31st March 2016 with the assets of the fund found to represent 94% of accrued liabilities; this compares with 89% at the 2013 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 Council has a 12 year plan to eliminate the deficit. The next applicable actuarial valuation will be as at 31st March 2019.

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 increased from £263m to £368m, an adverse movement of £105m. The Authority's actuary estimated that at 31st March 2017, future liabilities amount to £967m (£746m at 31st March 2016) with assets of £599m (£483m at 31st March 2016).

The deterioration of the net deficit is principally due to the £221m increase in the estimated value of future liabilities (£746m to £967m), which mainly results from unfavourable changes to the financial assumptions used by the actuary to calculate the future liability – such as those for inflation and discount rates – which are set-out in disclosure note 32. This was only partially offset by a strong performance in the scheme's assets over the year, which increased in value by 24% or £116m (£483m to £599m).

2.5 Economic Outlook

Local Government Finance Settlement

The Local Government Finance Settlement for 2017/18 contains indicative allocations from central government up to 2019/20. These allocations continue the downward trend in funding since 2010/11. Between 2016/17 and 2019/20, the Authority's settlement funding assessment is forecast to fall by 30.3% in real terms and core spending power by 5.4% 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
- Reforms to local government finance based around 100% business rates retention and the transfer of new responsibilities from central government
- Devolution
- Risks to future Government funding levels
- Ability to implement approved savings
- Risks to other income streams
- The unknown long-term impact on economic factors of central government's negotiations with the European Union on Brexit
- The new government

2.6 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 31st May and 31st July respectively. Under current regulations, local authorities are required to publish draft and audited accounts by 30th June and 30th September respectively.

Transport Infrastructure Asset

CIPFA had previously advised that the method for valuing transport infrastructure assets – such as roads, footways and street lights – in local authority accounts would change in 2016/17 from historical cost to depreciated replacement cost. This change would have significantly increased the reported values of such assets on the Authority's balance sheet. However, CIPFA has subsequently postponed implementation of the new method indefinitely, because the cost of acquiring the

necessary asset information for the new method would have been prohibitive. Transport infrastructure assets remain in the accounts valued at depreciated historical cost.

Comprehensive Income and Expenditure Statement (CIES)

New CIPFA guidelines require the presentation of the segmental analysis in the CIES to change to reflect the Authority's internal management structure. Previously, the segmental analysis was based on Sercop's service expenditure analysis.

In addition, a new Expenditure and Funding Analysis disclosure note has been introduced, to reconcile the difference between net expenditure in the CIES and net expenditure charged to the General Fund. The Expenditure and Funding Analysis replaces the previous segmental reporting notes.

3. Service Performance

The Authority is comprised of four departments; Corporate Services, Children, Schools and Families, Community and Housing, and Environment and Regeneration. 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	2015/16			2016/17		
	Description	Result	Target	Target met?	Result	Target	Target met?
Corporate Services	% of council tax collected	97%	97%	Y	98%	97%	Y
	% of business rates collected	98%	98%	Y	98%	98%	Y
	The level of CO2 emissions from the council's buildings (tonnes)	3,538	<2,925	N	6,924	<8,045	Y
Children, Schools and Families	% outcome of schools Ofsted inspections good or outstanding	89%	86%	Y	91%	91%	Y
	No. of special guardianship orders and adoptions finalised during the year	13	13	Y	17	13	Y
	% of looked after children in external agency foster care placements	37%	<46%	Y	44%	<42%	N
	No. of in-house foster carers recruited	13	20	N	15	15	Y
Community and Housing	No. of people accessing a library at least once in the last 12 months	65,269	55,000	Y	70,268	56,000	Y
	No. of homelessness preventions	561	550	Y	458	450	Y
	The rate of delayed transfers of care from hospital (both Merton & NHS responsible)	9	<5	N	7.1	<5	N
Environment and Regeneration	Major applications processed within 13 weeks	56%	55%	Y	71%	55%	Y
	% of sites surveyed on local street inspections for litter that are below standard	7.9%	<8%	Y	9.0%	<8%	N
	No. of refuse collections including recycling and kitchen waste missed per 100,000	52	<55	Y	49.9	<50	Y

3.1 Future Service Developments

Corporate Services

Corporate Services department aims to provide high quality services to both residents and internal users of support services.

We are transforming the way we engage with residents by investing in a new Council website. The new website is expected to become the preferred means for residents, non-residents and businesses to contact the Council. Customers can access a quicker and more accurate online service, submit a service request, payment, or comment online, and receive confirmation that an enquiry or service is being managed and then track progress until it has been completed.

All of our customers will also soon have the option of accessing an online personal account, which will be similar to the accounts that many people have with online retailers. For each customer, the account will bring everything together in one place, from their council tax bill and school term dates to their library book loans and the progress on their service requests or complaints, so they can be managed easily.

Another major departmental project is the implementation of a new Social Care Information System, which went live in May 2017. The new system will improve the way social care information is recorded and presented, allowing better coordination of casework activity across teams. The system will ensure that our social workers are well supported and equipped to respond to the needs of both adult and children social care customers.

In October 2016, London Borough of Wandsworth joined the South London Legal Partnership (SLLP), which is hosted by Merton's Corporate Services department. SLLP provides legal services to five local authorities in south London, covering over one million residents. In 2017/18, SLLP will look to further develop the innovative Digital Courtrooms company, which is digitising family courts and reducing reliance on paper documents. This helps to make the court process more efficient and generates an income for the company, which is one-third owned by Merton Council. The company is considering expansion into more non-local authority work, to spread its efficient digital practice and increase its income generating potential. This work will supplement the core aim of the SLLP - to deliver excellent legal services to the five boroughs and represent the innovative future of local government legal services.

Collection of council tax and business rates improved again in 2016/17, with collection rates remaining at record levels. This is the result of the Council's ongoing dedication to pursuing collection from the minority of 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.

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, the development of our 'practice model' and major changes in school funding.

Within Social Care, there are radical changes in the way Social Workers will be assessed, which must be implemented in line with their professional 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 model from Children's Centres and is working closely with colleagues in the health sector to co-locate and thereby, 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 expectations. The Department is pleased that 91% of schools in the Borough received a good or outstanding rating from Ofsted, against a target of 91%.

Community and Housing Department

Community and Housing provide a range of services to the residents and families of, and visitors to, Merton. Our unifying mission is to improve the life chances of our customers, whether this is through learning and information, having a place to live, or for older / disabled people living as independent a life as possible. This is through the provision of the planned changes in our services as follows:

Adult Social Care

The Department will promote independence and outcomes for customers by helping them to find solutions with their own assets wherever possible, rather than assessing for services. Early intervention and offering support recovery where appropriate will help people achieve maximum independence levels.

The Department works with its partners to improve the customer's journey, by reducing hand-offs and duplication, and increasing self service.

By making these improvements, the Department also plans to minimise the costs of long term support and ensures everyone makes the contribution they are able to.

Library, Heritage and Adult Education Services

These services will retain good standards by providing cutting edge technology and being responsive to customer needs.

Library space will be utilised to its maximum potential for other activities and to increase commercial income. For adult learning, a new commissioning based model has been adopted, with the aim of maximising residents' access to lifelong learning.

Housing Needs

The Department is looking for new ways of increasing affordable housing supply and of finding solutions for people in housing need. This involves deepening partnerships both within and outside the council (e.g. landlords) and investigating alternative methods of service delivery, including online processes and shared services.

Public Health

The service aims to 'make health everyone's business' and, by working with colleagues in the Council, Clinical Commissioning Group and voluntary sector, continues to work towards the prevention and reduction of health inequalities.

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 has improved 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 users accessing the library service has significantly exceeded the target for the year. Web based resources continue to be developed to further improve the Council's excellent library service, which recently received 100% satisfaction rating in its last customer survey.

The Department also achieved its target for the number of homelessness preventions. Wherever possible the Council 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

The Department has recently undergone a considerable transformation as a result of the significant changes in the delivery of services required to meet the Authority's financial challenges whilst supporting its ambition to become London's Best Council.

In particular, for some of its core services including Waste Collection, Street Cleaning, Parks and Vehicle Maintenance, the department has moved from being a direct provider to acting in a clienting/ commissioning role. With the neighbouring boroughs in the South London Waste Partnership (SLWP), major long-term contracts have been signed with experienced providers. This shift to commissioning will continue, ensuring quality services are contracted effectively from third parties in many service areas.

The Department also aspires to increase the number of services that are provided in conjunction with other local authorities. The well established and successful Regulatory Services Partnership with the London Borough of Richmond is likely to be expanded and other areas of the Department, notably building control, are also exploring options for working in partnership with others short of fully shared services.

Another key departmental priority is the Place Shaping Agenda – working to deliver growth and regeneration across the Borough and improving the management of public space. This will include the establishment of a Merton Housing Company and other vehicles for supporting appropriate growth strategies. Major transformation initiatives are planned for the Borough’s town centres over the next few years.

The performance indicators above support the conclusion from review of all indicators that the principal services of the Department - those that are of most concern to residents - are largely 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.
- **The Expenditure and Funding Analysis** - demonstrates to council tax payers how the funding available to the authority (ie government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.
- **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. Comprehensive Income and Expenditure Statement

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

2015/16 Re-stated				2016/17		
Gross	Gross	Net		Gross	Gross	Net
Expenditure	Income	Expenditure		Expenditure	Income	Expenditure
£000	£000	£000		£000	£000	£000
			Continuing Operations			
205,067	(160,354)	44,714	Children, Schools and Families	211,559	(160,665)	50,895
85,058	(20,260)	64,797	Community and Housing	87,444	(18,345)	69,099
119,553	(106,103)	13,451	Corporate Services	118,177	(105,962)	12,215
60,650	(28,287)	32,363	Environment and Regeneration	64,246	(33,714)	30,532
10,926	(10,458)	468	Public Health	11,120	(11,356)	(236)
481,254	(325,462)	155,792	Cost of services	492,546	(330,042)	162,504
		(3,745)	Other operating income and expenditure (Note 3)			(1,755)
		17,209	Financing and investment income and expenditure (Note 4)			20,028
		(173,958)	Taxation and non-specific grant income (Note 5)			(168,743)
		(4,702)	(Surplus) or Deficit on Provision of Services			12,034
		(13,016)	(Surplus) or deficit on revaluation of non-current assets (Note 17)			(50,269)
		0	Impairment losses on non-current assets (Note 17)			1,793
		(45,072)	Remeasurement of the net defined benefit liability/(asset) (Notes 17 & 32)			92,839
		(58,088)	Other Comprehensive Income and Expenditure			44,362
		(62,790)	Total Comprehensive Income and Expenditure			56,396

*The 2015/16 presentation of Continuing Operations has been re-stated, to reflect the Authority's internal management structure, rather than SeRCOP. This is to comply with CIPFA's new 2016/17 reporting requirements.

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

2. Movement in Reserves Statement

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

	General Fund Balances	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000
Balance at 01 April 2015	(67,576)	(31,263)	(5,715)	(104,554)	53,536	(51,018)
<i>Movement in reserves during 2015/16</i>						
Total Comprehensive Income and Expenditure	(4,702)	0	0	(4,702)	(58,088)	(62,790)
Adjustments between accounting basis & funding basis under regulations (Note 18)	4,933	1,681	1,562	8,176	(8,176)	0
(Increase)/Decrease in Year	231	1,681	1,562	3,474	(66,264)	(62,790)
Balance at 31 March 2016 carried forward	(67,345)	(29,582)	(4,154)	(101,080)	(12,728)	(113,808)

	General Fund Balances	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2016	(67,345)	(29,582)	(4,154)	(101,080)	(12,728)	(113,808)
<i>Movement in reserves during 2016/17</i>						
Total Comprehensive Income and Expenditure	12,034	0	0	12,034	44,362	56,396
Adjustments between accounting basis & funding basis under regulations (Note 18)	(5,948)	6,596	(3,098)	(2,450)	2,450	0
(Increase)/Decrease in Year	6,086	6,596	(3,098)	9,584	46,812	56,396
Balance at 31 March 2017 carried forward	(61,259)	(22,986)	(7,251)	(91,496)	34,084	(57,412)

3. Balance Sheet

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

31 March 2016			31 March 2017
£000		Notes	£000
461,133	Property, Plant & Equipment	19	513,119
669	Heritage Assets	21	802
5,000	Long Term Investments	9 & 10	5,000
1,291	Intangible Assets	20	1,379
8,095	Long Term Debtors	7	8,510
476,187	Long Term Assets		528,810
80,873	Short Term Investments	9 & 10	66,030
46	Inventories	36	35
30,225	Short Term Debtors	7	30,772
7,288	Assets Held for Sale	22	7,000
23,311	Cash and Cash Equivalents	14	30,410
141,744	Current Assets		134,247
(16,178)	Short Term Borrowing	9 & 10	(15,145)
(59,345)	Short Term Creditors	8	(63,293)
(1,445)	Current Provisions	11	(757)
(76,968)	Current Liabilities		(79,195)
(6,516)	Provisions	11	(5,518)
(116,976)	Long Term Borrowing	9 & 10	(113,010)
(32,346)	Other Long Term Liabilities	9	(30,939)
(263,154)	Pension Liability	32	(368,109)
(8,162)	Capital Grants Receipts in Advance	6	(8,874)
(427,155)	Long Term Liabilities		(526,450)
113,808	Net Assets		57,412
(101,080)	Usable Reserves	16	(91,496)
(12,728)	Unusable Reserves	17	34,084
(113,808)	Total Reserves		(57,412)

These financial statements replace the unaudited financial statements authorised at the meeting of Standards and General Purposes Committee on 29th June 2017.

Signed

Caroline Holland
 Director of Corporate Services
 7th September 2017

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.

2015/16		2016/17
£000		£000
(4,702)	Net (surplus) or deficit on the provision of services	12,034
(30,553)	Adjustments to net surplus or deficit on the provision of services for non cash movements (note 15a)	(34,047)
23,671	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 15b)	25,493
(11,583)	Net Cash flows from Operating Activities (note 15c)	3,480
8,423	Investing Activities (note 15d)	(14,364)
(827)	Financing Activities (note 15e)	3,786
(3,987)	Net (increase) or decrease in cash and cash equivalents	(7,099)
19,324	Cash and cash equivalents at the beginning of the reporting period	23,311
23,311	Cash and cash equivalents at the end of the reporting period (Note 14)	30,410

NOTES TO THE CORE FINANCIAL STATEMENTS

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INCOME AND EXPENDITURE

1. Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the authority (ie government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Expenditure and Funding Analysis 2016/17			
Department	Net Expenditure Chargeable to General Fund Balances £000	Differences between General Fund and CIES £000	Net Expenditure in the CIES £000
Children, Schools and Families	55,664	(4,769)	50,895
Community and Housing	67,115	1,983	69,099
Corporate Services	9,011	3,204	12,215
Environment and Regeneration	22,698	7,834	30,532
Public Health	(331)	95	(236)
Sub-total	154,157	8,347	162,504
Other income and expenditure	(148,071)	(2,399)	(150,470)
(Surplus) or deficit	6,086	5,948	12,034
Opening General Fund balances	(67,345)		
Closing General Fund balances	(61,259)		

Analysis of Differences between General Fund and CIES

Department	Accounting Basis and Funding Basis			Other presentational differences (4) £000	Total adjustments £000
	Adjustments for capital purposes (1) £000	Net change for pensions adjustments (2) £000	Other statutory adjustments (3) £000		
Children, Schools and Families	(2,228)	4,095	2,204	(8,841)	(4,769)
Community and Housing	2,911	1,376	(39)	(2,265)	1,983
Corporate Services	4,875	(4,444)	(23)	2,796	3,204
Environment and Regeneration	14,486	1,856	(44)	(8,464)	7,834
Public Health	0	88	0	7	95
Sub-total of adjustments within net cost of services	20,044	2,972	2,098	(16,767)	8,347
Other income and expenditure	(28,618)	9,144	308	16,767	(2,399)
Total adjustments	(8,574)	12,116	2,406	0	5,948

1. Adjustments for capital purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory Minimum Revenue Provision charge for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

2. Net change for the pensions adjustments

This column adjusts for the difference between pension contributions paid in year and the cost of pensions as calculated on an IAS 19 basis:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For financing and investment income and expenditure -- the net interest on the defined benefit liability is charged to the CIES.

3. Other statutory adjustments

This column adjusts for other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute, including:

- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.
- An adjustment for any unused employee holiday balances at year-end, which must be charged to the CIES, but is not chargeable to the General Fund (the charge is transferred to the accumulated absences reserve).

4. Presentational differences

This column adjusts for presentational differences, such as for leases and certain grants, between internal management reporting and reporting as per the Code of Practice.

2015/16 Comparative Figures

Expenditure and Funding Analysis 2015/16			
Department	Net Expenditure Chargeable to General Fund Balances £000	Differences between General Fund and CIES £000	Net Expenditure in the CIES £000
Children, Schools and Families	52,509	(7,796)	44,714
Community and Housing	63,085	1,712	64,797
Corporate Services	11,811	1,640	13,451
Environment and Regeneration	28,657	3,706	32,363
Public Health	468	0	468
Sub-total	156,530	(737)	155,792
Other income and expenditure	(156,298)	(4,196)	(160,494)
(Surplus) or deficit	231	(4,933)	(4,702)
Opening General Fund balances	(67,576)		
Closing General Fund balances	(67,345)		

2015/16 Department	Accounting Basis and Funding Basis			Other presentational differences (4) £000	Total adjustments £000
	Adjustments for capital purposes (1)	Net change for pensions adjustments (2)	Other statutory adjustments (3)		
	£000	£000	£000		
Children, Schools and Families	(1,531)	4,619	(732)	(10,151)	(7,796)
Community and Housing	911	1,487	0	(686)	1,712
Corporate Services	2,198	(2,953)	0	2,395	1,640
Environment and Regeneration	10,531	1,819	0	(8,644)	3,706
Public Health	0	0	0	0	0
Sub-total of adjustments within net cost of services	12,109	4,972	(732)	(17,087)	(737)
Other income and expenditure	(31,868)	9,434	1,152	17,087	(4,196)
Total adjustments	(19,759)	14,406	420	0	(4,933)

2. EXPENDITURE AND INCOME BY NATURE

The Authority's expenditure and income is analysed as follows:

	2015/16 £000	2016/17 £000
EXPENDITURE		
Employee expenses*	197,580	206,742
Other service expenses	274,324	268,821
Depreciation, Impairment losses and (revaluation increases) - Note 18	10,885	17,369
Support Service Recharges	(1,535)	(385)
Interest Payments (Note 9)	10,255	10,137
Precepts & Levies (Note 3)	926	928
Interest on net defined benefit liability (asset) (Note 32)	9,434	9,144
Loss on disposal of academies (Note 4)	0	3,049
Expenditure relating to trading accounts (Note 4)	170	522
Total Expenditure	502,039	516,326
INCOME		
Fees, charges and other service income	(61,663)	(71,681)
Interest & investment income (Note 9)	(1,850)	(1,621)
Taxation & non-specific grant income (Note 5)	(173,958)	(168,743)
Government grants (Note 6)	(263,799)	(258,361)
Gain or loss on disposal of fixed assets (Note 3)	(4,671)	(2,683)
Other finance and investment income (Note 4)	(800)	(1,202)
Total Income	(506,741)	(504,291)
(Surplus) or Deficit on the Provision of Services	(4,702)	12,034

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

Employee Expenditure	2015/16 £'000	2016/17 £'000
VA Schools Total	28,162	29,171
Foundation Schools Total	5,627	5,950
Total	33,789	35,121

A segmental analysis of certain types of income and expenditure, as required by the Code of Practice (paragraph 3.4.2.99), is shown below:

2016/17 Segmental Analysis	Fees, charges and other service income	Revenues from transactions with other operating segments of the authority	Depreciation, amortisation and revaluations
	£000	£000	£000
Children, Schools and Families	(5,455)	4,846	(3,116)
Community and Housing	(15,230)	4,946	1,207
Corporate Services	(17,325)	(16,669)	4,875
Environment and Regeneration	(33,314)	6,338	14,402
Public Health	(358)	155	0
Total	(71,680)	(385)	17,369

2015/16 Segmental Analysis	Fees, charges and other service income	Revenues from transactions with other operating segments of the authority	Depreciation, amortisation and revaluations
	£000	£000	£000
Children, Schools and Families	(5,767)	5,179	(2,028)
Community and Housing	(14,913)	5,692	464
Corporate Services	(12,844)	(17,943)	2,198
Environment and Regeneration	(27,751)	5,358	10,251
Public Health	(388)	178	0
Total	(61,663)	(1,535)	10,885

3. OTHER OPERATING INCOME AND EXPENDITURE

2015/16		2016/17
£000		£000
926	Precepts and Levies	928
(4,671)	(Gains)/ losses on the disposal of non-current assets	(2,683)
(3,745)	Total	(1,755)

4. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2015/16		2016/17
£000		£000
10,255	Interest payable and similar charges (Note 9)	10,137
9,434	Net interest on defined pension liability (Note 32)	9,144
(1,850)	Interest receivable and similar income (Note 9)	(1,621)
170	Trading accounts not related to services (Note 35)	522
0	Loss on the disposal of academies	3,049
(800)	Other (income)/expenditure	(1,202)
17,209	Total	20,028

5. TAXATION AND NON-SPECIFIC GRANT INCOMES

2015/16		2016/17
£000		£000
(80,155)	Council tax income	(82,394)*
(25,695)	Non domestic rates (see Note 6)	(25,880)*
(51,782)	Non-ringfenced government grants (see Note 6)	(44,256)
(16,327)	Capital grants and contributions (see Note 6)	(16,214)
(173,958)	Total	(168,743)

*Figures include £1,617k council tax income and £242k NDR income, which had been over-paid by taxpayers prior to 2010/11. These receipts have been recognised

in 2016/17 because they are now beyond the statutory period during which they could legally be reclaimed.

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 2016/17:

	2015/16	2016/17
	£000	£000
Credited to Taxation and Non Specific Grant Income		
Council Tax	(80,155)	(82,394)
Revenue Support Grant	(30,425)	(23,156)
Business Rates	(25,695)	(25,880)
Top-up Grant	(7,841)	(7,906)
Capital Grant Income	(16,327)	(16,214)
PFI Contribution	(4,797)	(4,797)
New Homes Bonus Grant	(3,679)	(4,734)
Section 31 Grant	(1,051)	(817)
Council Tax Freeze Grant	(867)	0
Education Services Grant	(2,594)	(2,350)
Other grants under £1 million	(528)	(495)
Total	(173,958)	(168,743)
Credited to Services		
Grants over £1million		
Schools Delegated Budget	(138,183)	(138,705)
Housing Benefits Subsidy	(91,149)	(87,302)
Public Health Grant	(10,071)	(10,998)
Benefits Administration	(1,074)	(985)
Pupil Premium	(5,991)	(5,875)
Sixth Form Funding	(5,543)	(5,436)
Universal Infant Free School Meals	(2,206)	(2,347)
Adult Education Main	(1,487)	(1,075)
Total grants under £1million*	(8,095)	(5,636)
Total Grants	(263,799)	(258,361)
Contributions over £1million		
Contributions from CCG	(1,429)	(1,165)
Registered Nursing Care Contribution	(1,237)	(59)
Local Taxation Services	(1,001)	(972)
Shared Legal Service	(4,204)	(7,059)
Recharge for out of borough SEN support	(1,267)	(1,001)
Total contributions under £1million	(10,166)	(8,725)
Total Contributions	(19,304)	(18,980)
TOTAL GRANTS AND CONTRIBUTIONS	(283,103)	(277,341)

*Includes grant income credited to services to fund REFCUS.

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

	2015/16	2016/17
	£000	£000
1. Government Grants and other contributions	(616)	(353)
2. Section 106	(6,943)	(8,067)
3. Schools Capital Grants	(604)	(454)
Total	(8,162)	(8,874)

DEBTORS, CREDITORS AND CASH FLOWS

7. DEBTORS

In preparing the analysis of debtors in the 2016/17 financial statements classification errors in the 2015/16 comparative disclosures have been detected. The errors have no impact on the Balance Sheet, the total value of debtors disclosed or the classification between short and long term. We do not consider that re-statement of the prior year comparatives would add any material benefit to users of the accounts, concluding that decisions of accounts users would not be materially impacted by a decision not to re-state. Therefore, prior year comparatives have not been re-stated.

Gross Debt £000	Impairment £000	31 March 2016 Net Debt £000		Gross Debt £000	Impairment £000	31 March 2017 Net Debt £000
			Long Term Debtors			
776	0	776	Other local authorities	741	0	741
10,921	(3,602)	7,319	Bodies external to general government	14,153	(6,384)	7,769
11,697	(3,602)	8,095	Total Long Term Debtors	14,894	(6,384)	8,510
			Short Term Debtors			
5,286	0	5,286	Central government bodies	4,143	0	4,143
0	0	0	NHS bodies	1,707	0	1,707
0	0	0	Public corporations and trusts	170	0	170
81	0	81	Other local authorities	1,480	0	1,480
36,162	(11,304)	24,858	Bodies external to general government	31,995	(8,724)	23,271
41,529	(11,304)	30,225	Total Short Term Debtors	39,496	(8,724)	30,772
53,226	(14,906)	38,320	Total Debtors	54,390	(15,108)	39,282

Financial Instruments in Debtors

Gross Debt £000	Impairment £000	31 March 2016 Net Debt £000		Gross Debt £000	Impairment £000	31 March 2017 Net Debt £000
			Long Term Debtors			
776	0	776	Other local authorities	741	0	741
7,338	(463)	6,875	Bodies external to general government	7,492	(522)	6,970
8,114	(463)	7,651	Total Long Term Debtors	8,233	(522)	7,711
			Short Term Debtors			
0	0	0	NHS bodies	1,707	0	1,707
0	0	0	Public corporations and trusts	170	0	170
0	0	0	Other local authorities	1,480	0	1,480
20,135	(2,372)	17,763	Bodies external to general government	23,222	(2,438)	20,784
20,135	(2,372)	17,763	Total Short Term Debtors	26,579	(2,438)	24,141
28,249	(2,835)	25,414	Total Financial Instruments in Debtors	34,812	(2,960)	31,852

8. CREDITORS

In preparing the analysis of creditors in the 2016/17 financial statements classification errors in the 2015/16 comparative disclosures have been detected. The errors have no impact on the Balance Sheet, the total value of creditors disclosed or the classification between short and long term. We do not consider that re-statement of the prior year comparatives would add any material benefit to users of the accounts, concluding that decisions of accounts users would not be materially impacted by a decision not to re-state. Therefore, prior year comparatives have not been re-stated.

31 March 2016		31 March 2017
£000		£000
	Short Term Creditors	
(3,352)	Central government bodies	(12,551)
(1,420)	Other local authorities	(3,955)
(217)	NHS bodies	(1,554)
0	Public Corporations and Trusts	(223)
(54,356)	Bodies external to general government	(45,012)
(59,345)	Total Short Term Creditors	(63,293)

Financial Instruments in Creditors

31 March 2016		31 March 2017
£000		£000
	Short Term Creditors	
0	Central government bodies	(4,695)
(756)	Other local authorities	(3,955)
(217)	NHS bodies	(1,554)
0	Public Corporations and Trusts	(223)
(38,898)	Bodies external to general government	(28,950)
(39,871)	Total Financial Instruments in Short Term Creditors	(39,376)

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 2016	31 March 2017	31 March 2016	31 March 2017
	£000	£000	£000	£000
Investments				
Loans and receivables	5,000	5,000	80,873	66,030
Total investments	5,000	5,000	80,873	66,030
Debtors				
Loans and receivables	7,651	7,711	17,763	24,141
Total debtors	7,651	7,711	17,763	23,941
Borrowings				
Financial liabilities at amortised cost	116,976	113,010	16,178	15,145
Total borrowings	116,976	113,010	16,178	15,145
Other Liabilities				
PFI and Finance Lease Liabilities	32,226	30,841	1,638	1,560
Total other liabilities	32,226	30,841	1,638	1,560
Short Term Creditors				
Other Financial liabilities at amortised cost	N/A	N/A	38,233	37,815
Total creditors	N/A	N/A	38,233	37,815

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

	2015/16			2016/17		
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Total £000
Interest Expense - Borrowings	6,702	0	6,702	6,805	0	6,805
Interest Expense - Finance Leases	3,533	0	3,533	3,302	0	3,302
Fee Expenses	19	0	19	29	0	29
Total Expenses in Surplus or Deficit on the Provision of Services	10,254	0	10,254	10,137	0	10,137
Interest Income - Investments	0	(1,124)	(1,124)	0	(828)	(828)
Interest Income - Finance Leases	0	(726)	(726)	0	(793)	(793)
Total income in Surplus or Deficit on the Provision of Services	0	(1,850)	(1,850)	0	(1,621)	(1,621)
Net gain/loss for the year	10,254	(1,850)	8,404	10,137	(1,621)	8,516

Investments

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

Investment Profile	31 March 2016 £000	31 March 2017 £000	
Long term	5,000	5,000	
Short term	80,400	65,900	
Accrued Investment Income	473	130	
Total	85,873	71,030	
Investments - Movement in year		£000	
Investments at 1 April 2016		85,873	
Change in investment managed internally		(14,500)	
Change in accrued investment income		(343)	
Investment at 31 March 2017		71,030	
Long term investment (book value)		5,000	
Short term investment (book value)		65,900	
	Book Value £000	Fair Value £000	Unrealised Profits/(Losses) £000
Managed Internally	66,030	66,087	57
Managed Externally	5,000	5,000	0
Total	71,030	71,087	57

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, and is disclosed in the table above.

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 receivable 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 31st March 2017 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 31st March 2017 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 2016		31 March 2017	
	Fair Value £000	Book Value £000	Fair Value £000	Book Value £000
Public Works Loan Board	66,548	52,010	70,307	52,010
Market Loan	96,423	63,000	107,355	63,000
Temporary Loan	15,008	15,000	9,998	10,000
Stock Loan	2,271	1,966	2,077	1,966
Total	180,250	131,976	189,737	126,976

Borrowing - Maturity Profile	31 March 2016 £000	31 March 2017 £000
Less than 1 year	15,000	13,966
Between 1 and 2 years	3,966	0
Between 2 and 5 years	0	4,000
Between 5 and 10 years	30,510	26,510
More than 10 years	82,500	82,500
Total Borrowings	131,976	126,976
Accrued Interest	1,178	1,179
	133,154	128,155

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 31st March 2017 arising from a commitment to pay interest to lenders above current market rates. The fair value of PWLB loans of £70.3m 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 2016/17 were as follows:

Category	Fitch	Moody's	Standard & Poor's	Definition
Banks and Building Societies				
Short Tem	F1	P-1	A-1	Highest credit quality on a 12 month view Very low expectation of credit risk developing
Long Term	A-	A3	A-1	
Viability/Rating Support	bbb+ 1	c- n/a	n/a n/a	Adequate institution with limited weakness Expectation of central government support
Money Market Funds	AAAmmf	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 31st March 2017 the disposition of investments was:

Category	£000	%	Spread (number of counterparties)	Fitch Rating
UK Clearing Banks	43,000	60.6%	2	F1, A, a-,1
UK Building Society	14,900	21.0%	1	F1, A, a-,1
Local Authority	3,000	4.2%	1	n/a
Pooled Property Fund	5,000	7.1%	1	AAAmmf
Non UK Banks	5,000	7.1%	1	AAA
Total	70,900	100%	6	

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 2016/17, 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 2016	31 March 2017
	£000	£000
< 3 months	6,758	9,327
3 to 12 months	1,904	2,220
> 1 year	4,213	3,360
Total	12,875	14,907

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 2016		31 March 2017	
	£000	%	£000	%
Under 12 months	15,000	11.4%	13,966	11.0%
1yr to 2yrs	3,966	3.0%	0	0.0%
2yrs to 5yrs	0	0.0%	4,000	3.2%
5yrs to 10yrs	30,510	23.1%	26,510	20.9%
10yrs and over	82,500	62.5%	82,500	65.0%
Total	131,976	100%	126,976	100%

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 £000	Proportion of total debt %
4.00 - 4.99%	5,000	3.9
5.00 - 5.99%	34,000	26.8
6.00 - 6.99%	15,500	12.2
7.00 - 7.99%	2,000	1.6
8.00 - 8.99%	6,500	5.1
Total	63,000	49.6

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 31st March 2017 the sources of potential borrowing appear unimpaired, and the maturity profile of investments, available to support liquidity going forward, is as follows:

Maturity Profile of Investments	£000	%
April to June 2017	8,000	11.3
July to September 2017	21,900	30.9
October to December 2017	8,000	11.3
January 2018 to March 2018	23,000	32.4
April 2018 to June 2018	0	0.0
June 2018 to September 2018	0	0.0
October 2018 and beyond	10,000	14.1
	70,900	100.0

The Authority did not experience any liquidity problems in 2016/17 and does not anticipate any for 2017/18.

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:

	2016/17 £000	0.50% £000	1.00% £000	Mitigation
Borrowings	126,976	635	1,270	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	(70,900)	(355)	(709)	
Impact on CIES	N/A	280	561	

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.

Maturity in	At 31st March 2016		At 31st March 2017	
	£000	Interest Rate %	£000	Interest Rate %
Under 12 months	15,000	0.6	13,966	3.1
1 to 2 years	3,966	9.6	0	-
2 to 5 years	0	-	4,000	6.8
5 to 10 years	30,510	6.1	26,510	5.9
10 to 15 years	4,500	8.4	4,500	8.4
15 to 20 years	12,500	5.2	12,500	5.2
25 to 30 years	13,500	6.6	13,500	6.6
35 to 40 years	32,000	4.6	32,000	4.6
45 to 50 years	20,000	5.0	20,000	5.0
	131,976	5.1	126,976	5.3

Prudential Indicator Limits

Maximum % exposure to	2016/17	2017/18	2018/19	2019/20
Fixed rates	100	100	100	100
Variable rates	50	50	50	50

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.

	2016/17	2017/18	2018/19	2019/20
Maximum investment over 1 year as percentage of total investments	50	50	50	50

At 31st March 2017, the investment portfolio's exposure to interest rates is set out in the following table.

Deposit Maturity in:	At 31st March 2016		At 31st March 2017	
	£000	Interest Rate %	£000	Interest Rate %
0-3 months	4,300	1.0	8,000	0.4
3-6 months	31,950	0.9	21,900	0.4
6-9 months	33,200	1.0	8,000	1.0
9-12 months	10,950	0.4	23,000	0.8
over 12 months	5,000	4.0	10,000	2.5
	85,400	1.1	70,900	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

	Short Term Provisions				
	Housing	Single Status	NDR Appeals	Housing Benefit Grant Clawback	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2016	(234)	(52)	(185)	(974)	(1,445)
Additional provisions made in 2016/17	0	0	(581)	0	(581)
Amounts written back to revenue in 2016/17	231	0	0	693	924
Adjustment between short and long term provision	0	0	(176)	0	(176)
Amounts used in 2016/17	4	52	185	281	521
Balance at 31 March 2017	0	0	(757)	(0)	(757)

	Long Term Provisions		
	Insurance Fund	NDR Appeals	Total
	£000	£000	£000
Balance at 1 April 2016	(4,319)	(2,197)	(6,516)
Additional provisions made in 2016/17	(960)	0	(960)
Adjustment between short and long term provision	0	176	176
Amounts used in 2016/17	1,104	678	1,782
Balance at 31 March 2017	(4,175)	(1,343)	(5,518)

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**

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**

Following the stock transfer agreement made in March 2010, the authority set aside £0.343m as a provision for claims arising from health and safety and various design issues. At 31/03/2016, £0.234m remained in the provision for settlement of outstanding contracts. However, during 2016/17, the deadline for receiving new claims in relation to the stock transfer expired, therefore the provision has been written back to revenue.

- **Single Status**

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 2016/17, the Authority utilised the provision in full, making payments totalling £0.052m. The remaining outstanding liability for single status allowances is not sufficiently material to require further provision.

- **NDR Appeals £2.100m**

The Authority has a provision of £2.10m (£0.757m current, £1.353m non-current) for its share of appeals against NDR (Business Rates) charges. During 2016/17, £0.863m was charged against the provision, and an additional £0.581m set-aside to cover future appeals. The total £2.100m provision reflects an estimate of the potential effects of appeals that may be settled in future years.

- **Housing Benefit Grant Clawback**

Following the audit of past grant claims, which had resulted in repayments to central government, the Authority provided £0.974m in 2015/16 to cover any future repayments due. During 2016/17, a charge of £281k was made against the provision in respect of prior grant claims. Following improvements to internal controls and a successful audit of 2015/16's grant claim, it is no longer probable that a repayment will be due to central government in respect of 2016/17's grant claim. Therefore, the remaining provision has been written back to revenue, with a sum set-aside within the Corporate Services earmarked reserve.

12. CONTINGENT LIABILITIES

Employment Disputes

There are currently six employment disputes, where claims either have been or may be made against the Authority. The combined maximum, potential liability of the six disputes is estimated at £327k, however the Authority believes the true value of the claims to be significantly lower. Where appropriate, the Authority defends itself against claims and due to inherent uncertainties surrounding the outcome of disputes, the Council has not made provision for these 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 the defendants were consequently committed to serve seven and a half years imprisonment. However, the term of imprisonment does not extinguish the confiscation order and the £6.1million remains payable if the hidden assets can be traced.

14. CASH AND CASH EQUIVALENTS

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

31 March 2016 £000		31 March 2017 £000
2,049	Main bank account	12,865
1,322	Cash in transit (held by agents)	(137)
19,921	Cash advanced to schools	17,663
20	Cash advanced to establishments (Cash imprests)	19
23,311	Total Cash and Cash Equivalents	30,410

15. CASH FLOWS

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

2015/16 £000	ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS	2016/17 £000
	Non Cash Movements	
(16,711)	Depreciation	(17,171)
5,972	(Impairment)/Revaluation increases	340
(584)	Amortisation	(538)
(2,600)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(6,614)
(14,406)	Movement in Pension Liability	(12,116)
(120)	(Increase)/decrease in provision for the impairment of bad debts	(202)
(629)	(Increase)/decrease in Provisions	1,686
(29,078)		(34,615)
	Accruals Adjustments	
(22)	Increase/(decrease) in Inventories	(11)
4,451	Increase/(decrease) in Debtors	1,164
151	Increase/(decrease) in Interest Debtors	(343)
(6,036)	(Increase)/decrease in Creditors	(241)
(18)	(Increase)/decrease in Interest Creditors	(2)
(1,474)		567
(30,553)	Total	(34,047)

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

2015/16	ADJUSTMENTS FOR ITEMS INCLUDED IN THE SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES	2016/17
£000		£000
6,357	Proceeds from the sale of PP&E, investment property and intangible assets	6,634
17,314	Any other items for which the cash effects are investing or financing cash flows	18,859
23,671	Total	25,493

15c. Cash Flow Statement - Operating Activities

2015/16	CASH FLOW STATEMENT - OPERATING ACTIVITIES	2016/17
£000		£000
(20,102)	Employee and running costs less income	(4,663)
(1,699)	Interest received from investments and finance leases	(1,964)
6,685	Interest paid on borrowings	6,803
3,533	Interest paid in respect of finance leases	3,302
(11,583)	Net cash flows from operating activities	3,479

15d. Cash Flow Statement - Investing Activities

2015/16	CASH FLOW STATEMENT - INVESTING ACTIVITIES	2016/17
£000		£000
30,325	Purchase of property, plant and equipment, investment property and intangible assets	26,370
403,555	Purchase of short-term and long-term investments	383,400
(6,357)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6,634)
(404,255)	Proceeds from short-term and long-term investments	(397,900)
(14,845)	Other receipts from investing activities	(19,600)
8,423	Net cash flows from investing activities	(14,364)

15e. Cash Flow Statement - Financing Activities

2015/16	CASH FLOW STATEMENT - FINANCING ACTIVITIES	2016/17
£000		£000
(20,000)	Cash receipts of short and long term borrowing	0
1,842	Cash payments for the reduction of finance leases	1,249
16,910	Repayment of short- and long-term borrowing	5,000
421	Other payments/(receipts) from financing activities	(2,463)
(827)	Net cash flows from financing activities	3,786

RESERVES

16. USABLE RESERVES

Usable Reserves	Balance at 31 March 2015 £000	Transfers out 2015/16 £000	Transfers in 2015/16 £000	Balance at 31 March 2016 £000	Transfers out 2016/17 £000	Transfers in 2016/17 £000	Balance at 31 March 2017 £000
General Fund:							
Balances held by schools	(8,535)	0	(1,969)	(10,504)	2,258	0	(8,246)
General Fund Balances	(15,151)	0	0	(15,151)	2,372	0	(12,778)
Earmarked reserves	(43,890)	9,450	(7,250)	(41,690)	5,762	(4,307)	(40,235)
Total General Fund	(67,575)	9,450	(9,219)	(67,345)	10,393	(4,307)	(61,259)
Capital:							
Capital Receipts Reserves	(31,263)	9,082	(7,401)	(29,582)	12,993	(6,397)	(22,986)
Capital Grants Unapplied	(5,715)	4,266	(2,705)	(4,154)	830	(3,928)	(7,251)
Total Capital	(36,978)	13,349	(10,106)	(33,735)	13,823	(10,325)	(30,237)
Total Usable Reserves	(104,554)	22,798	(19,324)	(101,080)	24,216	(14,632)	(91,496)

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 £6.75m.

Transfers to/from Earmarked Reserves

Reserve	Balance at 31st March 2015	Net Transfer (to)/from Reserve	Balance at 31st March 2016	Net Transfer (to)/from Reserve	Balance at 31st March 2017
	£000	£000	£000	£000	£000
Outstanding Council Programme Board	(9,515)	3,233	(6,282)	1,363	(4,919)
For use in future years' budgets	(5,752)	(113)	(5,865)	(1,924)	(7,789)
Revenue reserve for capital/revenueisation	(6,062)	(1,685)	(7,747)	932	(6,815)
Renewable energy reserve	(1,441)	(82)	(1,523)	0	(1,523)
Repairs and renewals fund	(1,424)	200	(1,224)	77	(1,147)
Transforming families reserve	(414)	414	0	0	0
Pension fund additional contribution	(63)	0	(63)	(434)	(497)
Local land charges	(1,419)	(226)	(1,645)	(258)	(1,903)
Apprenticeships	(648)	242	(406)	104	(303)
Community care reserve	(1,386)	0	(1,386)	0	(1,386)
Local welfare support reserve	(614)	81	(533)	90	(443)
Economic development strategy	(1,148)	529	(620)	518	(101)
Corporate services reserves	(182)	(108)	(290)	(486)	(776)
Wimbledon tennis courts renewal	(77)	(25)	(101)	(25)	(126)
Governor support reserve	(52)	33	(19)	(24)	(43)
Redundancy costs reserve	0	0	0	(600)	(600)
New homes bonus scheme	0	(1,037)	(1,037)	746	(291)
Adult social care contributions	(425)	75	(350)	350	0
Culture & environment contributions	(447)	313	(134)	120	(13)
Culture & environment grants	(363)	(50)	(413)	163	(250)
Childrens & education grants	(650)	279	(371)	65	(307)
Supporting people balances	0	(65)	(65)	65	0
Housing planning development grants	(190)	89	(101)	101	0
Housing GF grants	(106)	0	(106)	0	(106)
Public health grant reserve	(1,154)	1,132	(22)	(325)	(347)
Children, schools & families reserve	0	(365)	(365)	365	0
Insurance reserves	(1,955)	0	(1,955)	0	(1,955)
DSG reserve	(3,585)	(784)	(4,368)	705	(3,663)
Refund of school PFI contributions	(400)	300	(100)	0	(100)
Schools reserve	(52)	52	0	0	0
School Standard Fund	0	0	0	(6)	(6)
Schools PFI fund	(4,366)	(235)	(4,600)	(226)	(4,826)
Total Earmarked Reserves	(43,890)	2,200	(41,690)	1,455	(40,235)

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 support: 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 potential legal challenges in relation to local land charges.

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: This reserve funds corporate projects and also provides a contingency to cover any Housing Benefit Subsidy Grant that may be clawed back from the Council by the Department of Work and Pensions.

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 2016		31 March 2017
£000		£000
(84,678)	Revaluation Reserve	(128,905)
(187,067)	Capital Adjustment Account	(203,225)
263,154	Pensions Reserve	368,109
(5,319)	Deferred Capital Receipts Reserve	(5,481)
(1,703)	Collection Fund Adjustment Account	(1,395)
2,884	Accumulated Absences Account	4,983
(12,728)	Total Unusable Reserves	34,084

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 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2015/16		2016/17
£000		£000
(73,934)	Balance at 1st April	(84,678)
(13,016)	Upward revaluation of assets	(50,269)
0	Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services	1,793
(13,016)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(48,476)
2,271	Difference between fair value depreciation and historical cost depreciation	1,987
1	Accumulated gains on assets sold or scrapped	2,262
2,272	Amount written off to the Capital Adjustment Account	4,249
(84,678)	Balance at 31st March	(128,905)

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 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

2015/16 £000		2016/17 £000
(161,565) (2,272)	Balance at 1st April Amounts written out of the Revaluation Reserve	(187,067) (4,249)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
16,711	Charges for depreciation and impairment of non-current assets	17,171
2,106	Revaluation losses charged to CIES for Property, Plant and Equipment where there is no prior Revaluation Reserve balance	9,940
(8,078)	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	(10,280)
584	Amortisation of intangible assets	538
1,006	Revenue expenditure funded from capital under statute	3,200
2,600	Amounts of non-current assets written off on derecognition or sale as part of the gain/ loss on disposal to the CIES	6,614
0	Other adjustments	0
14,929		27,183
12,657	Net reversal of the cost of non-current assets consumed in the year	22,935
	Capital financing applied in the year:	
(9,082)	Use of Capital Receipts Reserve to finance new capital expenditure	(12,993)
(18,895)	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	(15,791)
(9,276)	Statutory provision for the financing of capital investment charged against the General Fund	(8,615)
(1,036)	Capital expenditure charged against the General Fund	(1,842)
(38,289)		(39,242)
130	Loan Repayments	149
(187,067)	Balance at 31st March	(203,225)

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.

2015/16		2016/17
£000		£000
293,820	Balance at 1st April	263,154
(45,072)	Remeasurements of the net defined benefit liability/asset	92,839
31,310	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit in the Provision of Services in the Comprehensive and Expenditure Statement	29,906
(16,904)	Employer's pensions contributions and direct payments to pensioners payable in the year	(17,790)
263,154	Balance at 31st March	368,109

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.

2015/16		2016/17
£000		£000
(5,547)	Balance at 1st April	(5,319)
217	Correction of balance relating to previous years	(176)
11	Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	14
(5,319)	Balance at 31st March	(5,481)

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.

2015/16		2016/17
£000		£000
(2,854)	Balance at 1st April	(1,703)
1,152	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	308
(1,703)	Balance at 31st March	(1,395)

Accumulated Absences Account

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

2015/16 £000		2016/17 £000
3,616	Balance at 1st April	2,884
(3,616)	Settlement or cancellation of accrual made at the end of the preceding year	(2,884)
2,884	Amount accrued at 31st March	4,983
(732)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,098

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.

2016/17

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
<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	(17,171)			17,171
Revaluation losses on Property Plant and Equipment	(9,940)			9,940
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	10,280			(10,280)
Amortisation of intangible assets	(538)			538
Revenue expenditure funded from capital under statute	(3,200)			3,200
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	(6,614)			6,614
<u>Insertion of items not debited or credited to the</u>				
<u>Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	8,615			(8,615)
Capital expenditure charged against the General Fund balance	1,842			(1,842)
Adjustments primarily involving the Capital Grant Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	18,889		(3,928)	(14,961)
Application of grants to capital financing transferred to the Capital Adjustment Account			830	(830)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	6,249	(6,249)		

	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		12,993		(12,993)
Repayment of debt		(149)		149
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(14)			14
Correction of balance relating to previous years	176			(176)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	(29,906)			29,906
Employer's pensions contributions and direct payments to pensioners payable in the year	17,790			(17,790)
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(308)			308
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,098)			2,098
Total Adjustments	(5,948)	6,596	(3,098)	2,450

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
<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				
Adjustments primarily involving the Capital Grant Unapplied Account:				
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)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	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
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
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
Adjustments involving the Pensions Reserve:				
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)
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,151)			1,151
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	732			(732)
Total Adjustments	4,933	1,681	1,562	(8,176)

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 31st March 2017, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years totalling an estimated £11.3m (£7.5m at 31/03/2016).

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2016	354,927	20,584	155,577	0	7,026	1,472	539,586	57,376
Correction of balance relating to previous years	10	(37)	0	0	0	0	(27)	0
Additions	12,416	2,694	8,709	916	0	2,064	26,800	75
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	31,540	(1,908)	0	(916)	0	0	28,716	0
Derecognition - Disposals	(3,210)	(5,923)	0	0	0	0	(9,133)	0
Assets reclassified (to)/from held for Sale	288	0	0	0	0	0	288	0
At 31 March 2017	395,971	15,410	164,286	0	7,026	3,536	586,229	57,451
Accumulated Depreciation and Impairment								
At 1 April 2016	9,334	12,444	56,673	0	0	0	78,452	1,218
Correction of balance relating to previous years	0	(37)	0	0	0	0	(37)	0
Depreciation Charge	8,368	2,580	6,223	0	0	0	17,171	1,222
Depreciation written out to the Revaluation Reserve	(14,579)	(1,912)	0	0	0	0	(16,490)	0
Derecognition - Disposals	(147)	(5,840)	0	0	0	0	(5,986)	0
At 31 March 2017	2,977	7,236	62,897	0	0	0	73,110	2,440
Net Book Value								
At 31 March 2017	392,994	8,174	101,389	0	7,026	3,536	513,119	55,011
At 31 March 2016	345,593	8,140	98,904	0	7,026	1,472	461,133	56,158

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2016	354,927	20,584	155,577	0	7,026	1,472	539,586	57,376
Correction of balance relating to previous years	10	(37)	0	0	0	0	(27)	0
Additions	12,416	2,694	8,709	916	0	2,064	26,800	75
Revaluation increase/(decreases) recognised in the Revaluation Reserve	34,316	0	0	0	0	0	34,316	9,320
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	692	0	0	(916)	0	0	(224)	0
Derecognition - Disposals	(6,678)	(7,831)	0	0	0	0	(14,509)	0
Assets reclassified (to)/from held for Sale	288	0	0	0	0	0	288	0
At 31 March 2017	395,971	15,410	164,286	0	7,026	3,536	586,229	66,771
Accumulated Depreciation and Impairment								
At 1 April 2016	9,334	12,444	56,673	0	0	0	78,452	1,218
Correction of balance relating to previous years	0	(37)	0	0	0	0	(37)	0
Depreciation Charge	8,368	2,580	6,223	0	0	0	17,171	0
Depreciation written out to the Revaluation Reserve	(14,579)	(1,912)	0	0	0	0	(16,490)	(1,218)
Derecognition - Disposals	(147)	(5,840)	0	0	0	0	(5,986)	0
At 31 March 2017	2,977	7,236	62,897	0	0	0	73,110	0
Net Book Value								
At 31 March 2017	392,994	8,174	101,389	0	7,026	3,536	513,119	66,771
At 31 March 2016	345,593	8,140	98,904	0	7,026	1,472	461,133	56,158

Comparative Movements in 2015/16:

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
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
At 31 March 2016	354,927	20,584	155,577	0	7,026	1,472	539,586	57,376
Accumulated Depreciation and Impairment								
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
At 31 March 2016	9,334	12,444	56,673	0	0	0	78,452	1,218
Net Book Value								
At 31 March 2016	345,593	8,140	98,904	0	7,026	1,472	461,133	56,158
At 31 March 2015	324,900	10,436	95,925	0	2,000	358	433,619	57,295

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 £0.54m charged to revenue in 2016/17 (£0.58m in 2015/16) 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:

	2015/16	2016/17
	Intangible Assets £000	Intangible Assets £000
Balance at start of year:		
Gross carrying amounts	3,701	2,973
Accumulated amortisation	(2,062)	(1,682)
Net carrying amount at start of year	1,639	1,291
Disposals:		
Gross carrying amounts	(963)	(1,168)
Accumulated amortisation	963	1,168
Additions:		
Purchases	235	626
Amortisation for the period	(584)	(538)
Net carrying amount at end of year	1,291	1,379
Comprising:		
Gross carrying amounts	2,973	2,431
Accumulated amortisation	(1,682)	(1,052)
	1,291	1,379

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. Valuations were carried out in February 2017 by qualified external valuers, Denham's, a Sussex based firm of auctioneer's founded in 1884. There are four items within the Art collection and nine 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 £104,000.

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

	Art Collection £000	Regalia & Ceremonial £000	Total Assets £000
Cost or Valuation			
1 April 2016	197	472	669
Revaluations	(6)	139	133
31 March 2017	191	611	802

22. ASSETS HELD FOR SALE

	Current	
	2015/16 £000	2016/17 £000
Balance outstanding at start of year	7,288	7,288
Assets reclassified (to)/from Other Land & Buildings	0	(288)
The balance relates to property, plant and equipment- a car park at Wimbledon and garages at Ravensbury Avenue to be sold to developer.		
Balance outstanding at year end	7,288	7,000

Refer to note 33 – Events after Balance Sheet Date

23. IMPAIRMENT LOSSES

The Authority carried out an impairment review in 2016/17, the result of which was that £3.1m impairment losses were charged to Other Comprehensive Expenditure in the CIES.

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:

	2015/16	2016/17
	£000	£000
Opening Capital Financing Requirement	207,826	198,616
Capital Investment		
Property, Plant and Equipment	27,837	26,800
Intangible Assets	235	626
Revenue Expenditure Funded from Capital Under Statute	1,006	3,200
Sources of Finance		
Capital receipts	(9,082)	(12,993)
Government grants and other contributions	(18,895)	(15,791)
Sums set aside from revenue:		
Direct revenue contributions	(1,036)	(1,842)
MRP	(9,276)	(8,616)
Closing Capital Financing Requirement	198,616	190,000
Decrease in underlying need to borrowing (unsupported by government financial assistance)	(9,210)	(8,616)
Increase/(Decrease) in Capital Financing Requirement	(9,210)	(8,616)

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 2016 £000		31 March 2017 £000
2,544	Other Land and Buildings	2,871
261	Vehicles, Plant, Furniture and Equipment	162
2,805	Total	3,033

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 2016 £000		31 March 2017 £000
	Finance lease liabilities (net present value minimum lease payments):	
293	- current	79
553	- non current	390
62	Finance costs payable in future years	1
908	Total minimum lease payments	470

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

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000
Not later than one year	293	79	293	79
Later than one year and not later than five years	352	123	290	123
Later than five years	263	268	263	267
Total	908	470	846	469

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 2016/17, £0.264m contingent rents were payable by the Authority (£0.291m in 2015/16).

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 2016 £000		31 March 2017 £000
214	Not later than one year	1,465
665	Later than one year and not later than five years	5,670
1,066	Later than five years	6,023
1,945	Total	13,158

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 2016		31 March 2017
£000		£000
	Finance lease debtor (net present value of minimum lease payments):	
12	- current	15
5,484	- non current	5,469
20,054	Unearned finance income	19,729
2	Unguaranteed residual value of property	2
25,552	Gross investment in lease	25,215

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

	Gross investment in the Lease		Minimum Lease Payments	
	31 March 2016	31 March 2017	31 March 2016	31 March 2017
	£000	£000	£000	£000
Not later than one year	337	340	337	340
Later than one year and not later than five years	1,360	1,360	1,360	1,360
Later than five years	23,855	23,515	23,852	23,512
Total	25,552	25,215	25,549	25,212

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 2016/17, £0.738m contingent rents were receivable by the authority (£0.339m in 2015/16).

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 2016		31 March 2017
£000		£000
3,055	Not later than one year	2,957
9,496	Later than one year and not later than five years	9,858
29,949	Later than five years	26,951
42,500		39,765

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 and Early Years (England) Regulations 2015. 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 2016/17 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total Expenditure £'000
Final DSG for 2016/17 before Academy recoupment			156,540
Academy figure recouped for 2016/17			(17,835)
Total DSG figure after Academy recoupment for 2016/17			138,705
Plus: Brought forward from 2015/16			4,368
Less: Carry-forward to 2017/18 agreed in advance			(3,901)
Agreed initial budgeted distribution in 2016/17	19,131	120,041	139,172
In year adjustments			0
Final budgeted distribution for 2016/17	19,131	120,041	139,172
Less: Actual central expenditure	(19,577)		(19,577)
Less: Actual ISB deployed to schools		(119,833)	(119,833)
Plus: Local authority contribution for 2016/17	0	0	0
Carry forward for 2016/17	(446)	208	(238)
Carry-forward to 2017/18 agreed in advance			3,901
Total carry forward 2017/18			3,663

The £3.663m 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		2015/16		2016/17	
		Number of Schools	Net surplus/ (deficit) £'000	Number of Schools	Net surplus/ (deficit) £'000
Maintained	Primary*	30	5,093	29	3,463
	Secondary	2	1,905	2	1,676
Voluntary Aided	Primary	11	1,366	11	999
	Secondary	2	551	2	563
Foundation		1	600	1	316
Special Schools		4	988	4	1,229
Total		50	10,503	49	8,246

During 2016/17, one primary school became an Academy.

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.

	31 March 2016	31 March 2017
	£000	£000
Gross Value	57,376	66,771
Accumulated Depreciation	(1,218)	0
Net	56,158	66,771

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 2018	1,481	3,441	4,087	9,008
Mar 2019 - 2023	8,519	17,389	23,806	49,714
Mar 2024 - 2028	14,830	16,752	22,905	54,487
Mar 2029 - 2030	7,102	9,467	11,837	28,406
Liability at 31st March 2017	31,932	47,049	62,635	141,617
Liability at 31st March 2016	33,277	50,053	69,805	153,135
Liability at 31st March 2015	34,734	54,860	75,339	164,932

Partial Termination

	Capital £000	Interest £000	Services £000	Total £000
Mar 2018	686	973	0	1,659
Mar 2019 - 2023	4,242	4,053	0	8,295
Mar 2024 - 2028	6,000	2,295	0	8,295
Mar 2029 - 2030	3,045	273	0	3,318
Liability at 31st March 2017	13,973	7,594	0	21,567
<hr/>				
Liability at 31st March 2016	14,613	8,613	0	23,226
Liability at 31st March 2015	15,210	9,675	0	24,885

Three Schools and One Academy

	Capital £000	Interest incl. Contingent Rent £000	Services £000	Total £000
Mar 2018	795	2,468	4,087	7,349
Mar 2019 - 2023	4,277	13,336	23,806	41,419
Mar 2024 - 2028	8,830	14,457	22,905	46,192
Mar 2029 - 2030	4,057	9,194	11,837	25,088
Liability at 31st March 2017	17,959	39,455	62,635	120,050
<hr/>				
Liability at 31st March 2016	18,664	41,440	69,805	129,909
Liability at 31st March 2015	19,524	45,185	75,339	140,047

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 (£28k in 2015/16).

	2015/16 £000	2016/17 £000
Salaries	0	0
Allowances	723	721
Expenses	0	0
Total	723	721

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 both 2016/17 and 2015/16 figures.

Remuneration Band £	2015/16 Teaching Staff	2015/16 Other Staff	2016/17 Teaching Staff	2016/17 Other Staff
50,000 – 54,999	65	53	76	50
55,000 – 59,999	44	26	36	21
60,000 – 64,999	13	19	22	16
65,000 – 69,999	13	9	8	18
70,000 – 74,999	9	15	11	16
75,000 – 79,999	5	4	8	3
80,000 – 84,999	3	1	5	2
85,000 – 89,999	2	4	1	4
90,000 – 94,999	2	5	4	3
95,000 – 99,999	0	1	0	2
100,000 – 104,999	1	0	0	0
105,000 – 109,999	1	0	0	1
110,000 – 114,999	1	0	0	1
115,000 – 119,999	0	2	1	1
120,000 – 124,999	0	1	1	0
125,000 – 129,999	0	0	0	0
130,000 – 134,999	1	0	0	0
135,000 – 139,999	0	3	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
Total	160	144	173	142

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the following table. In line with CIPFA guidance, three foundation school employees have been excluded from 2016/17 figures and six voluntary aided and foundation school employees has been excluded from 2015/16 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	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £	2016/17 £
£								
0 - 20,000	65	58	30	19	95	77	806,887	423,316
20,001 - 40,000	12	6	8	4	20	10	556,312	295,896
40,001 - 100,000	3	1	2	3	5	4	285,523	193,314
TOTAL	80	65	40	26	120	91	1,648,722	912,526

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 2016/17 and also the 2015/16 comparative year data with supporting sub-notes.

2015/16				Post holder information	2016/17			
Sub-Notes	Remuneration £	Employer's Pension contributions £	Total £		Sub-Notes	Remuneration £	Employer's Pension contributions £	Total £
6	185,000	25,715	210,715	Chief Executive Ged Curran	1	186,682	25,972	212,654
7	135,000	18,765	153,765	Director of Corporate Services Caroline Holland	2	136,351	18,953	155,304
8	119,660	7,882	127,542	Director of Community and Housing Simon Williams	3	109,522	0	109,522
9	135,000	18,765	153,765	Director of Children, Schools and Families Yvette Stanley	4	136,155	18,926	155,081
10	135,000	18,765	153,765	Director of Environment & Regeneration Chris Lee	5	136,155	18,926	155,081

Sub-notes 2016/17

1. Mr G. Curran, Chief Executive, remuneration was a salary of £186,682. Four additional separate payments were received, totalling £11,893, for Borough Returning Officer duties at the GLA election on 5th May 2016, Returning Officer duties at Figges Marsh and St Helier by elections on 5th May and 19th May 2016 respectively, and Counting Officer duties at the EU Referendum on

23rd June 2016. A further £800 payment was also received for Local Authority Gold Team duties.

2. Ms C. Holland, Director of Corporate Services, remuneration was a salary of £136,351. Two separate payments were received, totalling £4,004, for Deputy Borough Returning Officer duties at the GLA election on 5th May 2016, and Deputy Counting Officer duties at the EU Referendum on 23rd June 2016. A further £800 payment was also received for Local Authority Gold Team duties.
3. Mr S. Williams, Director of Community and Housing, remuneration was a salary of £109,522. Two additional separate payments were received, totalling £568, for Borough Returning Officer Assistant and Polling Station Inspector duties at the GLA election on 5th May 2016.
4. Ms Y. Stanley, Director of Children, Schools and Families, remuneration was a salary of £136,155. Two separate payments, totalling £568, were received for Borough Returning Officer Assistant and Polling Station Inspector duties at the GLA election on 5th May 2016.
5. Mr C. Lee, Director of Environment and Regeneration, remuneration was a salary of £136,155. Four separate payments, totalling £870, were received for Borough Returning Officer Assistant and Polling Station Inspector duties at the GLA election on 5th May 2016, and for Counting Officer Assistant and Polling Station Inspector at the EU Referendum on 23rd June 2016.

2015/16

6. Mr G. Curran, Chief Executive, remuneration was a salary of £185,000. Two additional separate payments were received, totalling £7,336, for Local Authority Gold Team duties and for Acting Returning Officer duties at the General election on 7th May 2015 respectively.
7. Ms C. Holland, Director of Corporate Services, remuneration was a salary of £135,000. Two additional separate payments of £3,122 were received for Local Authority Gold Team duties and Deputy Local Returning Officer duties at the General election on 7th May 2015 respectively.
8. Mr S. Williams, Director of Community and Housing, remuneration was a salary of £119,660. Two additional separate payments were received, totalling £688, for Acting Returning Officer Assistant and Polling Station Inspector duties at the General elections on 7th May 2015. During 2015/16, the Director's contracted hours reduced from 1.0 full time equivalent to 0.8.
9. Ms Y. Stanley, Director of Children, Schools and Families, remuneration was a salary of £135,000. Two separate payments, totalling £870, were received for Acting Returning Officer Assistant and Polling Station Inspector duties at the General elections on 7th May 2015.
10. Mr C. Lee, Director of Environment and Regeneration, remuneration comprised of salary of £135,000. Two separate payments, totalling £870,

were received Acting Returning Officer Assistant and Polling Station Inspector duties at the General election on 7th May 2015.

30. RELATED PARTIES

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

Central Government

The UK 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 2016/17 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 60 standard letters to members; all 60 have responded.

During 2016/17, 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 £6.29m (net £6.08m). 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	2016/17
		£000
Friends in St Helier	Grant Received from LBM	30
Merton and Morden Guild	Grant Received from LBM	30
Merton Priory Homes (MPH)	Capital receipts paid to LBM as part of VAT sharing and sale proceeds from Right to Buy agreements with MPH	(6,187)
North East Mitcham Community Association	Funding received from LBM	37
Faith in Action	Grant Received from LBM	10
Total		(6,080)

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 29 standard letters to current senior officers; there have been 29 responses.

Three senior officers are directors of CHAS 2013 Ltd (see note 34). 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 £0.107m 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 2016/17 an administration fee of £0.368m was paid by the Fund to the Authority (£0.323m in 2015/16, see Pension Fund Accounts, Note 11).

Entities Controlled by the Authority

Details of the transactions between the Authority and its subsidiary CHAS2013 Ltd are disclosed in Note 34.

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 2016/17, the employer's contribution was 16.48% (15.49% average in 2015/16). 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 31st March 2017, 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 14.3% (14.0% in 2015/16) to the NHS Pension Scheme, for staff who 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 1st 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:

	2015/16	2016/17
	£000	£000
Authority's contribution to DfE teacher's pension scheme	8,092	8,612
Authority's contribution to NHS pension scheme	120	116

Assuming a 1% staff pay award in 2017/18, 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 1st 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 2016/17, 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 loss of £92.839m (£45.072m gain in 2015/16).

	Local Government Pension Scheme	
	2015/16	2016/17
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service Cost	21,421	20,269
Administration	455	493
<i>Finance and Investment Income and Expenditure</i>		
Net interest on defined liability	9,434	9,144
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	31,310	29,906
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>		
Remeasurements of the net defined benefit liability/asset	(45,072)	92,839
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(13,762)	122,745
Movement in Reserves Statement:		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(31,310)	(29,906)
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	16,904	17,790

Assets and Liabilities in relation to Post-Employment Benefits

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

	Local Government Pension Scheme	
	2015/16	2016/17
	£000	£000
Opening Defined Benefit Obligation	775,379	745,771
Current Service Cost	20,728	20,713
Interest Cost	25,282	26,479
Change in financial assumptions	(55,638)	189,704
Change in demographic assumptions	0	13,256
Experience loss/(gain) on defined benefit obligation	(1,128)	(9,271)
Liabilities extinguished on settlements	(7)	(3,008)
Estimated benefits paid net of transfers in	(22,855)	(21,162)
Past service costs including curtailments	696	675
Contributions by Scheme participants	5,095	5,290
Unfunded pension payments	(1,781)	(1,711)
Defined Benefit Obligation at end of period	745,771	966,736

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

	Local Government Pension Scheme	
	2015/16	2016/17
	£000	£000
Opening fair value of Scheme assets	481,560	482,618
Interest on assets	15,848	17,335
Return on assets less interest	(11,694)	88,891
Other actuarial gains/(losses)	0	11,959
Actuarial gains (losses)	-	-
Administration expenses	(455)	(493)
Contributions by employer including unfunded	16,904	17,790
Contributions by Scheme participants	5,095	5,290
Estimated benefits paid plus unfunded net of transfers in	(24,636)	(22,873)
Settlement prices received/(paid)	(4)	(1,889)
Fair value of Scheme assets at end of period	482,618	598,628

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 31st March is as follows:

LBM asset share - bid value	2015/16		2016/17	
	£000	%	£000	%
Equities	338,868	70	429,655	72
Gilts	113,595	24	144,647	24
Property	15,315	3	20,303	3
Cash	14,840	3	4,023	1
Total	482,618	100	598,628	100

The above asset valuations are all based on Level 1 inputs (from the IFRS fair value hierarchy), with the exception of the property, which is valued using Level 1 and Level 2 inputs.

Scheme History

Present Value	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
The Local Government Pension Scheme (LGPS)	(589,722)	(630,064)	(748,920)	(722,264)	(937,022)
Unfunded Liabilities	(23,119)	(24,634)	(26,459)	(23,507)	(29,714)
Fair value of assets in the LGPS	417,967	430,372	481,560	482,618	598,628
Surplus / (Deficit) in the scheme	(194,874)	(224,326)	(293,819)	(263,154)	(368,109)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £368.1m 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

	2015/16	2016/17
Long Term expected rate of return on assets in the scheme:	%	%
Mortality Assumptions		
Longevity at 65 for current pensioners retiring today at 65:		
Men	22.5	24.4
Women	25.8	26
Longevity at 65 for future pensioners retiring in 20 years at 65:		
Men	24.8	26.6
Women	28.1	28.3
Rate of Inflation	2.3	2.7
Rate of increase in salaries	4.1	4.2
Rate of increase in pensions	2.3	2.7
Rate for discounting scheme liabilities	3.6	2.7
Take up option to convert annual pension into retirement lump sum	50.0	50.0

The current estimate of the duration of the Authority's liabilities is 19 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
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	949,313	966,736	984,496
Projected service cost	31,527	32,289	33,070
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	968,761	966,736	964,727
Projected service cost	32,289	32,289	32,289
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	982,455	966,736	951,305
Projected service cost	33,070	32,289	31,526
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	1,003,603	966,736	931,266
Projected service cost	33,319	32,289	31,291

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 2017/18

The table below shows the estimated contributions to be paid to the plan during 2017/18, assuming a 1% staff pay award.

	2016/17 Actual £000	2017/18 Estimated £000
Employers contributions -normal	11,901	13,144
Employers Additional Funding (Deficit Funding)	4,548	3,338
Employers Additional Funding (Pension Strain)	964	974
Employees contributions	5,762	5,820
Total	23,175	23,275

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

Asset Held for Sale – Wimbledon Car Park

At 31st March 2017, the Wimbledon car park P4 site is included in the Authority's balance sheet as an Asset Held for Sale, valued at £7m.

In July 2017, the Council decided to put attempts to sell the site on-hold. Therefore, the asset will be transferred back to Property Plant and Equipment during 2017/18.

Academy

On 1st August 2017, Aragon Primary School became an Academy, meaning LBM no longer controls the school's assets.

At 31/03/17, the school's assets are included in the Authority's balance sheet at a valuation of £7.024m within the Property, Plant and Equipment line. During 2017/18, these assets will be written out of the Authority's balance sheet.

34. INTEREST IN SUBSIDIARIES & JOINT VENTURES

Subsidiary

CHAS 2013 Ltd 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 2016/17, CHAS 2013 Ltd's total comprehensive income was £0.9m (£0.5m in 2015/16). Dividends received by LBM from CHAS 2013 Ltd are recognised within the Authority's comprehensive income and expenditure statement (CIES). In 2016/17, £0.4m dividend income was recognised (nil in 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 2016/17, the licence fee was £0.8m (2015/16 £0.8m), which has been recognised within financing and investment income and expenditure in the CIES. CHAS 2013 Ltd also makes a payment to LBM in return for the provision of support services, such as finance and HR. Support service and other recharges in 2016/17 totalled £1.29m.

LB Merton provides a banking facility to CHAS2013 Ltd. The cash balance generated by CHAS 2013 Ltd is held by LB Merton in its single entity Balance Sheet, with a corresponding creditor to reflect that this sum is owed to CHAS 2013 Ltd. At 31/03/2017, the sum owed to CHAS 2013 Ltd was £1.6m (£2.5m at 31/03/2016).

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 31/03/2017, including cash held and loans to MSJCB, there was a net debtor balance of £108k (net creditor balance of £24k at 31/03/2016).

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

Included within Financing and Investment Income and Expenditure		2015/16	2016/17
		£000	£000
Printing and Graphic Design	Turnover	(498)	(310)
	Expenditure	402	510
	(Surplus)/Deficit	(96)	200
Translation Services	Turnover	(520)	(438)
	Expenditure	383	359
	(Surplus)/Deficit	(137)	(79)
Transport	Turnover	(9,740)	(10,303)
	Expenditure	10,143	10,704
	(Surplus)/Deficit	403	401
All trading operations		2015/16	2015/16
		£000	£000
	Turnover	(10,758)	(11,051)
	Expenditure	10,928	11,573
Total	(Surplus)/Deficit	170	522

36. INVENTORIES

The stock balance of £0.036m in 2016/17 represents the complete stock relating to the Partnership Agreement with the Merton Clinical Commissioning Group and Integrated Community Equipment Services (ICES).

	Consumable Stores	
	2015/16 £000	2016/17 £000
Balance outstanding at the start of the year	68	46
Purchases	730	746
Recognised as an expense in the year	(752)	(757)
Balance outstanding at year-end	46	35

37. POOLED BUDGETS – Partnerships - Section 75

Community Equipment Services

During 2016/17 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 2015/16 £000	Total 2016/17 £000
INCOME		
PARTNERS' CONTRIBUTIONS		
Brought forward	199	217
LB Merton	330	339
Merton CCG	247	7
Additional From LB Merton	200	200
TOTAL CONTRIBUTIONS	976	763
EXPENDITURE		
Community Equipment Services	730	746
Stock Adjustment	22	11
Management & Support Costs	6	6
TOTAL EXPENDITURE	758	763
NET (UNDER) / OVERSPEND CARRIED FORWARD	(217)	0

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 2016/17, 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 (£5,508,000 in 2016/17) 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.

Better Care Fund Pooled Budget - Income and Expenditure	Total 2015/16 £000	Total 2016/17 £000
Merton CCG contribution to pool	(5,508)	(5,508)
LBM contribution to pool	0	0
Total contributions	(5,508)	(5,508)
Expenditure		
Integrated Locality Teams	650	650
Seven Day Working	500	500
Community Equipment and Adaptions	200	200
Protecting and Modernising Social Care	3,577	3,577
Investing in Integration Infrastructure	181	181
Developing Personal and Health Care Budgets	400	400
Total revenue expenditure	5,508	5,508
Net	0	0

Mental Health Service

There is a delegated S75 budget for the Mental Health Service, hosted by the South West London & St George's Mental Health NHS Trust. This is an arrangement where placements and staff costs in the provision of a Mental Health Service are shared between LBM and the NHS.

The Trust recharges LBM monthly with the Health staff cost. In 2016/17, LBM's expenditure totalled £0.695m, which is reported in the CIES.

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 assurance of the Teachers Pensions End of Year Certificate, provided by the authority's external auditors:

	2015/16	2016/17
	£000	£000
Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year	185	174
Fees payable to the External Auditor for other services provided in year, including Teachers Pensions assurance.	9	9
Total	193	183

39. On-Street Parking Account

The Council maintains a memorandum account in respect of on street parking to show how the income from it is spent. In 2016/17 the Council made a surplus of £7.55m (£4.82m in 2015/16), which was applied notionally as a contribution to concessionary fares, the costs of which are in the Community and Housing budget. This contribution was less than the full cost of concessionary fares which was £9.32m in 2016/17 (£9.01m in 2015/16). 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 £1.14m in 2016/17 (£1.02m in 2015/16). Were any surplus to exceed both the cost of concessionary and day-to-day maintenance, any remaining excess would be applied to fund carriageway and footway planned maintenance.

2015/16				On-Street Parking Account	2016/17			
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
Income								
(2,605)	(452)	(1,226)	(4,282)	Penalty Charge Notices	(2,977)	(1,177)	(3,070)	(7,223)
(1,167)	0	0	(1,167)	Residents' Parking Permits	(1,239)	0	0	(1,239)
(835)	0	0	(835)	Residents' Visitors' Parking Permits	(870)	0	0	(870)
(233)	0	0	(233)	Business Parking Permits	(223)	0	0	(223)
(34)	0	0	(34)	Teachers Parking Permits	(39)	0	0	(39)
(2,596)	0	0	(2,596)	On-Street Parking Charges	(2,622)	0	0	(2,622)
(325)	0	0	(325)	Other Income	(416)	0	0	(416)
(7,794)	(452)	(1,226)	(9,471)	Total Income	(8,387)	(1,177)	(3,070)	(12,633)
Expenditure								
1,019	177	480	1,676	On-Street Parking	906	358	934	2,198
19	3	9	31	Off-Street Parking Spaces	0	0	0	0
144	25	68	236	Parking Management & Planning	97	38	100	236
1,649	286	776	2,711	Parking Enforcement	1,090	431	1,124	2,645
4,963	(39)	(106)	4,817	Contribution to Public Transport (Concessionary Fares)	6,293	349	911	7,554
7,794	452	1,226	9,471	Total Expenditure	8,387	1,177	3,070	12,633

2015/16 £000	Memorandum Items	2016/17 £000
	Total Expenditure on:	
9,011	Concessionary fares	9,319
1,016	Carriageway & Footway Day-to-Day Maintenance	1,142
10,026	Total	10,461

TECHNICAL ANNEX – ACCOUNTING POLICIES

40. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year end of 31st March 2017. 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 2016/17 and the Service Reporting Code of Practice 2016/17, 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 and Cash Equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. 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. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual and sick leave and non-monetary benefits in lieu of salary (e.g. 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 projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.7%.
- The assets of the Pension Fund attributable to the Authority are measured at fair value:
 - quoted securities: current bid price
 - unquoted securities: professional estimate
 - unlisted 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 Corporate Services segment.
- net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the Pension Fund:

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

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative

balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

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

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

ix. Financial Instruments

Financial Liabilities

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

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

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and

Expenditure Account is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

Where premiums and discounts are charged to the Comprehensive Income and Expenditure Account, the 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.

x. Government Grants and Contributions

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

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

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

Sums advanced as revenue grants and contributions for which conditions have not been satisfied and are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are not satisfied but are expected to be met, these are classified as Receipts in Advance. When conditions are satisfied, the revenue grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Business Improvement Districts

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

Community Infrastructure Levy

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The 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.

xi. Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the authority in pursuit of its overall objectives in relation to the maintenance of heritage. The majority of the authority's heritage assets are held in the Civic Centre, with a number of paintings of

minor value held in the authority's libraries around the borough. Heritage assets are measured at valuation in accordance with FRS30 but where it is not possible to obtain a valuation at a cost which is commensurate with the benefit to the users of the financial statements, heritage assets are measured at historical cost (less any depreciation, amortisation and impairment). Depreciation or amortisation is not required on assets with indefinite lives.

xii. Intangible Assets

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

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

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

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

xiii. Interest in Subsidiaries and Other Entities

The authority has reviewed its relationships with companies and external organisations in accordance with the Code guidelines. In 2016/17, 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.

xiv. 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.

xv. Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation. These arrangements are set out below:-

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

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

Shared Internal Audit Service: LB Richmond hosts the service, which provides the internal audit function for LB Merton, RB Kingston, LB Wandsworth and LB Sutton. 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 LB Richmond, LB Sutton, RB Kingston and LB Wandsworth. 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 Community & Housing 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 Community & Housing line in the Comprehensive Income and Expenditure Account.

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

xvi. Leases

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

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between :

- a charge for the acquisition of the interest in the PPE – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance

and is required to be treated as a capital receipt. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xvii. Overhead and Support Services

The costs of overheads and support services hosted within Corporate Services are re-charged to service segments in accordance with the Authority's arrangements for accountability and financial performance. The Corporate Services segment does not report such overhead recharges as income, but as a reduction of gross expenditure.

xviii. 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 1st 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 31st March.

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.

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.

xix. Private Finance Initiative (PFI) and Similar Contracts

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

The original recognition of these assets at fair value (based on the cost to purchase the Property, Plant and Equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

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

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

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

xx. Provisions, Contingent Liabilities and Contingent Assets

Provisions

1. General

The 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 31st March each year. Where there is a possibility of further claims for which at this stage the authority is not legally obligated, on grounds of prudence the authority sets aside further sums in a separate Insurance Reserve. The expected timing of a future transfer of economic benefit depends upon the settlement of claims and no assumption has been made in respect of these.

Contingent Liabilities

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

Contingent Assets

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

xxi. Reserves

The authority sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the General Fund Balance. 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 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, local taxation, retirement and employee benefits and do not represent usable resources for the authority.

xxii. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income & Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

xxiii. VAT

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

xxiv. 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.

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

There are no accounting standards due to come into force in 2017/18 that would have a material effect on the Council's transactions for 2016/17 and balances at 31st March 2017.

42. 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 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.

43. 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 31st March 2017 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:

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. PPE of £513m is included in the accounts.

Therefore a 1% movement in value would result in a change of £5.1m. The depreciation charge for PPE in 2016/17 was £17.2m. A movement of 1% would result in a change in the depreciation charge of approximately £0.17m.

Item:

Provisions

Uncertainty:

The authority has made provisions of £4.2m 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 £2.1m 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 £368m 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.

2015/16				2016/17		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
			A) INCOME			
0	102,566	102,566	Council Tax Receivable	0	102,714	102,714
87,913	0	87,913	Business Rates Receivable	88,341	0	88,341
2,638	0	2,638	Business Rates Supplements Receivable	2,466	0	2,466
90,551	102,566	193,117		90,807	102,714	193,521
			B) EXPENDITURE			
			Apportionment of Previous Year Surplus/(Deficit)			
(655)	0	(655)	Central Government	(2,868)	0	(2,868)
(393)	4,813	4,420	Billing Authority (LBM)	(1,721)	3,200	1,479
(262)	1,300	1,039	Greater London Authority	(1,147)	853	(294)
(1,309)	6,113	4,804		(5,736)	4,053	(1,683)
			C) Precepts, Demands and Shares			
42,550	0	42,550	Central Government (DCLG): NDR	43,873	0	43,873
25,530	77,051	102,581	Billing Authority (LBM): NDR & Council Tax	26,324	78,920	105,244
17,020	20,543	37,563	Greater London Authority: NDR & Council Tax	17,549	19,686	37,235
2,638	0	2,638	Greater London Authority: Business Rates Supplement	2,466	0	2,466
87,737	97,595	185,332		90,212	98,607	188,819
			D) Charges to Collection Fund			
683	1,038	1,721	Less: increase/(decrease) in bad debt provision	673	1,790	2,463
1,305	0	1,305	Less: increase/(decrease) in provision for appeals	1,936	0	1,936
277	0	277	Less: cost of collection	273	0	273
2,265	1,038	3,303		2,882	1,790	4,672
1,858	(2,180)	(323)	Surplus/(Deficit) arising during the year (=A-(B+C+D))	3,449	(1,736)	1,713
(6,205)	5,990	(215)	Surplus/(Deficit) b/fwd 1st April	(4,347)	3,810	(538)
(4,347)	3,810	(538)	Surplus/(Deficit) c/fwd 31st March	(898)	2,074	1,176

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 2016/17 before adjustments for localisation of Council Tax Support, technical reforms to Council Tax, and allowance for non-collection is 73,343 (71,606 for 2015/16). 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	
	2015/16	2016/17	2015/16	2016/17		2015/16	2016/17
A adjust	2	2	1	1	5/9	0	0
A	1,023	1,033	534	577	6/9	356	385
B	8,139	8,142	5,125	5,355	7/9	3,986	4,165
C	22,099	22,386	16,397	17,039	8/9	14,575	15,146
D	27,497	27,528	22,500	22,896	9/9	22,500	22,896
E	13,027	13,051	11,498	11,624	11/9	14,053	14,207
F	5,224	5,300	4,777	4,895	13/9	6,900	7,070
G	3,947	3,967	3,689	3,743	15/9	6,148	6,238
H	1,631	1,669	1,542	1,615	18/9	3,085	3,231
Total						71,601	73,338
Defence properties						5	5
Council Tax Base						71,606	73,343

The average Council Tax charge for a Band D property (including the GLA) was £1,382.45 in 2016/17 compared to £1,401.45 in 2015/16. From this an income yield of £98.6m was expected (£97.6m in 2015/16). In 2016/17 the income generated was £102m (£102m in 2015/16) 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, 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 st March 2016	31 st March 2017
Non-domestic rateable value at year end	£201m	£201m
Number of Hereditaments	5,373	5,378
Uniform Business Rate (in the £)	49.3p	49.7p

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

	2015/16 £000	2016/17 £000
Gross Rates payable (including net amounts for previous years)	99,843	99,237
Mandatory and discretionary reliefs	(12,105)	(10,150)
Transitional Protection Payments	175	(746)
Business Rates Receivable	87,913	88,341
Provision for bad and doubtful debts	(683)	(673)
Provision for losses on appeals	(1,305)	(1,936)
Cost of collection	(277)	(273)
Net Income	85,648	85,459

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:

	2015/16 £000	2016/17 £000
Gross Rates payable	2,891	2,680
Mandatory and discretionary reliefs	(253)	(214)
Net contribution to GLA	2,638	2,466

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 st April 2016	Allowance for Impairment	Amounts charged against Allowance	Balance at 31 st March 2017
	£000	£000	£000	£000
Council Tax: Impairment of Bad Debts	5,393	1,790	(704)	6,479
Non-Domestic Rates: Impairment of Bad Debts	2,292	673	(556)	2,409
Non-Domestic Rates: Losses on Appeals	7,939	1,936	(2,875)	7,000
TOTAL	15,624	4,399	(4,135)	15,888

4. Collection Fund Surpluses and Deficits

Council Tax

There is an accumulated surplus of £2.074m on the Collection Fund (£3.810m in 2015/16/17). 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.

	2015/16	2016/17	Change in the Year
	£000	£000	£000
London Borough of Merton Council Tax surplus	(3,007)	(1,663)	1,344
Greater London Authority Council Tax surplus	(803)	(411)	392
Total	(3,810)	(2,074)	1,736

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 st April 2016	(803)	(3,007)	(3,810)
Paid to GLA in 2016/17	853	0	853
Transfer to/(from) General Fund in 2016/17	0	3,200	3,200
Surplus/Deficit in 2016/17	(461)	(1,856)	(2,317)
Total	(411)	(1,663)	(2,074)

NDR

There is a deficit of £0.898m on the Collection Fund (£4.347m in 2015/16). 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.

	2015/16	2016/17	Change in the Year
	£000	£000	£000
London Borough of Merton NDR deficit	1,304	269	(1,035)
Greater London Authority NDR deficit	869	180	(689)
DCLG NDR deficit	2,174	449	(1,725)
Total	4,347	898	(3,449)

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 Authority	DCLG	London Borough of Merton	Total
	£000	£000	£000	£000
Accumulated deficit as at 1 st April 2016	869	2,174	1,304	4,347
Paid to/(from) preceptors in 2016/17	(1,147)	(2,868)	0	(4,015)
Transfer to/(from) General Fund in 2016/17	0	0	(1,721)	(1,721)
Deficit in 2016/17	458	1,143	686	2,287
Total	180	449	269	898

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 £80.778m Council Tax income and the £25.637m NDR income are 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. This shown in the following table.

A further £1.617m council tax income and £0.242m NDR income have also been recognised in the CIES in 2016/17. These are receipts which had been over-paid by

taxpayers prior to 2010/11 and are now beyond the statutory period during which they could legally be reclaimed.

Income and Expenditure	2015/16	2016/17
	£000	£000
Demand on the Fund	77,051	78,920
Transfer of Surplus	4,813	3,200
Total included in I&E under Collection Fund Regulations	81,864	82,120
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	(1,709)	(1,342)
Council Taxation Fund Income	80,155	80,778
Movement in Reserves Statement	2015/16	2016/17
	£000	£000
Reversal of adjustment of Collection Fund Surplus under 2011 Code	1,709	1,342
Net charge to General Fund, which is based on statutory requirements	81,864	82,120

Income and Expenditure	2015/16	2016/17
	£000	£000
Demand on the Fund	25,530	26,324
Transfer of Deficit	(393)	(1,721)
Total included in I&E under Collection Fund Regulations	25,137	24,603
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	558	1,034
Business Rates Fund Income	25,695	25,637
Movement in Reserves Statement	2015/16	2016/17
	£000	£000
Reversal of adjustment of Collection Fund Surplus under 2011 Code	(558)	(1,034)
Net charge to General Fund, which is based on statutory requirements	25,137	24,603

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 2016/17, 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 sum comprising their proportionate share of the surplus/deficit and their proportionate share of arrears, provisions and receipts in advance.

Balance Sheet	Collection Fund 2016/17	Balance Sheet 2016/17
	£000	£000
Council Tax		
Arrears	8,319	6,678
Impairment Allowance for Doubtful Debts	(6,479)	(5,201)
Receipts in Advance	(4,643)	(3,728)
Collection Fund (Surplus) / Deficit	(1,663)	(1,663)
GLA	(411)	(963)
Cash	(4,877)	(4,877)
Business Rates		
Arrears	2,985	896
Impairment Allowance for Doubtful Debts	(2,409)	(723)
Impairment for Loss on Appeals	(7,000)	(2,100)
Receipts in Advance	(2,865)	(860)
Collection Fund (Surplus) / Deficit	269	269
GLA	180	(1,678)
DCLG	449	(4,195)
Cash	(8,391)	(8,391)

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	2015/16 £000	2016/17 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions	7	(21,986)	(23,175)
Transfers in	8	(2,153)	(2,748)
Total Income		(24,139)	(25,923)
Benefits	9	23,734	23,400
Payments to and on account of leavers	10	2,796	1,503
Total Expenditure		26,530	24,903
Net (additions)/withdrawals from dealings with members		2,391	(1,020)
Management expenses	11	1,230	1,854
Net (additions)/withdrawals including fund management expenses		3,621	834
Returns on investments			
Investment income	12	(11,423)	(11,575)
Taxes on income	13	359	249
(Profit) and losses on disposal of investments and changes in the market value of investments	14.3	19,211	(109,202)
Net returns on investments		8,147	(120,528)
Net (increase)/decrease in the net assets available for benefits during the year		11,768	(119,694)
Opening net assets of the scheme		(542,590)	(530,822)
Closing net assets of the scheme		(530,822)	(650,516)

Net Assets Statement

2015/16 £000		Notes	2016/17 £000
530,717	Investment assets	14	651,090
(1,527)	Investment liabilities	14	(2,330)
529,190	Total Investments		648,760
2,619	Current assets	20	2,720
(987)	Current liabilities	21	(964)
530,822	Net assets of the Fund available to Fund benefits at period end		650,516

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

Notes to the Pension Fund Accounts

1. Description of Fund

The London Borough of Merton Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (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 2016.

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"> • Greenwich Leisure • Merton Priory Homes • CATCH 22 	<ul style="list-style-type: none"> • Wimbledon and Putney Commons Conservators • Harris Academy Merton • Harris Academy Morden • Harris Academy Primary • St Mark's Academy • Benedict Academy • Park Community School • CHAS (Contractors Health and Safety Assessment Scheme) • Beecholme Academy

At 1 February 2017 there was a bulk transfer of 62 staff from Merton Green Spaces to Idverde. This transfer is particularly difficult to quantify at this stage as neither the data nor the actuarial basis for quantifying the liability have been agreed between the parties.

The following table summarises the membership numbers of the scheme.

2015/16		2016/17
	Active Members	
3,432	London borough of Merton	3,706
205	Scheduled bodies	240
85	Admitted bodies	74
3,722		4,020
	Pensioners	
3,361	London borough of Merton	3,456
151	Scheduled bodies	113
103	Admitted bodies	157
3,615		3,726
	Deferred Pensioners	
4,326	London borough of Merton	4,821
254	Scheduled bodies	306
115	Admitted bodies	112
4,695		5,239

(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 31st March 2017. 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 2016. Currently, employer contribution rates range from 12.0% to 26.4%. 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 2016/17 financial year and its financial position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2016/17', which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

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

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contributions

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

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

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 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

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

(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 1st December 2013.

Net Asset Statement

3.9 Investment Assets

The Pensions Statement of Recommended Practice (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.

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 2017.

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 19).

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 in note 22.

3.17 Going Concern

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

3.18 Contingent Assets and Contingent Liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

3.19 Events After The Reporting Date

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

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

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 2017 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 £17.4m and a -0.1% reduction would increase the obligation by £17.8m. An adjustment to the mortality age rating assumption of -1 year would decrease the obligation by £35.5m.

6. Events After The Reporting Date

At 1 April 2017 there was a bulk transfer of 185 staff from Merton Waste Services to Veolia. This transfer is particularly difficult to quantify at this stage as neither the data nor the actuarial basis for quantifying the liability have been agreed between the parties.

7. Contributions Receivable

2015/16 £000	By Category	2016/17 £000
16,489	Employers	17,413
5,497	Members	5,762
21,986	Total	23,175

2015/16 £000	By Authority	2016/17 £000
20,386	Administering	21,486
1,004	Scheduled	1,145
596	Admitted	544
21,986	Total	23,175

2015/16 £000	By Type	2016/17 £000
11,601	Employers normal	11,901
5,497	Employees normal	5,762
4,205	Deficit funding	4,548
683	Employers additional	964
21,986	Total	23,175

8. Transfers In From Other Pension Funds

2015/16 £000		2016/17 £000
2,153	Individual Transfers	2,748
2,153	Total	2,748

9. Benefits Payable

2015/16 £000	By Category	2016/17 £000
19,239	Pensions	19,746
3,625	Commutations and lump sum retirement benefits	3,387
870	Lump sum death benefits	267
23,734	Total	23,400

2015/16 £000	By Authority	2016/17 £000
21,908	Administering	21,597
997	Scheduled	978
829	Admitted	825
23,734	Total	23,400

10. Payments to and on Account of Leavers

2015/16 £000		2016/17 £000
2,732	Individual transfers	1,430
29	Refunds of contribution	88
35	State scheme premiums	(15)
2,796	Total	1,503

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

2015/16 £000		2016/17 £000
323	Administrative costs	368
755	Investment management expenses	1,295
152	Oversight and governance costs	191
1,230	Total	1,854

11a. Investment Management Expenses

2015/16 £000		2016/17 £000
563	Management fees	1,043
0	Performance related fees	9
11	Custody fees	17
181	Transaction costs	226
755	Total	1,295

12. Investment Income

2015/16 £000		2016/17 £000
2,604	Income from bonds	2,359
7,347	Income from equities	7,566
332	Pooled investments – unit trusts and other managed funds	79
616	Pooled property investments	832
524	Other	739
11,423	Total	11,575

13. Taxes on Income

2015/16 £000		2016/17 £000
308	Non-recoverable tax	200
51	Withholding tax	49
359	Total	249

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 2017. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

2015/16			2016/17	
£000	%	Fund Manager	£000	%
228,098	43	Aberdeen	274,663	42
294,206	56	UBS	366,997	57
6,737	1	Blackrock	6,950	1
529,041	100	Total	648,610	100

£0.15m 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 2017 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 2016 £000		Market Value 31 March 2017 £000
	Investment Assets	
130,929	Bonds	153,178
194,037	Equities	236,697
179,624	Pooled investments	232,468
21,183	Pooled property investments	21,321
1,528	Derivative contracts - Futures	2,328
2,005	Cash held with fund managers	3,638
1,261	Investment income due	1,310
530,567	Total Investment Assets	650,940
	Investment Liabilities	
(1,527)	Derivative contracts - Futures	(2,330)
150	Internally managed funds	150
529,190	Net investment assets	648,760

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 2016/2017. 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 2016 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year 31 March 2017 £000	Market Value 31 March 2017 £000
Bonds	130,929	5,881	(4,026)	20,394	153,178
Equities	194,037	46,780	(39,711)	35,591	236,697
Pooled Investments	179,624	24,016	(24,079)	52,907	232,468
Pooled Property	21,183	203	0	(65)	21,321
	525,773	76,880	(67,816)	108,827	643,664
Derivatives (Futures)					
Future Asset	1,528	10,251	(9,837)	386	2,328
Future Liability	(1,527)				(2,330)
	525,774	87,131	(77,653)	109,213	643,662
Other Investment Balances					
Cash with Fund Managers	2,005				3,638
Investment Income Due	1,261				1,310
Realised Loss on FX				(11)	
External Investments at Market Value	529,040			109,202	648,610
Internally Managed Funds	150				150
Investment Assets	529,190			109,202	648,760

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2015/2016.

	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
Bonds	127,116	12,152	(10,356)	2,017	130,929
Equities	200,755	39,676	(29,574)	(16,820)	194,037
Pooled Investments	181,736	17,372	(14,118)	(5,366)	179,624
Pooled Property	15,391	4,808	0	984	21,183
	524,998	74,008	(54,048)	(19,185)	525,773
Derivatives (Futures)					
Future Asset	1,682	7,020	(7,139)	(35)	1,528
Future Liability	(1,681)				(1,527)
	524,999	81,028	(61,187)	(19,220)	525,774
Other Investment Balances					
Cash with Fund Managers	2,145				2,005
Investment Income Due	1,428				1,261
Realised Loss on FX				9	
External Investments at Market Value	528,572			(19,211)	529,040
Internally Managed Funds	13,000				150
Investment Assets	541,572			(19,211)	529,190

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 2016 £000		Market Value 31 March 2017 £000
	Bonds	
97,855	Public Sector : UK quoted	115,432
33,074	: Overseas quoted	37,746
130,929		153,178
	Equities (Direct)	
180,088	UK quoted	219,251
13,949	Other European quoted	17,446
194,037		236,697
	Pooled Investments	
39,997	UK (Equities)	55,303
27,585	Other European (Equities)	35,301
53,701	American (Equities)	66,106
21,563	Japanese (Equities)	27,652
20,716	Other Overseas (Equities)	25,917
16,062	Developing Markets (Equities)	22,189
6,721	Property Managed Fund/Units quoted	6,935
14,462	Property Managed Fund/Units unquoted	14,386
1,261	Other Investment Balances	1,310
2,005	Cash with Fund Managers	3,638
1,528	Derivatives (Futures)	2,328
205,601		261,065
	Investment Liabilities	
(1,527)	Derivatives (Futures)	(2,330)
150	Internally Managed Funds	150
529,190	Total	648,760

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 2017, the value of FTSE futures amounted to less than 0.5% of all equity investment in the Fund (0.5% in 2015/16).

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

Type	Expires	Economic exposure £000	Market value 31 March 2016 £000	Economic exposure £000	Market value 31 March 2017 £000
UK Equities	Three – Six months	1,527	1,528	2,330	2,328

14.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2017.

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 2015/16	Security	% Market Value 2016/17
12.37	Aberdeen Global II Index Linked	11.90
9.09	UBS Life North America Equity Tracker	9.34
6.25	UBS Life UK Equity Tracker	7.23
6.28	Aberdeen Global II Global Aggregate	5.84
5.11	UBS Life Europe Ex UK Equity Tracker	5.34

The largest single direct holding is HSBC at 1.62% (1.47% in 2015/16).

The following investments represent more than 5% of their asset class.

% Market Value 2015/16		Security	% Market Value 2016/17	
% of asset class	£000		£000	% of asset class
		Bonds		
49.78	65,173	Aberdeen Global II Index Linked	-	-
25.26	33,074	Aberdeen Global II Global Aggregate	37,746	24.64
17.20	22,520	AG2-Long Dated Sterling Bond	-	-
7.76	10,162	Aberdeen Global II Sterling long dated	-	-
-	-	Aberdeen Fund Mana Sterling	76,902	50.20
-	-	Aberdeen Sterling Long Dated Gov Bond	26,224	17.12
-	-	Aberdeen Sterling Long Dated Corp Bond	12,306	8.03
		Pooled Investments		
26.72	47,897	UBS Life North America Equity Tracker	60,310	25.94
18.37	32,919	UBS Life UK Equity Tracker	46,694	20.09
15.03	26,942	UBS Life Europe Ex UK Equity Tracker	34,522	14.85
7.91	14,180	UBS Life Pacific/Ex Japan Eqty Tracker	17,692	7.61
7.50	13,438	UBS Life Japan Equity Tracker	17,165	7.38
5.64	10,104	Aberdeen Global Emerging Markets	13,805	5.94
		Pooled Property Investments		
67.17	14,231	UBS Triton Property Unit Trust	14,145	66.35
31.73	6,721	Blackrock UK Property	6,935	32.53
100	1,528	Derivative Contracts - Futures	2,328	100

15. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Current market "bid" price	Not required	Not required
Quoted bonds	Level 1	Current market "bid" price	Not required	Not required
Derivatives	Level 1	Valued from prices set by independent participants in the market	Not required	Not required
Property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

15a Fair Value Hierarchy

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 2016			31 March 2017	
Quoted market price Level 1 £000	Quoted market price Level 2 £000		Quoted market price Level 1 £000	Quoted market price Level 2 £000
507,379 2,158	21,183		Financial assets at fair value through profit and loss Loans and Receivables	625,981 3,788
(1,527)		Financial Liabilities Fair Value through profit and loss	(2,330)	
508,010	21,183	Total	627,439	21,321

16. Financial Instruments

16.1 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 2016				31 March 2017		
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
130,929 194,037				153,178 236,697		
179,624			232,468			
21,183 1,528			21,321 2,328			
	2,008 150			3,638 150		
1,261	1,256		1,310	2,641		
528,562	3,414	0	647,302	6,429	0	
(1,527)			(2,330)			
(1,527)	0	(726)	(2,330)	0	(708)	
527,035	3,414	(726)	644,972	6,429	(708)	

16.2 Net gains and losses on financial instruments

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

31 March 2016 £000		31 March 2017 £000
(19,176)	Financial Assets / Liabilities	
(35)	Fair Value through profit and loss	109,173
	Loans and Receivables	29
(19,211)	Total	109,202

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 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), superseded by Investment Strategy Statement from 1 April 2017 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 selection process. In addition the Fund employs an adviser, JLT, who provides advice on investment issues.

17.2 Market risk

The Fund is exposed to market risk from its investment activities especially through its equity holdings. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risks on equity investments. The Fund has one future valued at £2,328,160 (£1,528,250 as at 31 March 2016)

17.3 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 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	3,638	0.01	3,638	3,638
Investment portfolio assets				
UK Equities	274,554	8.05	296,656	252,452
Overseas Equities	194,611	10.29	214,636	174,586
Bonds and Index Linked	153,178	11.03	170,074	136,282
Property	21,321	2.40	21,833	20,809
Income Due	1,310	0.00	1,310	1,310
Fixed Deposits (Internally managed)	150	0.00	150	150
Total Assets	648,762		708,297	589,227

Note: The % change for total assets includes the impact of correlation across asset classes

Asset Type	Value at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	2,008	0.01	2,008	2,008
Investment portfolio assets				
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
Total Assets	529,192		577,888	480,496

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 2017 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). Whether those changes are caused by factors specific to individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund's investment managers aim to

mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following table shows the volatility between the asset classes invested in.

Asset Type	Potential market movements (+/-) %
UK Equities	8.05
Overseas Equities	10.29
Bonds and Index Linked	11.03
Cash	0.01
Property	2.40

17.5 Interest rate risk

Generally fixed interest rate investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. As at 31 March 2017, the Fund's fixed rate investments were in pooled investments. These internally managed investments are of very short duration.

17.6 Currency risk

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

The table below shows the currency exposure by asset type as at 31 March 2017.

Asset Type	Value at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	194,611	8.46	211,075	178,147
Overseas Bonds	37,746	8.46	40,939	34,553
Total Overseas Assets	232,357		252,014	212,700

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
Total Overseas Assets	186,650		198,726	174,574

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2017. 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 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	1,007	9.15	1,099	915
EURO	8,463	9.13	9,236	7,690
Norwegian Krone	351	10.96	389	313
Swedish Krona	2,289	9.07	2,497	2,081
Swiss Franc	5,364	12.46	6,032	4,696
US Dollar	37,785	9.13	41,235	34,335
Total	55,259		60,488	50,030

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
Total	49,408		53,256	45,560

17.7 Credit risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Authority's credit criteria. The average long term credit rating in the bond portfolio is AA as at 31 March 2017. 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 2016 £000	Value at 31 March 2017 £000
AAA	3,535	3,829
AA	95,840	117,793
A	12,308	14,399
BBB	16,497	14,399
BB or below	1,309	1,379
Cash	1,440	1,379
Settled Cash	16	29
	130,945	153,207
N/A	150	150
Total	131,095	153,357

17.8 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.

17.9 Refinancing risk

This is 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.

18. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- 1) To ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet pension liabilities as they fall due for payment;
- 2) To ensure that employer contribution rates are as stable as possible;
- 3) To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- 4) To reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so, and;
- 5) To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 12yrs and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

As at the 2016 actuarial valuation, the Fund was assessed as 94% funded. This corresponded to a deficit of £32.7m. at that time.

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

	2010 Valuation	2013 Valuation	2016 Valuation
Funding Level %	84.0	89.0	94.0
Funding (Deficit) £m	(67.2)	(53.2)	(32.7)

The assessed value of assets held by the Fund at 31 March 2016 was £525.5m (2013 valuation: £451.0m), whilst the liabilities accrued in respect of pensionable service were £558.2m (2013 valuation: £504.2m).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows.

Financial Assumptions

Financial Assumption		31 March 2016	31 March 2013
Discount rate		5.5%	5.9%
Pay increase	Long Term	3.9%	4.5%
	Short Term	Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020	CPI for period 31 March 2013 to 31 March 2015
Consumer price inflation (CPI)		2.4%	2.7%
Pension increases		2.4%	2.7%
		Funds will pay limited increases for members that have reached Statutory Pension Age (SPA) by 6 April 2016, with the Government providing the remainder of the inflationary increase.	
Pension increases on GMP		For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.	No allowances for limit in increase for any members

Demographic Assumptions

The main assumptions are detailed below:

Demographic Assumptions	31 March 2016	31 March 2013
Allowance for improvement in life expectancy	2015 Continuous Mortality Investigation (CMI) Model with a long-term rate of improvement of 1.5% p.a.	2012 CMI Model with a long-term rate of improvement of 1.5% p.a.
Allowance for cash commutation	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension
Allowance for 50:50 membership	Based on members' current section	10% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme

19. 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 2017, using a valuation methodology that is consistent with IAS19.

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

Financial Assumptions	Assumptions as at 31/03/17 %
Inflation/Pension Increase Rate	2.7
Salary Rate Increase	4.2
Discount Rate	2.7

The value of the Fund's promised retirement benefits as at 31 March 2017 was:

Year Ended	31/03/16 £m	31/03/17 £m
Present value of promised retirement benefits	790.3	1,002.2

20. Current Assets

	31/03/16 £000	31/03/17 £000
Debtors		
Contributions Due	1,363	79
Sundry Debtors	28	189
Cash in Hand	1,228	2,452
Current Assets	2,619	2,720

Analysis of Debtors

	31/03/16 £000	31/03/17 £000
Administering Body	1,274	38
Admitted and Scheduled Bodies	89	41
Sundry Debtors	28	189
Current Debtors	1,391	268

21. Current Liabilities

Creditors	31/03/16 £000	31/03/17 £000
Fund Managers Fees	(214)	(628)
Sundry	(512)	(80)
Payroll	(261)	(256)
Current Liabilities	(987)	(964)

22. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the Pension Fund accounts but are paid over by the 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 2016/17 to AVC schemes outside the Authority's responsibility was £0.172m (£0.127m at 31 March 2016). The external providers have reported that at 31 March 2017 the total value of accumulated AVCs is £2.048m (£1.710m at 31 March 2016).

23. Related Parties

Merton Council

Merton Pension Fund is administered by Merton Council consequently there is a strong relationship between the Council and the Pension Fund. During the reporting period, the Council incurred costs of £0.36m (2015/16 £0.36m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these

expenses. The Council is also the single largest employer of scheme members and contributed £16.2m to the Fund in 2016/17 (2015/16: £15.3m).

Governance

C Holland, (Director of Corporate Services) is an active member of the Pension Fund.

There are no members of the Pension Fund Advisory Panel (PFAP) in receipt of pension benefits.

Each member of the PFAP is required to declare their interests at each meeting.

Key Management Personnel

The key management personnel of the fund are the Section 151 officer, the Interim Director of Corporate Resources and the Interim Head of Treasury and Pensions. Total remuneration payable to key management personell is shown below:

	31/03/16 £000	31/03/17 £000
Short-term benefits	86,449	88,570
Post-employment benefits	0	0
Other long-term benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Total remuneration	86,449	88,570

24. Contingent Asset

LB Merton is one of the groups of claimants involved in a class action against Royal Bank of Scotland (RBS). This claim stems from the collapse of the financial markets in 2008 following the failures of Northern Rock, Lehman Brothers and others.

RBS put out a Rights Issue between May – June 2008. Merton Pension Fund was one of the many institutional and other investors that subscribed to shares based on the Prospectus put out by RBS.

The shares made losses and the claim is to recover those losses. The timing and amount of compensation remain uncertain.

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 31st March 2017.

Signed

C Holland
Director of Corporate Services
7th September 2017

1.3 Approval of Accounts by Standards and General Purposes Committee

I hereby certify that the Statement of Accounts has been approved by resolution of the Standards and General Purposes Committee of the London Borough of Merton in accordance with the Accounts and Audit (England) Regulations 2015.

Signed

Peter McCabe
Chairman Standards and General Purposes Committee
7th September 2017

Further information about the accounts is available from:

Director of Corporate Services
8th 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 7th September 2017.

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 1st April to the following 31st 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**

Year ended 31 March 2017

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EY

Building a better
working world

Private and Confidential

30 August 2017



Dear Standards and General Purposes Committee Members

We have substantially completed our audit of Merton Council (the Authority) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. This report is intended solely for the use of the Standards and General Purposes Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Suresh Patel
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.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 (updated September 2015)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature..

This report is made solely to the Standards and General Purposes Committee, other members of the Authority and management of Merton Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, other members of the Authority and management of Merton Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and General Purposes Committee, other members of the Authority and management of Merton Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01 Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the Standards and General Purposes Committee, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan with the exception of our work in response to the risk relating to the new ledger and data migration. We were unable to gain sufficient assurance from the Authority's arrangements and were required to carry out additional substantive procedures over the migration of data. We agreed with the Director of Corporate Services an additional audit fee of £5,000.

We planned our procedures using a materiality of £10.25 million. We reassessed this using the actual year-end figures, which has increased this amount to £10.59 million. The threshold for reporting audit differences has increased from £512,000 to £529,000. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure.

Status of the audit

As at 30 August we have substantially completed our audit of Merton Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements and certify completion of the audit using the format which appears at Section 3:

- ▶ Full completion of audit testing of the year-end main bank account reconciliation and related reclassifications of balances on the general ledger which continues to be worked on by the Council.
- ▶ Full completion of sample testing of non-system debtors and creditors.
- ▶ Full completion of our review of the detailed accounting model supporting accounting entries in the financial statements relating to the Schools Private Finance Initiative (PFI).
- ▶ Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.
- ▶ Resolution of a small number of residual queries on our testing of expenditure and journals.
- ▶ Review of the final version of the financial statements, completion of subsequent events review and receipt of the signed management representation letter.

The introduction of the new E5 general ledger system by the Authority towards the end of 2016/17 required it to change a number of key internal financial control processes. The design and implementation of new control processes has not been straight-forward with a number of key control reconciliations, including the bank reconciliation, not available at commencement of the audit. Implementation of the ledger has also reduced officer capacity, which in turn has impacted on the working papers available to support the year-end audit and the provision of evidence to support audit testing undertaken earlier in the year. As a result of these matters we have been required to input additional unplanned time to obtain working papers, seek and gain responses to audit queries and complete the necessary audit procedures. We have agreed with the Director of Corporate Services a further additional audit fee of £7,000.

We have concluded that the Authority is not yet well placed to meet the earlier deadlines for production and audit of the financial statements in 2017/18 and have raised recommendations for improvement in the main body of the report. Management recognise these issues and have accepted the recommendations, together with a clear commitment to working with us to address this in 2017/18.

We will provide the Committee with a verbal update of the outstanding matters listed above.



Executive Summary

Audit differences

As at 30 August there are no unadjusted misstatements which we are required to bring to your attention.

We have identified a number of audit differences which have been adjusted by management. Details can be found in Section 4 - Audit Differences.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have commenced the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have yet to fully conclude our work in this area and will verbally update the Committee.

The financial statements submitted for audit were not fully supported by the required working papers as agreed with the Authority earlier in the year. In preparation for the earlier deadline for production and audit of the financial statements in 2017/18 we planned and conducted substantive procedures at the interim stage of the audit in February and March of 2017. The Council was slow to provide evidence to support our testing at the interim stage, with much of the requested evidence still not available at commencement of the post statement audit in July. Although we recognise that implementation of the new financial ledger had a significant impact on officer capacity over year-end and into the new financial year this needs to be addressed.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified significant risks which are considered in more detail in Section 5 of this report.

We have included our detailed commentary on the work we have performed but we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Merton Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Standards and General Purposes Committee.



Executive Summary

Control observations

Implementation of the new general ledger system has necessitated changes to many of the Council's key internal financial control processes. At commencement of the audit the Council was not able to provide a complete year-end bank reconciliation or reconciliation of the creditors control account. A supported creditors control account reconciliation has now been provided, but there remains an unidentified reconciling item of approximately £285,000. As at 30 August we have not yet been provided with a bank reconciliation that we are able to test, and some further adjustments will need to be made to the bank balance on the ledger and cash balance disclosed in the draft financial statements. We will update the Committee verbally with details of progress.

As at 30 August we are therefore not yet able to fully conclude whether there are any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

Independence

Please refer to Appendix B for our update on Independence.





02 Areas of Audit Focus



Areas of Audit Focus

Audit issues and approach: Management Override

Management override

What did we do?

To gain assurance in respect of the general risk of management override:

- ▶ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- ▶ We reviewed accounting estimates for evidence of management bias.
- ▶ We evaluated the business rationale for any significant unusual transactions.
- ▶ We evaluated the rationale for any changes in accounting policy.

What is the risk?

Risk of management override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

199  Significant Risk

What are our conclusions?

Work to test manual debtor and creditor accruals, expenditure and journals, which is directly relevant to this risk, remains ongoing at 30 August.

Based on our work undertaken to date we have not identified any evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business. We will update the Committee verbally with details of further progress.



Areas of Audit Focus

Audit issues and approach: New General Ledger Implementation

General Ledger Implementation

What did we do?

We planned to review the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This included reviewing the effectiveness of the reconciliation processes.

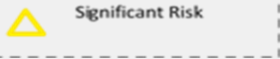
We sought to rely on any relevant controls over the migration of data established by the Council, and any relevant work of internal audit.

If we were unable to gain sufficient assurance that the Council had migrated all the relevant data completely and accurately we noted that we would need to undertake additional audit procedures, necessitating an additional audit fee.

What is the risk?

The Council introduced its new E5 general ledger system with effect from 7 February 2017. It put in place measures to migrate data on 2016/17 transactions and balances from the old to the new general ledger system. The Council's 2016/17 financial statements were prepared using data taken from the new general ledger at the end of the financial year. To ensure the Council prepares materially accurate and complete 2016/17 financial statements it was essential that the Council was assured that it had migrated all financial data to its new general ledger.

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Significant Risk

What are our conclusions?

We carried out additional substantive procedures to gain assurance that data was completely and accurately migrated between the old and new general ledgers.

Implementation of the new general ledger system has necessitated changes to many of the Authority's key internal financial control processes. At commencement of the audit the Authority was not able to provide a complete year-end bank reconciliation or reconciliation of the creditors control account. As at 30 August we have not yet been provided with a bank reconciliation that we are able to test, and some further adjustments will need to be made to the bank balance on the ledger and cash balance disclosed in the draft financial statements.

The Authority has experienced difficulty in producing reports from the new general ledger system to allow us to use our analytics tools to support the audit process and it continues to be difficult to map the financial data provided to the financial statements. It was also not initially able to produce transactional analyses of both system and non-system debtors and creditors which has significantly delayed testing in these areas.

Based on all of this we have concluded the Authority is not currently well placed to achieve the tighter deadlines for production and audit of its financial statements in 2017/18.

Recommendation - The Authority should:

- Seek to fully establish and embed key control processes. The implementation of the new general ledger provides an opportunity to simply and automate these processes.
- Work to clarify and improve general ledger reporting and how financial data held on the ledger maps to the financial statements to better support the use of analytics to support the audit. Gaining a better understanding of these areas should also help the Authority to close down earlier.



Areas of Audit Focus

Audit issues and approach: Financial Statements Presentation

Financial Statements Presentation

What did we do?

Our approach focused on:

- ▶ A review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code.
- ▶ A review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Authority's organisational structure and how overheads are apportioned across the service areas reported.
- ▶ Agreement of restated comparative figures back to the Authority's segmental analysis and supporting working papers.

What is the risk?

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) which change the way the financial statements are presented.

The new reporting requirements impact on both the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note.

The Code no longer requires statements or notes to be prepared in accordance with the Service Reporting Code of Practice (SeRCOP). Instead the service analysis is based on the organisational structure under which the authority operates. We expected this to show the Council's segmental analysis.

This change in the Code requires a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

What are our conclusions?

The Authority in general dealt well in adopting the new presentational changes required by the Code in its 2016/17 financial statements. A small number of relatively minor disclosure changes have been made as a result of our work in this area.

The majority of the Authority's work in this area was made available at the interim stage of the audit which allowed most issues and queries to be dealt with in a timely manner and prior to the production of the draft financial statements. We welcome this approach of working together during the year.



Areas of Audit Focus

Audit issues and approach: Valuation and impairment of property, plant and equipment and investment property

PPE Valuation

What is the risk?

Property, Plant and Equipment (PPE) represents the largest asset value on the Council's balance sheet. PPE is initially measured at cost and then revalued to fair value, determined by the amount that would be paid for the asset in its existing use, on a 5 year rolling basis. The Council relies on its professional valuer using a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates.

What did we do?

Our approach has focused on:

- ▶ Consideration of the work performed by the Council's internal valuer, including the adequacy of the scope of the work performed, professional capabilities and the results of their work;
- ▶ Testing a sample of recalculations processed on the fixed asset register to individual valuation certificates, including a check of the accuracy of the valuer's calculations;
- ▶ Consideration of the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these had been communicated to the valuer;
- ▶ Review of the valuer's approach for assets not subject to valuation in 2016/17 to confirm that the remaining asset base is not materially misstated;
- ▶ Consideration of external evidence of assets values via reference to the specific Local Government Gerald Eve report commissioned by the NAO for auditor use. Specifically we considered if this indicated any material variances to the asset valuations performed by the valuer;
- ▶ Consideration of changes to useful economic lives as a result of the most recent valuation;
- ▶ Consideration of whether all asset categories, including those held at cost, had been assessed for impairment and are materially correct; and
- ▶ Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

What are our conclusions?

We identified no significant deficiencies in the Authority's overall approach to asset valuation which is robust and designed to ensure full compliance with the requirements of the Code of Practice on Local Authority Accounting.

There were, however, a number of disclosure errors made in the Property, Plant and Equipment note and related entries in the financial statements. Adjustments to correct this impact on the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement and a number of supporting notes. These errors could have been detected though initial quality review of the draft financial statements submitted for audit.



Areas of Audit Focus

Audit issues and approach: Pensions Accounting

Pensions Accounting

What is the risk?

The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £368.109 million (£263.154 million at 31 March 2016).

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

Our approach has focused on:

- ▶ Liaising with the audit engagement team and Executive Director of Merton Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Merton Council;
- ▶ Assessing the conclusions drawn on the work and assumptions used by Barnett Waddingham (the Pension Fund actuary) by using and reviewing the work of the Consulting Actuary commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, PwC; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.



Audit issues and approach: Pensions Accounting

What are our conclusions?

We are satisfied that IAS 19 entries have been correctly processed in the financial statements. There was however an error in the information passed to the Actuary relating to the Authority. We have sought and obtained sufficient assurance that the error has no material impact on related disclosures in the financial statements. It is important, however, that similar errors do not reoccur in the future.

Assumptions used by the actuary and adopted by the Authority are considered to be generally acceptable. However, PWC's Consulting Actuary report provided to us by Public Sector Audit Appointments Ltd highlighted that discount and inflation rates used by Barnett Waddingham fall outside what they consider to be an acceptable range. We are satisfied this has not resulted in errors in the Actuary's assessment of the IAS19 pension liability and associated disclosures in the Authority's financial statements. Using the EY Pensions team we have, however, concluded that the methodologies used to derive the discount rate and RPI inflation assumptions by Barnett Waddingham are not robust as they do not take adequate account of the specific duration of the scheme's liabilities. In future years, this could lead to unacceptable assumptions. We have reported this finding consistently at all clients using Barnett Waddingham.



03 Audit Report



Proposed Audit Report

Our opinion on the financial statements

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 of the London Borough of Merton for the year ended 31 March 2017 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 2016/17.

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 the Responsibilities set out on pages 152 - 153, 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 2016/17, 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 2016/17 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.



Proposed Audit Report

Our opinion on the financial statements

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 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 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.



Proposed Audit Report

Our opinion on the financial statements

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 [name of body] 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 2017.

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 2017.

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.

The maintenance and integrity of the London borough of Merton web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04

Audit Differences



Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We report all known adjusted misstatements greater than £7.94 million.

At 30 August we highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management:

- ▶ A number of errors in the disclosure of movement in property, plant and equipment assets at Note 19 of the financial statements. The errors did not impact on the opening or closing net book value of property, plant and equipment in Note 19 or the face of the Balance Sheet.
- ▶ A £9.3 million understatement of the gross value of PFI assets disclosed at Note 27 of the financial statements. This impact was disclosure only and had no impact on the carrying value of assets accounted for on the Balance Sheet.
- ▶ Additional disclosure has been added to Note 33 of the financial statements (events after balance sheet date) to make clear that events subsequent to the balance sheet date mean that the asset held for sale disclosed at Note 22 of the financial statements is now unlikely to be sold in 2017/18 and will be retained by the Council as operational property, plant and equipment.

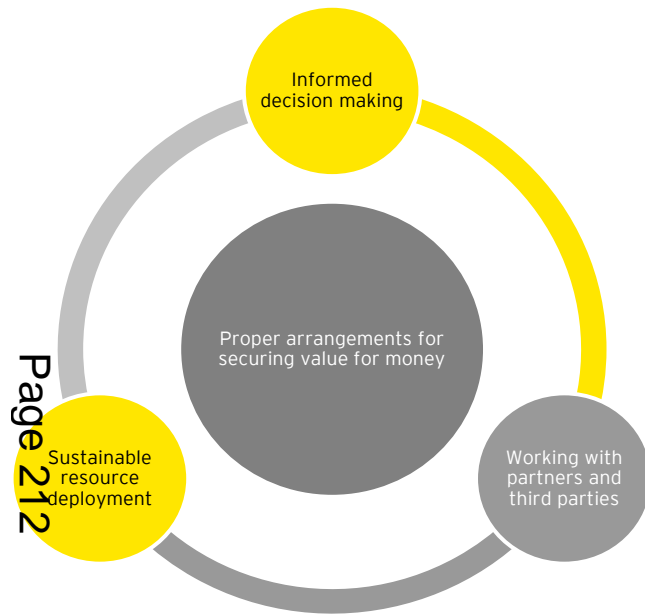
We report all uncorrected misstatements greater than £529,000. As at 30 August we expect there to be no uncorrected misstatements.



05 Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your 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.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We identified one significant risks in relation to your arrangements. The tables below present our findings in response to the risk in our Audit Plan.

We expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We became aware, subsequent to completing our planning, of an Ofsted Inspection of Council services for children in need of help and protection, children looked after and care leavers. The results of the inspection are not due to be reported until 4 September 2017. The Council is pleased and proud of its performance and we do not expect the results of the inspection to have an impact on our responsibilities in respect of Value for Money.



Value for Money

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as: *“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The tables below present the findings of our work in response to the risks areas in our Audit Plan.

What is the significant VFM risk?	What arrangements did this affect?
<p>Failure to deliver medium term financial balance</p> <p>In common with many other councils Merton continues to face a highly challenging financial outlook. The annual budget gap net of planned savings and growth over the four years forecast in the Council’s medium term financial strategy (MTFS) reported to the March 2017 Council Budget meeting rises from a balanced position in 2017/18, to approximately £18 million in 2020/21.</p> <p>The main budgetary pressure continues to be current and forecast future growth in adult social care (ASC) spending. The latest forecast for the directorate is a £9 million overspend in 2016/17 leading to a forecast current year net overspend for the Council of approximately £6 million. The Council is therefore likely to call on reserves to a greater extent than budgeted for in the previous MTFS.</p>	<p>Deploying resources in a sustainable manner</p> <p>Informed decision making</p> <p>Working with partners and other third parties</p>



What are our conclusions?

Failure to deliver medium term financial balance

Arrangements are adequate and we have identified no issues that would cause us to qualify our conclusion. We wish to bring the following matters to the Committee's attention.

2016/17 Financial Performance and Position

The Council overspent by approximately £5.5 million or 1% against its gross budget. This compared to an overspend of approximately £0.7m or 0.1% of the gross budget in the previous year. This level of overspending was forecast by budget monitoring arrangements from a relatively early stage in the year. The overall overspend on the General Fund resulted in a call on balances and the Council has now been overspending against its front line service budget since 2014/15. The pattern of overspending in 2016/17 is similar to 2015/16 in terms of the three largest service areas of overspending, but the level of overspend on adult social care escalated considerably.

The Capital Programme for 2016/17 as approved in March 2016 was £39.3 million. Subsequently, slippage from 2015/16 of £6.7 million was added, giving an effective opening programme of £46m. The overall programme was reduced during the year mainly as a result of budget being re-profiled into subsequent financial years. If the final capital outturn is compared to the original capital programme the total slippage is 27%. Although this is an improvement on previous years there remains a recognition in the Council's own budget reporting that this level of slippage remains too high.

Medium Term Financial Planning and Cost Pressures within Adult Social Care (ASC)

The Council has a well-established business and medium term financial planning process that considers the significant national and local factors impacting on its spending, revenues and budget. In 2016/17 the most significant budget pressure, in common with many upper tier authorities, was an increased level of net spend on ASC. From early in 2016/17 the service forecast an overspend of approximately £9 million which ultimately was the outturn position, and this was the main driver of the overall General Fund overspend for the year. As part of our work we specifically considered the budget pressures in ASC and related arrangements.

There appears to be a good level of understanding of the cause of the overspending with the cost of provider placements the main driver. There is an active provider market locally for both homecare and residential care, but there are limitations on supply within the Borough and competition from other commissioners and service users. A decision was taken not to build in budgetary provision for inflationary pressures in the provider market for a number of years. These pressures had been successfully offset by the delivery of non-recurrent savings. However, the failure to fully recognise the true underlying cost inflation in the base budget could no longer be managed from the end of 2015/16, with the full year effect felt in 2016/17.

Although it is not yet fully clear, it appears that growth assumptions built into the 2017/18 budget are reasonable and there is now explicit provision in the budget to mitigate against the impact of planned cost savings that are not fully delivered, or not delivered on a recurrent basis. A new social care information system, Mosaic, has also now been introduced which is intended to help with both service and financial management change and improvement. However, as would be expected for a new system, there are implementation challenges and, coupled with the introduction of the new E5 general ledger, this is impacting on how quickly and easily the 2017/18 budget can be monitored. The Council is reliant on both the additional social care council tax precept and improved Better Care Fund (BCF) to finance budget growth in ASC. If either change this may put pressure back on the budget unless other recurrent savings can be identified. The Council is currently in the process of re-tendering its main homecare contract. This provides an opportunity to reduce the relatively high level of spot purchasing of care, which in turn should bring about recurrent cost and quality benefits.



What are our conclusions (contd)

Failure to deliver medium term financial balance (contd)

Medium Term Financial Planning and Cost Pressures within Adult Social Care (contd)

Although there are established integrated Learning Disabilities and Mental Health teams, the BCF and wider Sustainability and Transformation Plan (STP) agenda has not yet resulted in significant changes to operational practice, particularly in terms of joint procurement or commissioning. It is also not clear that BCF and STP are addressing issues in the wider local health economy, such as the level of non-elective admissions to NHS providers. It is likely that the high level of recent senior management turnover at Merton CCG, and a general lack of capacity, has inhibited the rate of progress and change.

Looking forward

As at month 3 in 2017/18 the Council forecasts a net revenue overspend at year end of £1.8 million or 0.3% of its gross budget. This level of overspending could not be supported by the General Fund without taking it to a level the Council considers to be below a prudent minimum, and therefore would need to be funded by increased savings or a call on other earmarked reserves.

The main areas of service overspending are within two directorates - Communities and Housing and Children, Schools and Families. Children, Schools and Families overspending is being driven by a significant overspend on Social Care and Youth Inclusion. Placement budgets are again the key cost pressure. Although some provision for growth has been made in the 2017/18 budget this is not currently considered to be sufficient. In previous periods other underspending had been used to offset inflationary pressures in the base budget, but the actions taken to achieve this were one-off in nature and are therefore no longer having a recurrent effect. Community and Housing overspending is no longer primarily in ASC but is largely being driven by overspending on the housing general fund budget. The main budget pressure in the service is considered by management to be a shortfall in housing benefit subsidy and issues surrounding client contributions following the introduction of Universal Credit.

Recommendations

The Council should:

- Consider areas of ASC related activity where it could further benefit from working in collaboration with its main CCG and other parties to the STP. For example, joint procurement or commissioning.
- Ensure that teams are sufficiently supported and encouraged to make effective use of the new IT systems (Mosaic and the E5 general ledger) for producing timely and accurate financial and operational information.



06

Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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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, is specified by the National Audit Office.

We have yet to fully conclude our work in this area and will verbally update the Committee.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



Assessment of Control Environment



Assessment of control environment

Financial controls

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Implementation of the new general ledger system has necessitated changes to many of the Council's key internal financial control processes. At commencement of the audit the Council was not able to provide a complete year-end bank reconciliation or reconciliation of the creditors control account. A supported creditors control account reconciliation has now been provided, but there remains an unidentified reconciling item of approximately £285,000. As at 30 August we have not yet been provided with a bank reconciliation that we are able to test and some further adjustments will need to be made to the bank balance on the ledger and cash balance disclosed in the draft financial statements. We will update the Committee verbally with details of progress.

As at 30 August we are therefore not yet able to fully conclude whether there are any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.






08 Appendices



Appendix A

Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	10 March 2017 Standards and General Purposes Committee Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit that were discussed with management ▶ Written representations we have requested ▶ Expected modifications to the audit report ▶ Any other matters significant to overseeing the financial reporting process 	7 September 2017 Standards and General Purposes Committee Audit Results Report
Going concern	<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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	7 September 2017 Standards and General Purposes Committee Audit Results Report



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	7 September 2017 Standards and General Purposes Committee Audit Results Report
Fraud	<ul style="list-style-type: none"> ▶ Asking the Standards and General Purposes Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Regulation, Audit and Accounts Committee responsibility. 	We have made enquiries of management and those charged with governance. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the Standards and General Purposes Committee whether any subsequent events have occurred that might affect the financial statements. 	7 September 2017 Standards and General Purposes Committee Audit Results Report
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	We have no matters we wish to report subject to completion of our final audit procedures.



Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations.
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the Standards and General Purposes Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Regulation, Audit and Accounts Committee. 	We have made enquiries of management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	7 September 2017 Standards and General Purposes Committee Audit Results Report None identified
Independence	Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,	10 March 2017 Standards and General Purposes Committee Audit Plan 7 September 2017 Standards and General Purposes Committee Audit Results Report
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	7 September 2017 Standards and General Purposes Committee Audit Results Report



Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 22 February 2017.

We complied with the APB Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Standards and General Purposes Committee on 7 September 2017.

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As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee - Code work	155,498*	143,498	143,498
Certification of claims and returns	30,555**	28,320	41,242
Non-audit work - Teachers' Pensions	TBC	8,500***	8,500

* The proposed final fee includes an additional amount of £5,000 for work required to gain assurance over the transfer of data to the Council's new general ledger. The proposed final fee also includes a further amount of £7,000 for other additional work required to gain assurance on the financial statements caused by weaknesses and omissions in supporting working papers and the failure to produce complete reconciliations supporting balances in the accounts. The proposed final fee is subject to confirmation by Public Sector Audit Appointments Limited (PSAA).

** The scale fee for the certification of claims and returns has been updated by PSAA subsequent to the planning stage of the audit.




*** Subject to confirmation of 2016/17 work.



Appendix C

Outstanding matters

The following items are outstanding at the date of this report:

Item 	Actions to resolve 	Responsibility 
Full completion of audit testing of the year-end main bank account reconciliation and related reclassifications of balances on the general ledger which continues to be worked on by the Council	Reconciliation to be fully completed by management with resulting adjustments processed on the general ledger and in the financial statements. Complete reconciliation to be tested by EY.	EY and management
Full completion of sample testing of non-system debtors and creditors	Complete analysis of transaction level data to be provided by management together with evidence to support sample testing after sample selection.	EY and management
Full completion of our review of the detailed accounting model supporting accounting entries in the financial statements relating to the Schools Private Finance Initiative (PFI)	Testing to be completed by EY Expert. Queries arising to be resolved by management.	EY and management
Resolution of a small number of residual queries on our testing of expenditure and journals.	Query responses to be provided by management. Testing to be completed by EY.	EY and management
Review of the final version of the financial statements, completion of subsequent events review and receipt of the signed management representation letter.	Final amendments to be made by management and reviewed by EY. Final letter of representation to be signed when the audit is fully complete.	EY and management
Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.	EY to complete full procedures which are currently in progress.	EY and management



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Accounting and regulatory update



Accounting update

Since the date of our last report to the Standards and General Purposes Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Merton Council 
<i>IFRS 9 Financial Instruments</i> Page 226	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured ▶ How the impairment of financial assets are calculated ▶ Financial hedge accounting ▶ The disclosure requirements for financial assets. <p>▶ Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets ▶ Remeasure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>



Appendix D



Name	Summary of key measures 	Impact on Merton Council 
<p><i>IFRS 15 Revenue from Contracts with Customers</i></p>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ for local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none"> ▶ There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be. 	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> ▶ Disaggregate revenue into appropriate categories ▶ Identify relevant performance obligations and allocate income to each ▶ Summarise significant judgements <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<p><i>IFRS 16 Leases</i></p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is has yet to commence work in this area due to the timing of implementation.</p>



Accounting and regulatory update (continued)

Progress report on implementation of new standards and regulations

In previous reports to the Standards and General Purposes Committee we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures 	Impact on Merton Council 
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p> <p>Page 228</p>	<ul style="list-style-type: none"> ▶ The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July. 	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> ▶ Issued a thought piece on early closedown ▶ As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales ▶ Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we have:</p> <ul style="list-style-type: none"> ▶ Had regular discussions through the year on the Council's proposals to bring forward the closedown timetable ▶ Together with the Council agreed areas for early work which included: <ul style="list-style-type: none"> ○ Testing of major income and expenditure to month 8, ○ Some specific testing of payroll expenditure. ○ Review of major contracts. ○ Review of accounting policies. ○ Significant re-statement of the accounts brought about by changes to the Accounting Code of Practice. <p>It is important that this approach is further developed into 2017/18. In particular we would welcome working with the Council to explore how further assurance could be gained in respect Property, Plant and Equipment during the period.</p>



Management representation letter

Management Rep Letter

Suresh Patel
Executive Director
Ernst & Young
Threefield House,
19 Threefield Ln,
Southampton
SO14 3QB

This letter of representations 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 2017. 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 Council financial position of the London Borough of Merton as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

- B.**
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 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
 2. We acknowledge, as members of management of the Council, 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, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.



Appendix E

Management Rep Letter

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, 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 2016/17, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, 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 [specify reasons for not correcting misstatement].

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 no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance 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;
 - 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 held through 2016/17 to the most recent meeting of the Standards and General Purposes Committee on 7 September 2017.
4. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.



Appendix E

Management Rep Letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. 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 in Note 12 to the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

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

E. Prior Year Adjustments

1. *[Add a paragraph providing a brief description of each matter giving rise to a restatement and the amount(s) concerned.]*
2. The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this (these) restatement(s) has (have) also been included in the current year's financial statements.

Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have employed or engaged to evaluate the valuation of property, plant and equipment, and the pension fund liability and have adequately considered the qualifications of the specialists 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 specialists 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 specialists.

Accounting Estimates - Property, Plant and Equipment and Pension Fund Liability Valuation

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



Appendix E

Management Rep Letter

Retirement benefits

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.

Yours Faithfully,

*Caroline Holland
Director of Corporate Services*

*Cllr Peter McCabe
Chair of Standards and General Purposes Committee*

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ED None

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Merton Pension Fund
Audit results report

Year ended 31 March 2017

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Private and Confidential

30 August 2017

Dear Committee Members

We have substantially completed our audit of Merton Pension Fund for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 30 September 2017.

This report is intended solely for the use of the Standards and General Purposes Committee, other members of the Fund, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Melissa Hargreaves
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

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05 Other Reporting Issues

06 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.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 (updated September 2015)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Standards and General Purposes Committee, other members of the Fund and management of Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, other members of the Fund and management of Merton Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and General Purposes Committee, other members of the Fund and management of Merton Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the 10 March 2017 Standards and General Purposes Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of approximately £10.3 million. We reassessed this using the actual year-end figures, which has increased this amount to approximately £13 million. The threshold for reporting audit differences has increased from £530,000 to £650,000. The basis of our assessment of materiality has remained consistent with the planning stage at 2% of net assets.

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Status of the audit

As at 30 August we have substantially completed our audit of Merton Pension Fund's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Final Executive Director review of audit work undertaken
- Review of the final version of the financial statements and annual report
- Completion of subsequent events review
- Receipt of the signed management representation letter



Executive Summary

Audit differences

As at 30 August there are no unadjusted misstatements which we are required to bring to your attention.

As at 30 August we expect there to be no adjusted misstatements which we wish to draw to your attention.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Merton Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in Section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

There are no other considerations or matters that could have an impact on these issues

You agree with the resolution of the issue

- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Standards and General Purposes Committee.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Report for consistency with the audited financial statements and our knowledge of the Fund. We have no matters to report as a result of this work.

Other reporting matters are set out in Section 5 of this report.

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 and which is unknown to you.

Independence

Please refer to Appendix B for our update on Independence.





02 Areas of Audit Focus



Audit issues and approach: Management Override

Management override

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.


We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business

What is the risk?

Risk of management override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

 Significant Risk

What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias; and
- We evaluated the business rationale for any significant unusual transactions.



Areas of Audit Focus

Audit issues and approach: New General Ledger Implementation

General Ledger Implementation

What is the risk?

Merton Council uses the Masterpiece ledger to record all Pension Fund financial transactions forming the basis of its financial statements. The Council introduced its new general ledger system with effect from 7 February 2017. It put in place measures to migrate data on 2016/17 transactions and balances from the old to the new general ledger system. The Pension Fund 2016/17 financial statements were prepared using data taken from the new general ledger at the end of the financial year.

To ensure the Pension Fund prepares materially accurate and complete 2016/17 financial statements it is essential that it has assurance all financial data has migrated completely and accurately to its new general ledger.



Significant Risk

What did we do?

We planned to review the actions taken by the Council to ensure the complete and accurate migration of Pension Fund financial data to the new general ledger. This included reviewing the effectiveness of the reconciliation processes.

We sought to rely on any relevant controls over the migration of data established by the Council, and any relevant work of internal audit.

If we were unable to gain sufficient assurance that the Council had migrated all the relevant data completely and accurately we noted that we would need to undertake additional audit procedures, necessitating an additional audit fee.



Audit issues and approach: New General Ledger Implementation

What are our conclusions?

We are satisfied that data was completely and accurately migrated between the old and new general ledgers.

The Pension Fund has experienced difficulty in producing reports from the new general ledger system to allow us to use our analytics tools to support the audit process and it continues to be difficult to map the financial data provided to the financial statements which resulted in delays to the audit process. Based on this we have concluded the Pension Fund is not currently well placed to achieve the tighter deadlines for production and audit of its financial statements in 2017/18.



03 Audit Report



Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE 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 2017 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 27. 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 2016/17.

This report is made solely to the members of the 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 the Director of Corporate Services Responsibilities set out on page 152-153 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 2016/17, 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.



Draft audit report (continued)

Our opinion on the financial statements

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 2016/17 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 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the London Borough of Merton Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.



Draft audit report (continued)

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- 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

The maintenance and integrity of the London Borough of Merton web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences





Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We report all known adjusted misstatements greater than £9.75 million. As at 30 August there are no adjusted misstatements which we wish to draw to your attention.

We report all uncorrected misstatements greater than £650,000. As at 30 August we expect there to be no uncorrected misstatements to draw to your attention.



05

Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Report

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements.

We did not note any inconsistencies between financial information in the Statement of Accounts 2016/17 and financial information published with the financial statements.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations

Accounting for the Pension scheme involves significant estimation and judgement and therefore management engages an actuary, Barnett Waddingham, to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. There was an error in the information passed to the Actuary used to inform the estimate of the pension liability for Merton Council. Although this had no impact on the Pension Fund financial statements it is important that similar errors do not reoccur in the future.

The financial statements submitted for audit were not fully supported by the required working papers as agreed with the Fund earlier in the year. Complete working papers were only provided during the course of the audit.



06 Appendices



Appendix A

Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the Audit Committee of UK clients. We have done this by:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	10 March 2017 Standards and General Purposes Committee Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process 	7 September 2017 Standards and General Purposes Committee Audit Results Report
Going concern	<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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	7 September 2017 Standards and General Purposes Committee Audit Results Report

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Appendix A



Our Reporting to you







When and where

Required communications	What is reported?	When and where
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	7 September 2017 Standards and General Purposes Committee Audit Results Report
Fraud	<ul style="list-style-type: none"> ▶ Asking the Standards and General Purposes Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Fund ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Standards and General Purposes Committee responsibility. 	We have made enquiries of management and those charged with governance. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Fund's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the Standards and General Purposes Committee whether any subsequent events have occurred that might affect the financial statements. 	7 September 2017 Standards and General Purposes Committee Audit Results Report
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	We have no matters we wish to report.
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations.

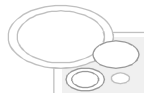


Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on “tipping off” ▶ Asking the Standards and General Purposes Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Regulation, Audit and Accounts Committee. 	We have made enquiries of management and those charged with governance. We have not identified any material instances of non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	7 September 2017 Standards and General Purposes Committee Audit Results Report None identified
Independence	<p>Communication of all significant facts and matters that have a bearing on EY’s objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm’s general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	<p>10 March 2017 Standards and General Purposes Committee Audit Plan</p> <p>7 September 2017 Standards and General Purposes Committee Audit Results Report</p>
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	<p>10 March 2017 Standards and General Purposes Committee Audit Plan</p> <p>7 September 2017 Standards and General Purposes Committee Audit Results Report</p>



Independence



We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 22 February 2017.

We complied with the APB Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Standards and General Purposes Committee on 7 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.




Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee - Code work	21,000	21,000	21,000



Appendix C

Outstanding matters

The following items are outstanding at the date of this report:

Item 	Actions to resolve 	Responsibility 
Review of the final version of the financial statements and annual report	Final audit adjustments to be made to the financial statements and annual report	EY and management
Completion of subsequent events review	Review to be undertaken by EY immediately prior to issue of the opinion	EY
Receipt of the signed management representation letter	Final letter of representation to be signed when the audit is fully complete	EY and management
Final Executive Director review of audit work	Final review of audit work to be undertaken	EY

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Management representation letter

Draft Management Representation Letter

Melissa Hargreaves
Executive Director
Ernst & Young
2 St Peter's Square
Manchester
M2 3EY

This letter of representations is provided in connection with your audit of the financial statements of Merton Pension Fund ("the Fund") for the year ended 31 March 2017. 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 transactions of the Fund during the year ended 31 March 2017 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, 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 financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and are free of material misstatements, including omissions. We have approved the financial statements.



Appendix D

Draft Management Representation Letter

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund 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 2016/2017 that are free from material misstatement, whether due to fraud or error.
6. 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 no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Fund's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Fund.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance 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. There have been no other communications with The Pensions Regulator or other regulatory bodies during the 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;
 - 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 Fund and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through 2016/17 to the most recent meeting of the Pensions Fund Advisory Committee on 8 March 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund'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 [period] end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.



Appendix D

Draft Management Representation Letter

6. We have disclosed to you, and the 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 Fund members or the Fund during the fund 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, and have disclosed in Note 26 to the financial statements 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 as described in Note 6 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. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the financial and non-financial information in the 2016/17 Annual Report other than the 2016/17 financial statements and auditor's report thereon.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Derivative Financial Instruments

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

I. Actuarial valuation

The latest report of the actuary, Alison Hamilton from Barnett Waddingham 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.



Appendix D

Draft Management Representation Letter

J Accounting Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making accounting estimates appropriately reflect our intent and ability to carry out the estimates on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to accounting estimates are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to accounting estimates and disclosures in the financial statements due to subsequent events.

Yours faithfully,

Caroline Holland
Director of Corporate Services

Councillor Peter McCabe
Chairman of the Standards and General Purposes Committee

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ED None

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	B	C	D	E	F
2	Comprehensive Income and Expenditure Accounts: Net Cost of Services				
3					
4					
5	Employees			£'000	£'000
6		Direct employee expenses			
7		Salaries & wages		146,121	
8		Employers NICs		13,650	
9		IAS19 Defined Benefit Pension Costs			
10		Employers pension current service costs		20,713	
11		Employers pension past service costs		675	
12		Recognition of gain/loss on settlement of pension liability		-626	
13		Pension contributions defined contribution plans and other external schemes (includes Teachers Pension Scheme)		8,728	
14		Agency staff		14,524	
15		Employee expenses		0	
16		Indirect employee expenses			
17		Other employee expenses		2,957	
18		Employee-related provisions expense		0	
19		Debits resulting from soft loans to staff		0	
20		Total Employee Costs			206,742
21	Premises				
22		Business Rates	[no CPID]	1,462	
23		Premises related provisions expense		0	
24		Other premises related expenditure		7,428	
25		Total Premises Costs			8,890
26					
27	Transport				
28		Transport related provisions expense		0	
29		Other transport related expenditure		5,503	
30		Total Transport			5,503
31					
32	Supplies & Services				
33		Audit costs		186	
34		PFI service charge		2,663	
35		Provisions expense		36	
36		Other purchases of supplies & services		77,774	
37		Total Supplies & Services			80,659
38					
39	Third-Party Payments				
40		Independent units within the council		0	
41		Joint authorities		881	
42		Other local authorities		3,307	
43		Health Authorities (incl. NHS Trusts, Primary Care Trusts etc)		1	
44		Government departments		0	
45		Levies (included within service lines)		0	
46		All other bodies		71,172	
47		Total Third-Party Payments			75,361
48					
49	Transfer Payments				
50		[ELG, WLG, SLG ONLY] Housing benefit (payments to taxpayers)	[no CPID]	88,055	
51		Other transfer payments		10,123	
52		[WLG ONLY] Repayment of Grants to WAG	WAG		
53		Payment to Welsh Government to buy out HRA subsidy (Settlement payment)	WCF		
54		Total Transfer Payments			98,178
55					
56	Support Services	Total recharged cost from support functions		30,667	30,667
57					
58	Depreciation & Impairment Losses				
59		Depreciation		17,171	
60		Amortisation of intangible assets		538	
61		Revaluations		1,791	
62		Impairment		0	
63		Movement in fair value of investment property		0	
64		Total Depreciation and Impairment Losses			19,500
65					
66	Other Expenditure				
67		Miscellaneous expenditure - please analyse in table below			
68		Total other expenditure			0
69					
70	Income				
71		[ELG, WLG, SLG ONLY] Dwelling rents (gross) within the Housing Revenue Account (HRA)			
72		[ELG, WLG ONLY] Cost of NNDR Collection Allowance (treated as income)	[no CPID]	-273	
73		Miscellaneous income			
74		Government Grants and Contributions (received from bodies within WGA boundary)			
75		[ELG, WLG ONLY] New Homes Bonus / [WLG] Income from other local authorities	CLG	-4,734	
76		[WLG ONLY] Welsh Government Revenue Grant	WAG	0	
77		[ELG, WLG ONLY] PFI Special Grant (component recognised in NCS)		0	
78		[ELG, WLG ONLY] Public Health Grant	PHE	-10,998	
79		[ELG, WLG, SLG ONLY] Rent Allowance: subsidy	DWP	-87,302	
80		[ELG, WLG, SLG ONLY] HRA Rent Rebates: subsidy	DWP	0	
81		[ELG, WLG, SLG ONLY] Non-HRA Rent Rebates: subsidy	DWP	0	
82		[ELG, WLG, SLG ONLY] Housing Benefit Subsidy Admin Grant	DWP	-985	
83		[ELG ONLY] Pupil Premium	DfE	-5,875	
84		[ELG ONLY] Dedicated Schools Grant	DfE	-138,705	
85		[ELG ONLY] Education Services Grant	DfE	-2,350	
86		[ELG ONLY] GLA Transport Grant	DfT	0	
87		EU current grants		0	
88		Other revenue grants & contributions (from Government and other WGA bodies)		-33,476	
89		Other Non-Govt revenue grants & contributions		-13,776	
90		Capital Grants and Contributions			
91		Capital grant income (from Govt bodies)			
92		Capital grant income (EU grants)			
93		Capital grants & contribution income (from non-Govt)			
94		Amounts released from receipts in advance (deferred income)	[no CPID]	-47	
95		Customer & client receipts			
96		recharge receipts		-31,051	
97		external receipts (fees & charges for services)		-31,293	
98		Other Operating Income - please analyse in table below			
99		Total Income			-360,865
100					
101	Landfill Allowance Trading Scheme				
102		LATS Grant Income			
103		LATS BMW/Landfill Usage			
104		Gain/Loss on Sale of LATS			
105		LATS Impairment			
106		Total Landfill Allowance Trading Scheme			0
107					
108	Other items (Group Accounts Only)				
109	Associates and joint ventures				
110		[SCOTLAND ONLY] Police, Fire, SESTRAN & Strathclyde Partnership for Transport			
111		Share of Surplus/Deficit of Assocs & JVs (Recognised within NCS, net of tax)			
112		Total Other items (Group Accounts Only)			0
113					
114	NET COST OF SERVICES				164,635

	A	B	C	D	E	F
1						
2			CI&E Account: Net Operating Expenditure and Surplus/Deficit for the year			
3						
4						
5						£'000
6						
7			NET COST OF SERVICES			164,635
8						
9			Corporate Income and Expenditure:			
10			Provisions expense (any amount not in NCS)			
11			Trading operation results - Income		-11,051	
12			Trading operation results - Expense		11,573	
13			Other corporate income			
14			Other corporate expense			
15						
16			(Following Group Accounts Only)			
17						
18			[SLG 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			Corporate Income and Expenditure:			522
23						
24			Other Operating Expenditure			
25			Levies (not included in service lines)		928	
26			Net gains/losses on disposal of PPE		-3,102	
27			Net gains/losses on disposal of intangibles		0	
28			Net gains/losses on disposal of assets held for sale		0	
29			[ELG, WLG ONLY] Local (Parish Council) Precepts		0	
30			[ELG, WLG ONLY] Amounts payable to Housing Capital Receipts Pool	COM085	0	
31			Other Operating Expenditure			-2,174
32						
33			Financing and Investment Income and Expenditure			
34			Interest Payable and similar charges			
35			Interest element of on-balance sheet PFI contract		3,243	
36			Finance charges for finance leases (non-PFI)		60	
37			Impairment losses - debtors		0	
38			Impairment losses on other financial instrumts in the loan & receivables (less debtor imprmt shown separately above) & available-for-sale assets categories		0	
39			Losses arising on the derecognition of financial instruments		0	
40			Interest paid - within govt		3,432	
41			Interest paid - bank loans & overdrafts (Non-Govt)			
42			Interest paid - other borrowings (Non-Govt)		3,402	
43			Net interest on the net defined benefit liability (asset)		9,144	
44			Premeasurements of the net defined benefit liability (asset) recognised in the pensions reserve			
45			Interest and investment income		-1,621	
46			Income & exp in relation to investment properties and changes in their fair value			
47			Rental Income from investment properties		0	
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		0	
51			Dividends receivable - associates, joint ventures & subsidiaries		-1,202	
52			Dividends receivable - other (within Government)		0	
53			Dividends receivable - other (non-Government)		0	
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			Financing and Investment Income and Expenditure			16,458
57						
58			Taxation and Non Specific Grant Incomes			
59			[ELG, WLG, SLG ONLY] Income from Council Tax		-82,394	
60			[ELG, WLG, SLG ONLY] Revenue Support Grant	CLG / WAG / SG	-23,156	
61			[WLG ONLY] Income from police precepts (recognised in PCC accounts as income from council tax)			
62			[ELG, WLG ONLY] Non domestic rates retained income (Local Share)	[no CPID]	-25,880	
63			[ELG, SLG, NILG ONLY] NDR Top up payments from central government / [SLG] NDR (Distributed NDR Pool) / [NILG] District Rate	CLG / SG / NCF	-7,906	If you are in a p
64			[ELG ONLY] NDR Tariff payments to central government	CLG	0	and allocate to c
65			[ELG ONLY] NDR Safety net payments from central government	CLG	0	
66			[ELG ONLY] NDR Levy payments to central government	CLG	0	-33,786
67			[ELG, WLG, SLG ONLY] Police Grant	HO / SG	0	
68			[ELG ONLY] Greater London Authority General Grant	CLG	0	
69			[ELG, WLG ONLY] PFI Special Grant (not in NCS)		-4,797	
70			Other government grants (non-capital)		-8,398	
71			Other Grant Income & contributions (from non-Govt bodies)			
72			[ELG, WLG, SLG ONLY] LA levy income		0	
73			[ELG, WLG, SLG ONLY] Business Rates Supplement Income		0	
74			Amounts released from receipts in advance (deferred income)	[no CPID]	-1,763	
75			[WLG ONLY] EU Grants		0	
76			Capital Grants and Contributions			
77			Capital grant income (from Govt or other WGA bodies)		-10,522	
78			Capital grant & contribution income (from non-Govt bodies)		-3,928	
79			Taxation and Non Specific Grant Incomes			-168,744
80						
81			SURPLUS(-)/DEFICIT ON THE PROVISION OF SERVICES			10,697
82						
83			Other comprehensive income and expenditure (as per row 16 to 23 of LP-Reserves worksheet)			45,699
84						
85			TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			56,396
86						
87						
88			COMMENTS			
89						

Committee: Standards and General Purposes Committee

Date: 7 September 2017

Wards: All

Subject: Revisions to the Council's Contract Standing Orders

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Mark Allison

Contact officer: Dawn Jolley, Head of Commercial Services

Recommendations:

- A. That Members note, approve and recommend to full Council, the proposed revisions made to the Councils Contract Standing Orders. Changes made are in response to the implementation of the Public Contracts Regulations 2015, the Local Government Transparency Code 2015 and to drive greater compliance overall with procurement governance and best practice.
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. To inform members about the proposed changes to the Contract Standing Orders (CSOs), which form Part 4G of the Councils Constitution, in light of the legislative changes brought about by the Public Contracts Regulations 2015 (PCR 2015), the Local Government Transparency Code 2015 and the need to drive greater compliance overall with procurement governance and best practice.

2 DETAILS

- 2.1. Merton, as a public authority is bound by the PCR 2015, which governs public sector procurement of works, supplies and services contracts. This legal framework encourages free and open competition and value for money, in line with internationally and nationally agreed obligations and regulations. As part of its strategy, the government aligns procurement policies with this legal framework, as well as with its wider policy objectives..
- 2.2. The implementation of the Public Contracts Regulations 2015 took effect from 26 February 2015. The revised Regulations aim to enable buyers to run procurements faster, with less red tape, and with a greater focus on getting the right supplier and best tender in accordance with sound commercial practice. The regulations also include some specific UK rules to support growth by improving suppliers' access to public contracts below the EU thresholds ("sub-threshold contracts") thereby driving greater access to public contracts for small and medium enterprises (SMEs).
- 2.3. The Council is also obliged to adhere to the requirements as set out under the Local Government Transparency Code 2015. The local government transparency code was published on 27 February 2015 and was issued to meet the government's desire

to place more power into citizens' hands to increase democratic accountability. Its primary purpose is to make it easier for local people to contribute to the local decision making process and help shape public services.

- 2.4. The Council is obliged to maintain a set of Contract Standing Orders to cover the procurement of all works, supplies and services and the procedures underpinning them. Given that Contract Standing Orders form part of the Council's Constitution, any amendments to the CSOs must be approved by full Council.
- 2.5. Both the changes in the Regulations and the implementation of the local government transparency code had an immediate impact on the ways in which the London Borough of Merton undertakes its procurement activity, which created the opportunity to undertake a comprehensive review and overhaul of the Council's Standing Orders, to bring them in line with current legal requirements and best practice.
- 2.6. The main impacts which will affect councils in the short term include:
 - i) The requirement of all Local Authorities to publish, in the public domain, details of any contract, commissioned activity, purchase order, framework agreement and any other legally enforceable agreement with a value (to the provider) that exceeds £5,000 (excluding VAT).
 - ii) No longer being able to pre-qualify bidders for contracts with a value below £164,176. Contracts with a value below this threshold cannot have a formal pre-qualification questionnaire designed to restrict the number of bidders submitting bids. Certain "suitability" questions are however permitted to enable a level of shortlisting.
 - iii) Where a contract with a value over £25,000 has been advertised, there is now a requirement to advertise the opportunity nationally, via Crown Commercial Services' website, Contracts Finder. The aim is to provide smaller businesses (SME's) and voluntary or charitable organisations (VCSEs) with easier access to public sector contracts.
 - iv) All procurement documentation (Selection Criteria, Invitation to Tender, Specification, Contract Terms and Conditions, etc.) is to be made available and published at the same time as the contract opportunity is advertised. The rationale is that by publishing a full specification and terms and conditions at the outset, bidders will be better placed to gauge whether or not the opportunity is appropriate, thereby reducing unnecessary costs in bidding, for both the supplier and the Council.
 - v) A new category with a threshold of £589,148 (€750,000) has been introduced for Social and other Specific Services (otherwise referred to as the Light Touch Regime). This replaces the previous Part B services, and introduces greater flexibility with regards to the procurement of those particular services covered under this part of the PCR2015. The threshold for Supply, Services and Design Contracts as well as the threshold for Works Contracts was also updated to £164,176 and £4,104,394 respectively for non-Central Government authorities. EU Procurement Thresholds are subject to change every two years.

- vi) The Regulations now specifically enable the Council to devote greater attention to pre-procurement activity (referred to in the PCR 2015 as preliminary market consultations) with a view to achieving better outcomes from its procurements. This is on the premise that such activity does not have the effect of distorting competition and does not result in a violation of the principles of non-discrimination and transparency.
- vii) There are now six procurement procedures from which to choose. Whilst some are relatively straight forward to follow, others such as the negotiated procedure without prior publication, may only be used under very specific circumstances and as such professional advice must be sought from the Council's Commercial Services and Legal Services teams prior to them being considered as the most appropriate route to market for the Council.
- viii) The Regulations retain the right of contracting authorities to reserve participation in certain procurement exercises to social enterprises or staff mutuals (limited to a set of particular services and provided the organisations invited to bid fulfil the criteria set out in the PCR 2015);
- ix) The circumstances in which the Council shall be permitted to vary its contracts without triggering a new procurement process have been more clearly defined. For example, in future the Council will be permitted to vary a contract where the need for a modification has arisen due to circumstances which a diligent authority would not have envisaged when it let the contract and provided that the modification does not alter the nature of the contract and any increase in cost does not exceed 50% of the original contract value.

3.0 RECOMMENDED CHANGES TO CSOs

3.1 The key changes proposed within the review of the CSOs are summarised below:

a) Structure

The CSO's have been revised structurally to ensure they follow a logical path from the initial Pre-Procurement stages, through the required process and finally to contract management.

b) Application of the CSOs

The CSOs have been amended to reflect the PCR 2015, in particular to reflect those points set out at the Details section above.

c) Contracts Register

In line with the Local Government Transparency Code 2015, which sets out the minimum data that local authorities should be publishing, the frequency it should be published and how it should be published, the CSOs make it a requirement to enter all contracts of £5,000 or greater in value¹ on to the Central Contracts Register (i.e. including concession contracts).

d) Revising the current procurement thresholds

¹ This is the total value of the contract and not necessarily the amount that Merton pays to the provider

CURRENT POSITION		
Threshold	Process	Decision Making
< £10,000	Best Value 3 written quotations, however 1 may be acceptable as an exception providing it demonstrates value for money	Responsible Officer duly authorised under a Scheme of Management
£10,000 - £100,000	Quotations 3 written quotations	Head of Service duly authorised under a Scheme of Management
£100,000 - relevant EU Threshold	Tenders Officers to decide whether a one or two (with pre-qualification) stage process is used	<ul style="list-style-type: none"> Director duly authorised under a Scheme of Management where the value of contract is between £100,000 and £500,000 OR <ul style="list-style-type: none"> Director duly authorised under a Scheme of Management and Chief Executive where the value of contract is between £500,000 and £2,000,000
> Relevant EU Threshold	Tenders , following one of the following procedures; <ul style="list-style-type: none"> Open Procedure Restricted Procedure Competitive Dialogue Procedure Call-Off from an Existing Framework Agreement 	<ul style="list-style-type: none"> Director duly authorised under a Scheme of Management and Chief Executive where the value of contract is between £500,000 and £2,000,000 OR <ul style="list-style-type: none"> Cabinet where value of the contract is £2,000,000 or greater

PROPOSED REVISIONS		
<i>(Highlighted text denotes the changes)</i>		
Threshold	Process	Decision Making
Up to £5,000	Best Value 3 written quotations via the Council's e-Tendering Portal, unless the responsible officer is satisfied that a single quotation can be justified. Such reasoning to be kept in writing.	Responsible Officer duly authorised under a Scheme of Management
£5,001 - £25,000	Best Value 3 written quotations via the Council's e-Tendering Portal, unless the requirement is urgent or it can be demonstrated there is only one supplier capable of meeting the requirement	Responsible Officer duly authorised under a Scheme of Management

PROPOSED REVISIONS (Highlighted text denotes the changes)		
Threshold	Process	Decision Making
£25,000 - £100,000	<p>Quotations</p> <p>3 written quotations via the Council's e-Tendering Portal, although officers may choose to advertise</p> <p>If advertised, must also advertise on Contracts Finder also</p> <p>No pre-qualification stage permitted</p>	Responsible Officer duly authorised under a Scheme of Management
£100,000 - relevant EU Threshold	<p>Advertised</p> <p>Must advertise on Contracts Finder in all cases via the Council's e-Tendering Portal.</p> <p>No separate pre-qualification stage can be used</p>	<p>Responsible Officer duly authorised under a Scheme of Management</p> <p>OR</p> <ul style="list-style-type: none"> • Director duly authorised under a Scheme of Management and Chief Executive where the value of contract is between £500,000 and £2,000,000
> Relevant EU Threshold	<p>Advertised using one of the following procedures;</p> <ul style="list-style-type: none"> • Open Procedure • Restricted Procedure • Competition with Negotiation • Competitive Dialogue Procedure • Innovation Partnership • Call-Off from an Existing Framework Agreement <p>Must advertise on Contracts Finder in all cases, via the Council's e-Tendering Portal</p>	<p>Responsible Officer duly authorised under a Scheme of Management</p> <p>OR</p> <ul style="list-style-type: none"> • Cabinet where value of the contract is £2,000,000 or greater

e) Advertising requirements

Due to the new requirements in the Regulations regarding the advertising of contract opportunities and awards, clarification has been added within the CSO's to ensure that the circumstances for advertising opportunities is clear.

	Contract opportunity	Contract Award
< £25,000	No requirement to advertise*	No requirement to advertise*
£25,000 - £100,0000	No requirement to advertise*	No requirement to advertise*
£100,000 - relevant EU Threshold	Contracts Finder	Contracts Finder
> Relevant EU Threshold	Contracts Finder & OJEU notice or (in the case of restricted or competitive procedure with negotiation) a PIN	Contracts Finder & OJEU

** While there is no requirement to advertise the opportunity, Officers may due to the requirement of market conditions choose to do so. Where the opportunity is publically advertised, an advert and award notice must be placed on Contracts Finder where the contract opportunity is above £25,000*

All opportunities will need to be placed through the Council's e-tendering system, which has a direct feed to Contracts Finder and the OJEU, ensuring Officers can use one system to place all of the required advertisements where applicable.

f) Framework Agreements

Further clarification has been added regarding the process for dealing with Framework Agreements. Specifically, where the Council plans to procure a new Framework Agreement, then the procurement would be subject to the same requirements as any other contract based on its value. No further approvals will be required beyond setting up the Framework i.e. sign off will not be required to enter in to a call off contract from a Council Framework agreement.

Where the Council intends to enter into a Call-off Contract from an externally procured Framework Agreement, such as those operated by a Professional Buying Organisation (e.g. Crown Commercial Services and ESPO) or another public sector organisation, the Officer will require approval from the Director of Corporate Service (or their nominee) to use the Framework as well as the appropriate approval based on the value of the call off. Prior to seeking approval from the Director of Corporate Services (or their nominee), written confirmation must also be sought from both Commercial Services and Legal Services that it is lawful for the Council to access the said agreement.

g) Reinforcing the use of the e-tendering system and record keeping

We have taken the opportunity to reinforce the use of e-tendering across the Council for all contracts over £5,000, in order to satisfy the requirements of the legislation to “provide electronic access [to the procurement documents] from the date of the OJEU notice.

Furthermore, the electronic audit trail created by utilising the system will ensure Officers are able to easily create a conclusion report, with the supporting evidence readily available, as required by the new Regulation 84.

h) Concessions Regulations 2015

New regulations covering the procurement of Concessions contracts came into force in April 2016. This has provided the opportunity to reflect on the impact of the new requirements and strengthen our procurement governance when considering those projects with the potential to generate income for the Council.

i) Recording of Declarations / Conflicts of Interest

The current paper version of the form (attached for reference) is in the process of being updated and in future Declarations of Interest will be recorded electronically.

4. PROCUREMENT TOOLKIT REFRESH

4.1 Along with the proposed revisions to the CSOs the Procurement Toolkit, available to staff via the Councils intranet, will be refreshed in order to further support Officers undertaking compliant, outcomes focused procurements that meet the Council's needs now and in the future. This will be a ‘live’ document which will be updated as and when.

4.2 Key updates to include:

- i) The creation of a suite of template documents for all the main procedures, including Quotations, Open and Restricted OJEU tenders and supporting detailed guidance notes.
- ii) Short summary guides and tables which offer a ‘quick guide’ to the approvals, advertising and procurement procedures based on the contract value
- iii) Detailed guidance on Market Engagement, drafting Prior Information Notices (PINs) and the requirements of the Light Touch Regime.
- iv) ‘Process flows’ for each procurement process, showing Officers the key stages and minimum timescales required to undertake the individual process, such as Open, Restricted and Competitive with Negotiation.
- v) Templates for obtaining approval to invite tender and award a contract, where Officers have delegated authority as part of the Scheme of Delegation.
- vi) A Commercial and Procurement glossary.

4.3 All documents have been created using the same themes and language to ensure consistency and so that the principles are clear and easy to understand.

5 ALTERNATIVE OPTIONS

- 5.1 Leave the CSOs as they are, previously revised by Full Council on 19 November 2014. This option is not recommend given that CSOs are required to be amended to ensure they are complaint with current legislation and best practice.

6 CONSULTATION UNDERTAKEN OR PROPOSED

- 6.1. The Council's Procurement Board as well as the Departmental Operational Procurement Groups have been given the opportunity to comment on the proposed amendments to CSOs

7 TIMETABLE

- 7.1. It is anticipated that should the proposed amendments be approved by Full Council in November 2017 that the updated CSOs will be effective 1 December 2017.

8 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 8.1. None.

9 LEGAL AND STATUTORY IMPLICATIONS

- 9.1 The Local Government Act 1972 (Section 135) requires that Local Authorities make Standing Orders in respect of contracts for the supply of goods, services and materials or the execution of works to ensure competition and regulate the manner in which tenders are invited.

10 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 10.1 None.

11 CRIME AND DISORDER IMPLICATIONS

- 11.1 None.

12 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 12.1. By revising and updating the Council's Contract Standing Orders, risk of Legal Challenge for failure to follow due process should be mitigated at least in part.

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

- 13.1. Proposed Revised Contract Standing Orders
13.2 The current Declaration of Interest Form

14 BACKGROUND PAPERS

Public Contracts Regulations 2015;
Local Authority Transparency Code 2015;
Concession Contracts Regulations 2016.

LONDON BOROUGH OF MERTON

CONSTITUTION - PART 4G CONTRACT STANDING ORDERS

Effective: December 2017¹

Version: 2.0

Revised by: Dawn Jolley – Head of Commercial Services

Approved by: Director of Corporate Services (30/08/2017)

Standards and General Purposes Committee (date)

Full Council (date)

¹ Full Council revised last version 1.1 on 19 November 2014.

CSOs are to be reviewed and revised every two years (unless a need arises to review sooner).

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CSO 1. CONTRACT STANDING ORDERS - COMPLIANCE AND TERMINOLOGY

- 1.1 Contract Standing Orders (“CSOs”) form part of the Constitution of the London Borough of Merton (“the Council”) and govern contracts as described below.
- 1.2 The Council is legally obliged to have standing orders. CSOs must include provision for securing competition in the award of contracts and for regulating the manner in which tenders are invited.
- 1.3 In addition, each Department must have and adhere to a Scheme of Management. The Scheme of Management will set out what level of financial authority officers in each Department have.
- 1.4 Officers must comply with these CSOs² unless an Exemption is obtained, in advance, in accordance with [CSO 7 \(Exemptions from Contract Standing Orders\)](#).
- 1.5 A list of Exceptions to these CSOs can be found [under CSO 8 \(Exceptions to Contract Standing Orders\)](#).
- 1.6 Failure by Officers to comply with these CSOs is a disciplinary offence.
- 1.7 These CSOs apply to all contracts awarded by the Council for works, services or supplies, regardless of the source of funding for the contract, and to the award of concession contracts and those relating to income generation. They apply equally to contracts awarded by any person, firm or body acting on the Council’s behalf subject to CSO 1.7.
- 1.8 In certain cases, the Council may enter into joint procurement arrangements, partnership agreements or shared services with other parties, including other councils. Such agreements may contain delegations to either individual officers, joint committees or other Councils to authorise procurement strategies and/or contract awards in compliance with a third party’s contract standing orders. Any partnership agreement and/or shared services arrangement must be approved, at the outset, by Procurement Board before being authorised by the Director of Corporate Services or the Chief Executive. At the sole discretion of either the Director of Corporate Services or the Chief Executive, the proposed joint arrangement may be designated as requiring prior consent from Cabinet to proceed. Please see [Appendix 7](#).
- 1.9 When entering into any agreement to engage a Consultant to carry out work on behalf of the Council in relation to any Disposal, Contract or Property Agreement (or proposed Disposal, Contract or Property Agreement), the appointing Officer must ensure that such Consultant agrees to comply with these CSOs.
- 1.10 Disposals and Property Agreements are dealt with specifically at [CSO 28 \(Contracts](#)

² These CSOs should be read in conjunction with the Council’s Procurement Toolkit that sets out guidance on the application of these principles and compliance with these CSOs. The Toolkit is located on the Council’s intranet and is updated on a regular basis in consultation with the Procurement Board and Departmental Operational Procurement Groups.

Advice should also be sought from both Commercial Services and Legal Services

[for the Disposal of Council Assets](#)) and unless otherwise stated to the contrary, the provisions stated to apply specifically to Contracts do not apply to Disposals or Property Agreements.

1.11 Every Contract and Disposal and Property Agreement must comply with:

- all applicable UK and EU Laws;
- Financial Regulations; and
- relevant Council Policies.

1.12 These CSOs (whether amended or superseded or not) shall be retained for twelve (12) years from the date of publication before being considered for destruction.

1.13 The Director of Corporate Services may from time to time issue practical guidance and governance as to the steps to be taken to comply with these CSOs.

1.14 In these CSOs reference to a post, Director, department, team or the like includes a reference to any re-designated post, Director, department, team or the like from time to time who performs or substantially performs the role, function or duties of that post, Director, department, team or the like, or the manager of these posts.

1.15 Terminology and abbreviations referred to in these CSOs are set out at [Appendix1](#).

CSO 2. AMENDMENT OF CONTRACT STANDING ORDERS

2.1 Except to the extent permitted under CSO 2.2, these CSOs may only be amended following a recommendation of the Director of Corporate Services and approval by a meeting of the full Council.

2.2 These CSOs may be supplemented, varied or amended from time to time during their currency in respect of the Council Thresholds, the Authorisation Thresholds and to reflect the requirements of any amendments to or additional UK/EU Procurement Laws or other Laws with the written approval of the Leader, Chair of Scrutiny, Chief Executive and the Monitoring Officer.

CSO 3. PROCUREMENT TOOLKIT

3.1 The Procurement Toolkit contains guidance, information, templates, tools and techniques to assist Officers in undertaking Contract procurement and management activity generally and in complying with these CSOs.

3.2 In the event of any conflict between these CSOs and the Procurement Toolkit, these CSOs shall take precedence over the Procurement Toolkit.

CSO 4. SCHEMES OF MANAGEMENT

4.1 The Chief Executive and any Officers authorised by the Chief Executive in accordance with the relevant Scheme of Management may authorise the entry into Contracts and Property Agreements by the Council.

4.2 The Director of Corporate Services shall keep a register of all Schemes of

Management and make this available on the Council's intranet.

CSO 5. DIRECTOR'S RESPONSIBILITY

- 5.1 Directors are responsible for ensuring within their department that:
- 5.1.1 these CSOs are observed and complied with;
 - 5.1.2 a Scheme of Management exists for their department which sets out which Officers may authorise entering into a Contract and/or Property Agreement;
 - 5.1.3 Contracts and Property Agreements are (as relevant) awarded/entered into and managed in accordance with these CSOs;
 - 5.1.4 documentation, accurate records, clear audit trails relating to all Disposals, Contract procurements and actions, decisions and Authorisations relating to all Contracts and Property Agreements are maintained and are available for inspection;
 - 5.1.5 the documentation, records and audit trails referred to in CSO 5.1.4 shall be retained for the periods set out in [Appendix 5 \(Retention Periods for Documents\)](#).

CSO 6. RESPONSIBLE OFFICER'S DUTIES

- 6.1 The departmental Director (or alternative Officer on their behalf) shall appoint a Responsible Officer to be responsible for every proposed or actual Contract, Disposal and Property Agreement. Where no Responsible Officer has been appointed, the Responsible Officer shall be deemed the Budget Holder of the department from which the Contract is funded, income received (e.g. Concession Contracts, etc.) or Disposal/Property Agreement is handled.
- 6.2 The Responsible Officer shall be responsible for ensuring that the procurement of the Contract or Disposal is conducted in accordance with these CSOs.
- 6.3 Without prejudice to the general requirement at CSO 6.2, the Responsible Officers shall:
- 6.3.1 before selecting the most appropriate procurement route for a Contract, carry out a robust Options Appraisal;
 - 6.3.2 seek value for money and, in the procurement of a Contract and to the extent relevant, proportionate and permitted by UK/EU Procurement Law, consider social benefits of the Contract (and in particular the Public Services (Social Value) Act 2012). Guidance is also contained within the Procurement Toolkit;
 - 6.3.3 conduct all activity in accordance with the highest standards of probity and integrity to prevent fraud and corruption;
 - 6.3.4 fulfil the role as the project sponsor or appoint a project sponsor and appoint a project manager where relevant;
 - 6.3.5 in relation to any Contract, adhere to the Council's Procurement Governance and Gateway Process as stipulated by the Director of Corporate Services;
 - 6.3.6 take into account all relevant Laws and Council strategies and policies relating to equality, diversity, health & safety and sustainability;

- 6.3.7 carry out and demonstrate that they have carried out appropriate statutory and stakeholder consultation;
 - 6.3.8 clarify the role (if any) of community groups, the voluntary sector and the business community;
 - 6.3.9 ensure that either on appointment or engagement or (if not already done so) prior to commencing any relevant activities, all Officers, Contractors and Consultants, involved in the procurement of a Contract or a Disposal, complete a Declaration of Interest as set out on the Council's intranet. This applies equally to any Community Representatives that may participate in any way in a procurement process.
 - 6.3.10 take into account all relevant requirements under the Local Government Transparency Code and General Data Protection Regulation (GDPR);
- 6.4 The Responsible Officer may not delegate their duty under CSO 6.2 and 6.3 and shall ensure that compliance is properly evidenced.
- 6.5 Officers may invite community representatives to participate in the procurement process for development of specifications, assistance in selection of providers and the commentary on performance of particular contracts. The agreement of the Director of Corporate Services is required for any other type of involvement where this is not covered by law or any Council policy. Guidance is also contained in the Procurement Toolkit
- 6.5.1 Community representatives (e.g. school representatives, but not Members) are not and may not be "Responsible Officers" for the purposes of these Standing Orders and, except where the law specifically provides otherwise, will be observers with speaking rights at the discretion of the Responsible Officer. They may advise Responsible Officers where appropriate, but all decisions will be taken by the Council within the framework of the schemes of delegation;
 - 6.5.2 Responsible Officers will ensure community representatives give a written undertaking to treat all information confidentially throughout the tendering process, and the life of the contract and sign the appropriate declaration of interests;
 - 6.5.3 The Council must always avoid any suspicion or risk of potential allegation about possible bribery or corruption. An adequate record of the Community Representatives involved, consulted and the responses obtained must be kept and filed. It must include a written record of those approached and their responses, including notes of any meetings held with names of all those present. Where possible, written responses should be encouraged. If face-to-face discussion is necessary, then the Responsible Officer should attend such a meeting accompanied by another Council representative.
- 6.6 The Council has a statutory duty to achieve best value and it is in the Council's best interests to spend public money in this way. Contracts must be awarded on the basis of the most economically advantageous tender (MEAT), quotation or proposal, as determined by such criteria as are relevant to the type of goods, works or services. This will generally cover the optimum combination of whole life costs and benefits, including such factors as quality, initial price, running costs and disposal costs.

CSO 7. SEEKING AN EXEMPTION FROM CONTRACT STANDING ORDERS

- 7.1 The Chief Executive will consider and may grant exemptions, where appropriate, to these CSOs when requested by Officers within Corporate Services.
- 7.2 For Departments other than Corporate Services, the Director of Corporate Services is authorised, to grant exemptions to these CSOs.
- 7.3 The grounds for granting exemptions are as follows. No exemption to these CSOs may be permitted unless the authoriser can be satisfied that:
- i. the circumstances of the proposed waiver are permitted by EU and English law; and
 - ii. there are exceptional circumstances that have led to a need to depart from the CSOs and evidence has been provided which demonstrates the exemption is necessary to achieve the Council's objectives; and
 - iii. the nature of the market for the works to be carried out, or the services or supplies to be provided, has been investigated and it has been demonstrated that due to a lack of competition in the market, a departure from the requirements of CSOs is justifiable; or
 - iv. the contract is for works, services or supplies that are required in circumstances of an emergency and as such could not reasonably have been foreseen.
- 7.4 Where an exemption is requested, an Exemption Report must first be submitted to the relevant Service Financial Adviser and Legal Services for comment. The report is then to be submitted to the Head of Commercial Services (for comment and sign-off) prior to it being submitted to the Chief Executive or the Director of Corporate Services (as relevant) and must include:
- a) the Contract Standing Order number from which the exemption is requested
 - b) the reasons for requesting the exemption
 - c) the alternatives available if the exemption is not granted
 - d) total value of the exemption being requested
 - e) any potential legal implications associated with the exemption request
 - f) the financial implications of the exemption request
- 7.5 No requested exemption shall be permitted to take effect until the Exemption Report has been signed as agreed by the Chief Executive or the Director of Corporate Services (as relevant).
- 7.6 A non-exhaustive list of circumstances where an exemption may be granted is set out in [Appendix2](#).
- 7.7 No exemption may be granted that:
- Would result in a breach of UK/EU Procurement Law
 - requires Cabinet to approve major contract variations
 - requires Cabinet to approve certain contract awards

- differs from the Scheme of Management
- removes the requirement for declaration of any Officer or Members Interests

7.8 The Director of Corporate Services shall maintain a register of exemptions granted by department that shall refer to the relevant Contract, Disposal or Property Agreement and set out the nature of the exemption and the value of the Contract, Disposal or Property Agreement as well as include the Exemption Report. The Director of Corporate Services shall report exemptions monthly to the Procurement Board.

7.9 In exceptional circumstances if the Director of Corporate Services and/or the Chief Executive are not able to grant an exemption, any two (2) Officers selected from the deputy Section 151 Officer, the Monitoring Officer or any of the Council's remaining Directors may, acting jointly, consider and where appropriate grant an exemption.

CSO 8. EXCEPTIONS TO CONTRACT STANDING ORDERS

DISPOSALS AND CONTRACTS NOT REQUIRING PROCUREMENT IN ACCORDANCE WITH THESE CONTRACT STANDING ORDERS

8.1 The following are not required to be procured in accordance with these CSOs unless otherwise required by Law and no exemption shall be required under [CSO 7 \(Exemptions from CSOs\)](#):

- Contracts of employment for staff;
- Contracts with agencies for the provision of individual temporary staff where the Head Human Resources, (after liaison with the Head of Commercial Services) agree that use of the vendor-managed service is not appropriate;
- Land Transactions (which solely relate to interest in land);
- Arrangements for the engagement of counsel for particular instructions, and certain other legal services (subject always to UK/EU Procurement Law), where the Assistant Director of Corporate Governance considers the instructions do not require a procurement exercise and can be commissioned outside of any current framework agreement for those services. Such instructions are to be reported by the SLLP to Procurement Board on a monthly basis;
- Contracts for particular Voluntary Sector bodies where the Council is seeking to move from a grant agreement to a formal contractual relationship, and where the purpose of the contract is to establish the general conditions to support the voluntary sector body in adapting to the new arrangements, where the grant terminates;
- Contracts entered into by school governing bodies that operate under the relevant Scheme of Management, unless otherwise stated in the relevant Scheme of Management;
- Orders placed under Existing Contracts, Dynamic Purchasing Systems or Electronic Auctions (provided they are placed in accordance with the requirements set out or otherwise referred to in those Contracts);
- Contracts for the provision of packages of social care, educational and welfare, services to individual clients, where the aggregate value of such contracts does

not exceed the EU Threshold for supplies and services, and there is no cross border interest.

- Contracts that ensure continuity of care of vulnerable persons in accordance with the Care Act;
- where the provider has signed a pre-placement agreement with the Council for residential or nursing care;
- the engagement of professional expert witnesses in contentious matters; and
- the appointment of independent investigators, arbitrators, mediators, and facilitators.

8.1.1 entering into a grant agreement may not be subject to these CSOs in full and advice should be sought from Commercial Services and Legal Services.

8.1.2 None of the exceptions above may be utilised unless the Officer has Authority in accordance with the scheme of delegation.

8.2 Disposals of Property Assets shall be carried out in accordance with [CSO 28 \(Contracts for the Disposal of Council Assets\)](#).

CSO 9. OPTIONS APPRAISAL

9.1 Prior to the procurement of any Contract (be it for the provision of Services or Works) with a value above the Upper Threshold, the Responsible Officer must carry out an Options Appraisal³ to determine the best way of structuring the procurement to achieve the best outcome for the Council and the most appropriate procurement process.

CSO 10. CONTRACT VALUE ESTIMATION AND AUTHORISATION TO COMMENCE THE PROCUREMENT

10.1 Before commencing any procurement, Officers must estimate the total value of the Contract to be procured (net of VAT). Also See [CSO 11 \(Contract Packaging and Aggregation\)](#).

10.2 The estimation must be carried out in accordance with UK/EU Procurement Law and the estimated value will determine the extent to which UK/EU Procurement Law applies and which CSOs apply⁴.

10.3 In estimating the total value of the Contract, this must be based on the total amount payable (net of VAT) over the full life of the Contract to the provider (regardless of where the funding is coming from) and in all cases must include the value of any possible extensions to the period of the Contract.

10.4 In the case of contracts without a fixed term, the estimated value shall be the monthly value, multiplied by 48 (net of VAT). Additional guidance must be sought

³ Guidance as to how to undertake an Options Appraisal is set out in the Procurement Toolkit

⁴ The Procurement Toolkit contains guidance on the most appropriate form of Contract and procurement process and Commercial Services can provide further advice. The Responsible Officer shall have authority in accordance with the Scheme of Management.

from both Commercial Services and Legal Services to ensure compliance with UK/EU Procurement Law.

- 10.5 A Contract must not be divided into smaller related Contracts (disaggregated) with the intention to avoid the application of UK/EU Procurement Law or particular CSOs. Where Contracts are disaggregated, the total value of all of the Contracts must be taken into account in determining the value of the Contract.
- 10.6 In the case of setting up a Framework Agreement or Contracts to set up Dynamic Purchasing Systems, the value to be taken into account shall be the maximum estimated value of all of the Contracts envisaged to be awarded under the relevant Framework Agreement or Dynamic Purchasing System for the total period of the Framework Agreement or Dynamic Purchasing System.

Officers must consult Corporate Services and Legal Services prior to seeking setting up any Framework Agreement or Dynamic Purchasing System.

10.7 Lots

- 10.7.1 As a general rule, where a Contract is (or may be) divided into smaller Contracts (Lots), the estimated value should take account of the value of all of the separate Lots, although in certain circumstances the Public Contracts Regulations 2015 may permit a different methodology. Officers are to seek advice from Commercial Services and Legal Services when seeking to procure a Contract comprising of Lots.
- 10.7.2 Where a Contract is likely to be over the EU Threshold, Officers should record the justification for dividing or not dividing the Contract into smaller Lots.

10.8 Concession Contracts (and Contracts with nil value to the Council)

- 10.8.1 Specific rules apply to the valuation of Concession Contracts, where the Contract may have a nil value in terms of how much the Council pays the Provider, but this may not be a nil value when considered under the rules of the Concession Contracts Regulations 2016. The value of concession contracts shall therefore be the estimated total turnover of the concession generated over the duration of the contract, net of VAT. Also see [Appendix 9 \(The Commission Notice on the Notion Of State Aid\)](#)
- 10.8.2 A contract will be considered to be a concession contract where:
- The consideration given to the contractor is that the contractor is permitted to exploit the works or services that are the subject of the contract (together with payment if desired).
 - The award of the contract transfers the operating risk to the concessionaire and involves real exposure to the vagaries of the market (this will be assumed where the concessionaire has no guarantee that it will recoup its investment).
- 10.8.3 Officers should seek advice from both Commercial Services and Legal Services, as well as approval from Procurement Board, when considering procuring a Concession Contract.

CSO 11. CONTRACT PACKAGING AND AGGREGATION

11.1 A procurement process for a new Contract may only proceed where the Council does not have a suitable Existing Contract in place. Commercial Services will, in conjunction with departmental users, publish (and update from time to time) via the Council's e-Tendering System an Existing Contracts Register.

11.2 Contracts must be packaged to best ensure they provide Value for Money for the Council.

11.3 Responsible Officers, in conjunction with Category Managers, should consider whether aggregation of Contracts across departments offers best Value for Money for the Council and comply with reviews of service for the Council as a whole. Responsible Officers are required to justify their decision with regard to aggregation or disaggregation of Contracts across departments on the basis of Value for Money. Responsible Officers should seek advice from Commercial Services, and where necessary, Legal Services.

11.4 Aggregation:

11.4.1 Responsible Officers must aggregate contracts which have similar characteristics or are intended for renewal within a given time period, in the following way:

Contracts of the same type

11.4.2 The calculation of the estimated contract value should be based on the total value of successive contracts of the same type, awarded during the preceding 12 months. This should be adjusted, where possible, to take account of changes in quantity or value which would occur in the course of 12 months following the initial contract.

Contracts for renewal within a certain time period

11.4.3 The calculation of the estimated contract value should be based on the total estimated value of successive contracts which are awarded:

- during the 12 months following the first delivery; or
- during the financial year, where this is longer than 12 months.

Works contracts

11.4.4 In relation to a Works project the values of any services and supplies contracts, which are necessary for the completion of the works, must be included in the calculation of the estimated contract value.

CSO 12. FRAMEWORK AGREEMENTS

12.1 A Framework Agreement is a form of Contract and as a general rule, these CSOs shall apply (as appropriate) to accessing any existing Framework Agreement (be it let nationally, regionally or locally) and to the establishment of any new Framework Agreement by Merton Council.

12.2 Accessing an existing Framework Agreement

12.2.1 A Contract of any value may be procured using a suitable existing Framework Agreement (set up by the Council or another public sector authority, or other organisation) - provided that the Framework Agreement has been procured in accordance with UK/EU Procurement Law - and it is lawful and appropriate (in respect of scope, value, terms and eligibility to access) for the Council to use it. Responsible Officers should seek advice from Commercial Services, and where necessary, Legal Services.

12.2.2 Prior to utilising an existing Framework Agreement:

- i. the Director of Corporate Services (or their nominee) shall approve using such Framework Agreement; and
- ii. the Responsible Officer must seek written confirmation from both Commercial Services and Legal Services that it is lawful and appropriate for the Council to access the Framework Agreement.

12.3 Setting up a new Framework Agreement

12.3.1 When considering setting up a new Framework Agreement for the Council the Responsible Officer shall determine the estimated value of the Framework Agreement in accordance with [CSO 10 \(Contract Value Estimation and Authorisation to Commence the Procurement\)](#) and must seek advice from both Commercial Services and Legal Services, as well as approval from Procurement Board.

12.3.2 Responsible Officers may wish to consider permitting other contracting authorities to use the Framework Agreement and if so will need to ensure the Tender Documents and Framework Agreement are structured to enable this.

12.3.3 All Framework Agreements (and their Call-off Contracts) must comply with UK/EU Procurement Law.

12.4 Call-off Contracts

12.4.1 Call-off Contracts to be entered into pursuant to a Framework Agreement must be awarded in accordance with the rules set out in the Tender Documents and/or the Framework Agreement (as relevant). This includes in relation to the Terms and Conditions to apply.

Dynamic Purchasing Systems

A Dynamic Purchasing System may not be established without the prior approval of Procurement Board and the authorisation of the Head of Commercial Services and

the Assistant Director of Corporate Governance and/or Joint Head of Legal Services or nominated officer.

CSO 13. GENERAL PROVISIONS, THE E-TENDERING SYSTEM AND COMMUNICATION WITH BIDDERS

- 13.1 The procurement of Contracts of any value and the Disposal of Council Assets shall at all times be subject to Law.
- 13.2 In addition to the general principle at CSO 13.1, Contracts with a value at or above the Lower Threshold are subject to UK/EU Procurement Law (which includes for the avoidance of doubt, the Treaty Principles) and Officers must comply with the relevant aspects of UK/EU Procurement Law. This includes Concession Contracts.
- 13.3 The Council Thresholds and the EU Thresholds are set out in [Appendix 3 \(EU Thresholds and SQ Thresholds\)](#) and [Appendix 4 \(Council Thresholds\)](#).
- 13.4 Save with respect to Contracts excluded from CSOs in line with [CSO 08](#):
- 13.4.1 all Contracts must be procured using the e-Tendering System;
- 13.4.2 the completed Contract must be added to the Existing Contracts Register;
- 13.4.3 [CSO 27 \(Contract Conditions\)](#) applies with respect to the requirement to include certain Terms and Conditions.
- 13.5 Subject to CSO 13.4 and [CSO 29](#), all procurements for Contracts and Disposals of Property Assets regardless of their value must be conducted using the e-Tendering System. This includes placing advertisements, requesting bids, issuing Invitations to Tender (and or Requests for Quotes) and publishing other Tender Documents, communicating with Bidders and the submitting bids.
- 13.6 All bids must be submitted to the Council via the e-Tendering System. In a very limited number of circumstances, it may be appropriate to require Bidders (in addition to submitting their bids via the e-Tendering System) to submit their bids or offers in hard copy (see [Appendix 8](#)).
- Under no circumstances may a late tender be accepted or opened without the written authorisation of the Head of Commercial Services and/or the Assistant Director of Corporate Governance and/or Joint Head of Legal Services or nominated officer.
 - Where genuine technical difficulties arise and the fault lies with the e-Tendering System, Bidders may be asked to submit their bid via the messaging section of the e-Tendering portal and/or a designated email address, once agreement has been sought by the Head of Commercial Services and/or the Assistant Director of Corporate Governance and/or Joint Head of Legal Services or nominated officer. Bids must be opened in the presence of 2 (two) officers and a record made of the exact time and date each bid was opened. An audit trail must be sought from the system provider as to the nature of the technical difficulty. Under no circumstances may bids be sent to Officer email accounts without the prior written authorisation of

either the Head of Commercial Services and/or the Assistant Director of Corporate Governance and/or Joint Head of Legal Services or nominated officer.

- In the unlikely event that the e-Tendering portal is not accessible at all:
 - where the system is not accessible for one day or less, an extension to the deadline for the receipt of quotes and/or tenders is to be granted and notification issued to all providers via a designated email address. Details of the extension are to be later added onto the portal for audit purposes.
 - Where the system is not accessible for a period of more than one day, an alternative arrangement will be set up by the Head of Commercial Services in conjunction and agreement with the Head of IT Service Delivery and notification issued to all providers via a designated email address. Details of the extension are to be later added onto the portal for audit purposes.

13.7 In certain complex procurements or Disposals and/or following an award decision (but prior to formal entry into the Contract), it may be necessary to communicate with Bidders. Such communications must be recorded in writing (preferably via the e-Tendering system) and/or minuted; and the decision to do so must be made by the Responsible Officer post discussion with the Commercial Services and/or Legal Services. Officers must not meet with Bidders in person unless at least one other Officer is present.

CSO 14. CONSULTANTS

- 14.1 Where the Contract is a contract for the appointment of a Consultant, these CSOs shall at all times apply. This includes (without limitation) that the procurement procedure to be followed shall be as set out at [CSO 16 \(Contracts up to and including the £5,000\)](#), [CSO 17 \(Contracts above the £5,000 up to and including the Lower Threshold\)](#), [CSO 18 \(Contracts above the Lower Threshold up to and including the Upper Threshold\)](#) or [CSO 19 \(Contracts above the Upper Threshold\)](#) as appropriate, depending on the estimated value of the Contract.
- 14.2 Without prejudice to the general provision at CSO 14.1, the Responsible Officer shall ensure that:
- 14.2.1 the procurement complies with the Council's Code of Practice on procuring Consultants ([Appendix 6](#));
 - 14.2.2 the Contract is in a form approved by the Director of Corporate Services (and [CSO 26.1.1 \(Forms of Contract and in Writing\)](#) shall not apply);
 - 14.2.2 that the Consultant complies with IR35 legislation and, where necessary, on a case-by-case basis, the Responsible Officer must seek guidance from the Head of Organisation Development and HR Strategy with regards to whether or not the 'off-payroll working rules' apply.

- 14.2.3 the Council's Officer responsible for insurance matters shall determine the minimum insurance levels required; and
- 14.2.4 any Contract with the Consultant shall require the Consultant to comply with [CSO 30 \(Conflicts of Interest\)](#) and [CSO 31 \(Acceptance of Gifts and Hospitality\)](#).

CSO 15. SERVICES COVERED BY THE LIGHT TOUCH REGIME

- 15.1 Schedule 3 of the Public Contracts Regulations 2015 list the social and other specific services to be covered by the new 'Light Touch Regime' (LTR). These can also be found in the Procurement Toolkit.
- 15.2 The LTR has a much higher EU Threshold than applies for other service contracts and permits a more flexible procurement procedure, subject always to compliance with UK/EU Procurement Law. (See [Appendix 3](#) for current thresholds)
- 15.3 A Contract for services that fall within the LTR is still a Contract and as such these CSOs apply (as appropriate) to entering into any Contract for such services.

CSO 16. CONTRACTS UP TO AND INCLUDING £5,000

- 16.1 This CSO applies to all Contracts with an estimated value of up to and including £5,000. Please also see [CSO 10.8](#) (Concession Contracts (and Contracts with nil value to the Council)) with regards to estimating the value of such contracts.
- 16.2 For all Contracts:
 - 16.2.1 the procurement may (where it is lawful to do so) be carried out using a suitable Existing Framework Agreement but otherwise must be carried out in accordance with this CSO;
 - 16.2.1 there is no requirement to advertise the Contract opportunity publically unless a Responsible Officer decides that advertising would provide better Value for Money for the Council;
 - 16.2.2 Responsible Officers may issue either a Quick Quote or a Request for Quote (RfQ) inviting Bids from any number of Bidders. Where deemed appropriate, the Responsible Officer may directly award the Contract by approaching a single Bidder. If a decision is made to directly award the Contract, the Responsible Officer must be satisfied (and keep a record) that this demonstrates best Value for Money for the Council;
 - 16.2.3 all Bids must be submitted in writing via the Council's e-Tendering portal.

CSO 17. CONTRACTS ABOVE £5,000 UP TO AND INCLUDING THE LOWER THRESHOLD (£5,001 - £25,000)

- 17.1 This CSO applies to all Contracts with an estimated value above £5,000 up to and including the Lower Threshold of £25,000. Please also see [CSO 10.8](#) (Concession Contracts (and Contracts with nil value to the Council)) with regards to estimating the value of such contracts.
- 17.2 For all Contracts:
- 17.2.1 the procurement may (where it is lawful to do so) be carried out using a suitable Existing Framework Agreement but otherwise must be carried out in accordance with this CSO;
 - 17.2.2 Bids should, as best practice, be sought by issuing either a Quick Quote or a Request for Quote (RfQ) to at least three (3) Bidders, although Officers may approach a single Bidder in accordance with CSO 17.3;
 - 17.2.3 all Bids must be submitted in writing via the Council's e-Tendering portal (including where CSO 17.3 applies).
 - 17.2.4 Once awarded, the details of the Contract must be published on the Council's Existing Contracts Register in-line with the Local Government Transparency Code 2015 (and any subsequent amendments)
- 17.3 The Responsible Officer may approach a single Bidder provided the Responsible Officer can demonstrate (and keeps a record of the fact) that there is only one Provider capable of performing the Contract.

CSO 18. CONTRACTS ABOVE THE LOWER THRESHOLD UP TO AND INCLUDING THE UPPER THRESHOLD (£25,001 - £100,000)

- 18.1 This CSO applies to all Contracts with an estimated value above the Lower Threshold up to and including the Upper Threshold of £100,000. Please also see [CSO 10.8](#) (Concession Contracts (and Contracts with nil value to the Council)) with regards to estimating the value of such contracts.
- 18.2 For all Contracts:
- 18.2.1 the procurement may (where it is lawful to do so) be carried out using an Existing Framework Agreement but otherwise must be carried out in accordance with this CSO;
 - 18.2.2 the procurement must be conducted in accordance with UK/EU Procurement Law;
 - 18.2.3 selection of Providers using a PQQ/SQ is not permitted;
 - 18.2.4 where the Contract is for works and falls below £100,000, Bidders may be selected from an accredited provider directory;
 - 18.2.5 there is no requirement to advertise the Contract (although the Responsible Officer may choose to do so) and an RfQ may be issued to Bidders without advertising;
 - 18.2.6 if the Contract is not advertised, RfQs must be issued to at least three (3) Bidders;

- 18.2.7 where the Contract is advertised, the contract notice must also be published on Contracts Finder;
- 18.2.8 all Bids must be submitted in writing via the Council's e-Tendering portal;
- 18.2.9 If fewer than three (3) written Bids are received the reason for this must be recorded and retained;
- 18.2.10 Once awarded, the details of the Contract must be published on both the Council's Existing Contracts Register in-line with the Local Government Transparency Code 2015 (and any subsequent amendments), as well as Contracts Finder in-line with Crown Commercial Services guidance.

CSO 19. CONTRACTS ABOVE THE UPPER THRESHOLD (£100,001)

- 19.1 This CSO applies to all Contracts with an estimated value above the Upper Threshold of £100,000. Please also see [CSO 10.8](#) (Concession Contracts (and Contracts with nil value to the Council)) with regards to estimating the value of such contracts.
- 19.2 For all Contracts:
 - 19.2.1 the procurement may (where it is lawful to do so) be carried out using a suitable Existing Framework Agreement but otherwise must be carried out in accordance with this CSO;
 - 19.2.2 the procurement must be conducted in accordance with relevant UK/EU Procurement Law;
 - 19.2.3 all Contracts must be advertised as detailed below;
 - 19.2.4 Once awarded, the details of the Contract must be published on both the Council's Existing Contracts Register in-line with the Local Government Transparency Code 2015 (and any subsequent amendments), as well as Contracts Finder in-line with Crown Commercial Services guidance.

Contracts below the relevant EU Threshold

- 19.3 Where the value of the Contract is below the relevant EU Threshold:
 - 19.3.1 there is no requirement to place a Contract Notice in the OJEU, but an advertisement must be placed via the e-Tendering System and also on Contracts Finder;
 - 19.3.2 selection of Providers using a SQ is not permitted, other than for work Contracts and Social and Other Services Contracts, where an SQ may be used for Contracts with a value exceeding that of the EU Threshold for Services and Supplies .

Contracts above the relevant EU Threshold

- 19.4 Where the value of the Contract is at or above the relevant EU Threshold:
 - 19.4.1 save where the PCR 2015 permit a PIN to be used as a call of competition, a Contract Notice must be placed both in the OJEU and

- on Contracts Finder;
- 19.4.2 selection of Providers using a SQ is permitted;
- 19.4.2 save where the Contract is for services that fall into the LTR category, the procurement must follow one of the procedures set out in the PCR 2015, namely:
- the Open Procedure (Regulation 27);
 - the Restricted Procedure (Regulation 28);
 - the Competitive Procedure with Negotiation (Regulation 29);
 - the Competitive Dialogue (Regulation 30); or
 - the Innovation Partnership (Regulation 31).

The Responsible Officer must seek advice from Commercial Services prior to determining which route to follow.

- 19.5 A notice communicating the decision to award a Contract must be sent to each Bidder and a standstill period of 10 working days observed prior to entering into the Contract. Where an award of Contract is to be approved by Cabinet, the 10-day standstill period cannot commence until post-decision call in is complete.

CSO 20 CONTRACT AWARD NOTICES AND PUBLISHING AWARD DETAILS ON CONTRACTS FINDER

- 20.1 For all Contracts with a value at or above the relevant EU Threshold:
- 20.1.1 a Contract Award Notice is required to be published;
- 20.1.2 information about the award of the Contract must also be published on Contracts Finder.
- 20.2 Contract Award Notices must be sent for publication no less than thirty (30) days after the formal decision to award a Contract has been made.
- 20.3 For Contracts with a value at or above the Lower Threshold, there may be a requirement to publish information about the award of the Contract on Contracts Finder and Officers should refer to the PCR 2015. Guidance is also contained in the Procurement Toolkit.
- 20.4 Where information about the award of the Contract is required to be published on Contracts Finder (i.e. for all contracts over £25,000), this shall be done within a reasonable time, but not exceed three months from the date authority to award has been granted by the Council. The information should include at the very least:
- the name of the Provider;
 - the date the Contract was entered into;
 - the value of the Contract; and
 - whether the Provider is an SME or a VCSE.

- 20.5 There is also a requirement for the Council to prepare and retain a written report (a "Regulation 84 Report") covering specified information about the procurement process for every over EU threshold contract, framework agreement and dynamic purchasing system which is awarded or established. Responsible Officers should seek guidance from Commercial Services and the Procurement Toolkit.

CSO 21. EMERGENCY PROCUREMENT

- 21.1 In an Emergency, it may not be possible to comply with the procurement procedures set out in these CSOs and in such circumstances, senior Officers may authorise the procurement of Contract or a Disposal to be carried out without the need for such compliance.
- 21.2 Senior Officers with authority to Authorise an procurement of a Contract or a Disposal in an Emergency are:
- the Chief Executive;
 - the Director of Corporate Services; and
 - the Director of the relevant department.
- 21.3 In the event that the persons set out at CSO 21.2 are not available, the Responsible Officer may use their own judgement based on the severity and urgency of the situation to make a decision as to whether the relevant situation is an Emergency.
- 21.4 The decision as to whether a situation is an Emergency shall be made by those Officers referred to at CSO 21.2 and CSO 21.3 in accordance with the Council's emergency planning and business continuity procedures set out on the Council's intranet. The Procurement Toolkit contains guidance on when an Emergency procurement for a Contract may be appropriate.

CSO 22. SHORTLISTING BIDDERS – STANDARD SELECTION QUESTIONNAIRES (SQs) AND SUITABILITY QUESTIONS

- 22.1 SQs (or the European Single Procurement Document (ESPD)) are only permitted to be used where a Contract is valued at or above the relevant SQ Threshold and there is a need to pre-qualify bidders based on previous history. The SQ Thresholds are set out in Appendix 3. The Procurement Toolkit contains the form of SQ to apply. Officers may not deviate (including changing the SQ wording or adding new questions to the SQ) unless this is approved by Commercial Services.
- 22.2 Where a SQ is permitted, the procurement may be structured as a two stage procedure or a single stage procedure,
- 22.3 Where a Contract is valued below the relevant SQ Threshold, Suitability Questions are still permitted, provided these are relevant to the subject matter of the Contract, are proportionate, and do not involve a separate stage in the procurement process (i.e. there can be no shortlisting of Bidders prior to requiring them to submit a Bid).
- 22.4 The Procurement Toolkit contains a set of appropriate Suitability Questions that

may be used. Officers may omit questions from the Suitability Questions if these are not relevant.

- 22.5 There are mandatory and discretionary exclusion criteria set out in the PCR 2015. The Procurement Toolkit contains guidance on when these apply.
- 22.6 The assessment of responses to SQs and Suitability Questions shall be carried out by applying Selection Criteria.
- 22.7 Assessment Criteria for assessing responses to the SQ must comply with UK/EU Procurement Law.
- 22.8 Assessment Criteria for assessing responses to Suitability Questions must comply with the Treaty Principles.
- 22.9 Assessment Criteria, together with their relative weightings and methodology to be used to assess responses to SQs and Suitability Questions must be made available to Bidders in advance of them submitting their responses.

CSO 23. EVALUATION OF BIDS AND AWARD CRITERIA

- 23.1 In this CSO, all references to Award Criteria include sub-criteria of any level.
- 23.2 Save where the Council has invited only one (1) Bid (as permitted by these CSOs and/or PCR2015), the evaluation of Bids shall be carried out by applying Award Criteria.
- 23.3 The Award Criteria to apply, together with their relative weightings and the methodology used to evaluate Bids must be contained in the Tender Documents or the RfQ (as relevant) issued to Bidders at the commencement of the procurement process.
- 23.4 Evaluation of Bids must be open, transparent and not discriminate or favour a particular Bidder and must be carried out by applying the published Award Criteria in accordance with the published evaluation methodology.
- 23.5 The Bid evaluation process should be designed specifically for each procurement process. The Procurement Toolkit contains guidance on evaluation of Bids.
- 23.6 Whilst the Bid evaluation process is in progress, Officers and Members must not disclose information relating to any Bid or the procurement process to anybody not directly involved in the process; regardless of whether they are Officers, Members, residents of the borough, members of the press or Bidders (this includes not disclosing to a Bidder information about its own Bid evaluation).
- 23.7 Subject to CSO 23.10 below, during the Bid evaluation process, contact with Bidders must be strictly limited, and where contact is necessary, it must be fully documented and be carried out via the e-Tendering System.
- 23.8 Subject to CSO 23.10 below, contact with Bidders must be limited to matters directly related to the Bid evaluation and must be fair and transparent. Examples of where contact may be necessary are:

- to raise clarifications, or
- to arrange presentation meetings.

- 23.9 Where an incumbent Provider has submitted a Bid, normal Contract management activities may continue, however care should be taken to limit the interaction to Contract management activities only and Officers must not discuss any Bid, including that submitted by the incumbent Provider or any aspect of the procurement or evaluation process.
- 23.10 Officers must not meet with any Bidder (including an incumbent Provider that has submitted a Bid for the new Contract) without at least one other Officer being present.

CSO 24. CONTRACT AWARD AND AUTHORISATION PROCESS

- 24.1 A decision taken by the Council may either be a non-key Decision or a key Decision. Key Decisions must be included on the forward plan, and published. Non-key Decisions do not require inclusion on the forward plan, however the decision and report must be published in line with the Local Authorities Regulations 2012. (See [Appendix 10](#))
- 24.2 A Contract (including those in relation to income generation) may only be awarded and (save with respect to CSO 24.2.2 below) a Property Agreement may only be entered into when:
- 24.2.1 all of the requirements of these CSOs have been met; and
 - 24.2.2 the expenditure and/or income involved has been included in approved revenue estimates, or is in the capital programme, or has been otherwise approved by the Director of Corporate Services;
 - 24.2.3 Authorisation has been obtained from the relevant body or person as set out in the Scheme of Management; and
 - 24.2.4 (if relevant) the Call-in Period and/or standstill period has expired.
- 24.3 Contract or Property Agreement variations (including extensions) shall, unless otherwise provided for in the original Authorisation to award the Contract or enter into the Property Agreement, be Authorised:
- 24.3.1 in the case of Contracts or Property Agreements being procured or proposed by Corporate Services, by the Chief Executive;
 - 24.3.2 in the case of all other departments, by the Director of Corporate Services.
- 24.4 Where Authorisation is required to enter into a new Framework Agreement - to be established by the Council - in determining who the Authorising Body is, the value of the Contract is the value of all of the Call-off Contracts proposed to be entered into (by the Council or any other body able to access the Framework Agreement) pursuant to the relevant Framework Agreement.
- 24.5 Where the Council has established its own Framework Agreement, provided that Authority has been given to enter into the Framework Agreement, then unless

otherwise stated in that Authority, no further Authority is required to enter into a Call-off Contract under that Framework Agreement.

- 24.6 Where Authorisation is required to enter into a Call-off Contract - that has been established by an authority or organisation other than the Council - in determining who the Authorising Body is, the value of the Contract is the value of all of the Call-off Contracts proposed to be entered into by Merton Council. Unless otherwise stated in the Authorisation, further Authorisation is required to enter into any additional Call-off Contract under that Framework Agreement.
- 24.7 Contracts for the provision of legal services or legal advice may not be awarded without the prior written consent of the Assistant Director of Corporate Governance and/or Joint Head of Legal Services or nominated officer.

CSO 25. FORMS OF CONTRACTS AND IN WRITING

- 25.1 Subject to CSO 25.3 below, before any Contract is awarded, it must be:
- 25.1.1 in a form which has been approved by the Assistant Director of Corporate Governance and/or Joint Head of Legal Services or nominated officer as being suitable for the proposed purpose of the Contract; and
 - 25.1.2 in writing.
- 25.2 Contracts must either be executed under seal or signed by an appropriate Officer who is an Authorising Body. Legal Services shall advise whether a Contract should be executed under seal or signed by hand / electronically⁵.
- 25.3 Contracts required to be entered into in an Emergency do not need to comply with CSO 25.1. before they are entered into. They do, however, need to be confirmed as meeting the requirements of CSO 26.1 as soon as possible after the commencement of the Contract. Where possible, prior to the commencement of the Contract, written heads of agreement should be drawn up, approved by Legal Services as suitable and signed by the appropriate Authorised Body and the Provider.

CSO 26. CONTRACT CONDITIONS

- 26.1 The presumption is that except in limited circumstances Legal Services will be preparing the terms and conditions of contracts. In circumstances where the contract is of an extremely low value and very low risk, template contracts set up by Legal Services may be used by Officers. However, Officers should first consult Legal Services if they intend to use the templates themselves to ensure this is appropriate in the circumstances.

⁵ Contracts can be executed under electronic signature by virtue of the Electronic Communications Act 2000, the 2001 Law Commission Paper and case law. However there are a few exceptions namely any contracts that need to be registered at the Land Registry and deeds which must be executed in the Councils case under seal

CSO 27. CONTRACT VARIATIONS, EXTENSION AND NOVATIONS

- 27.1 This CSO shall apply to all Contracts
- 27.2 Contracts may be modified/varied or extended, if any such changes are provided for within the terms of the contract and /or allowed within the Public Contracts Regulations 2015. Advice must be sought from both Commercial Services and Legal Services before any changes are approved and executed.
- 27.3 Contract variations and extensions should be based on the same terms and conditions set out in the original Contract as a minimum, although where appropriate an improved position for the Council with regard to price and or T&Cs may be sought providing the scope of the contract is not substantially altered.
- 27.4 Total contract value (aggregation) must be taken into consideration.
- 27.5 In certain circumstances it may be appropriate for a Voluntary Transparency Notice to be published following a variation or extension to a Contract - the Responsible Officer should liaise with both Commercial Services and Legal Services.
- 27.6 The variation or extension shall require the Authorisation of the relevant Authorising Body in accordance with [CSO 24 \(Contract Award and Authorisation Process\)](#), taking into account the revised total contract value.
- 27.7 Contract variations and extensions must be recorded in writing and signed/sealed (as appropriate) by both the Council and the Provider.
- 27.8 Responsible Officers must be able to demonstrate that a variation and/or extension of a Contract will offer Value for Money to the Council and that the Contract will continue to meet the Council's requirements.
- 27.9 In an Emergency, a Contract variation or extension may be permissible pursuant to [CSO 21 \(Emergency Procurement\)](#).
- 27.10 The Responsible Officer must ensure that the Corporate Contracts Register is updated accordingly.
- 27.11 Contract variations and extensions shall at all times be subject to UK/EU Procurement Law.
- 27.12 Contract Extensions**
- 27.12.1 A Contract shall not be extended unless expressly allowed for within the Contract Notice and the Contract.
- 27.12.2 An 'extension' of contract not expressly allowed for within the Contract Notice and the Contract will be classified as a Direct Award for which an Exemption of these CSOs must be sought. Alternatively a contract variation may be sought. Advice is to be sought from Commercial Services and Legal Services.
- 27.12.3 A Contract shall not be varied or extended (beyond the term and/or contract value originally approved) until funding has been identified in accordance with Council's financial procedures.

27.13 Contract Novation

- 27.13.1 A Responsibly Officer may agree the novation (transfer) of any contract subject to EU rules.
- 27.13.2 Legal advice must be sought and the Public Contracts Regulations 2015 adhered to.
- 27.13.3 A contract novation must be approved as per the thresholds referenced in the Council's Scheme of Management.

CSO 28. CONTRACTS FOR THE DISPOSAL OF COUNCIL ASSETS

- 28.1 This Contract Standing Order sets out specific requirements relevant to the Disposal of Council Assets.
- 28.2 Subject to CSO 28.4 below, any Disposal of Council Assets must be for best consideration reasonably obtainable. In respect of Property Assets, the duty to obtain best consideration reasonably obtainable is set out in section 123 of the Local Government Act 1972 ("Section 123"). In the context of Property Assets "best consideration" can, provided that it is reasonable and proportionate in the circumstances, include a quantifiable or demonstrable benefit to the public, the community or the Council that compensates the Council for any shortfall in financial compensation it receives from the Disposal.
- 28.3 Where the Disposal involves a Property Asset, the Corporate Property Officer shall determine whether an auction, a Bid process or a private treaty is the most appropriate method of Disposal taking into account the procedure set out in the Code of Practice – Disposal of Property. The Corporate Property Officer must be able to demonstrate that the Disposal satisfies the Council's obligation to comply with Section 123.
- 28.4 Where a Disposal of a Council Asset is proposed which is at less than best consideration reasonably obtainable (determined by the market or a qualified Valuer), and where the Council has the power to do so, no Disposal shall be made without the express written approval of the Director of Corporate Services and the appropriate Authorising Body and in consultation with Corporate Services and Legal Services.
- 28.5 In all cases where the Disposal of a Property Assets is or includes works and/or services to be performed or goods to be supplied which may result in the transaction being subject to UK/EU Procurement Law then the Responsible Officer shall liaise with Legal Services and shall be responsible for ensuring compliance with UK/EU Procurement Law.
- 28.6 Subject to CSO 28.7, where the Corporate Property Officer determines, in advance, that the most appropriate means of communication with the market and Bidders in relation to the Disposal of Property Assets is via means other than the e-Tendering System, this shall require prior approval of the Director of Corporate Services. Where the Corporate Property Officer determines that the most appropriate method of Disposal is by submission of paper Bids:

- 28.6.1 Bidders must be advised not to include any markings that would identify them on the outside of their Bid; and
- 28.6.2 The procedure set out in [Appendix 8](#) shall apply.
- 28.7 Where the proposed Property Agreement is a lease for rent, the e-Tendering System need not be used.

CSO 29. CONFLICTS OF INTEREST

- 29.1 All Officers and Members must ensure that in carrying out their duties and functions for or on behalf of the Council, their decisions and actions are not impaired by a Conflict of Interest with their private interest.
- 29.2 The obligation to ensure that there is no Conflict of Interest extends to ensuring that there is no perception of a Conflict of Interest.
- 29.3 In order to ensure actual or perceived Conflicts of Interest are identified and appropriate steps taken to ensure that the Council's interest is not impaired, the following people are required to declare any interests⁶ which may affect a Disposal or the procurement process for a Contract or the appointment of a consultant or the management of any Contract or Property Agreement:
- 29.3.1 all Officers;
- 29.3.2 all Members involved in any relevant decision (at executive or scrutiny level) relating to a Disposal, Contract or Property Agreement.
- 29.3.3 All Consultants / interim members of staff
- This should be done by those persons completing a Declaration of Interest.
- 29.4 Members are required to comply with the Members' Code of Conduct. Officers are required to comply with the Staff Code of Conduct.
- 29.5 Any Officer to whom an interest is declared has a duty to examine that declaration in the context of the Contract, Disposal or Property Agreement in question. The Officer must decide whether the interest declared would affect (or would appear to affect) the relevant person's ability to represent the Council's sole interest if they (in each case) participate in or carry out any action or make any decision in the Disposal or procurement process for a Contract or the management of the relevant Contract or Property Agreement.
- 29.6 A person who is considered to have a Conflict of Interest will be precluded from (in each case) participating in or taking any action and/or making any decision in relation to the relevant Contract, Disposal or Property Agreement until the Conflict of Interest no longer exists.

⁶ Please see the Council's Intranet for the most current version of the Declaration of Interest Form.

CSO 30. ACCEPTANCE OF GIFTS AND HOSPITALITY

- 30.1 Acceptance of gifts, money, hospitality and other inducements by any Officer or Member involved in a Disposal and/or the procurement of a Contract and/or the management of and/or any decision relating to a Contract or Property Agreement could be viewed as accepting a bribe or corrupt practice. The general rule is that no gift, money, hospitality or other inducement should be accepted by Officers or Members. All Officers and Members must comply with the Council's rules on the receipt and registration of gifts, money, hospitality and other inducements set out in the Staff Code of Conduct and in the Members' Code of Conduct.
- 30.2 Any Officer or Member involved in a Disposal or the procurement process for a Contract should be particularly sensitive to their involvement in that Disposal or procurement process where a person or organisation that has offered or given them a gift, money, hospitality or other inducement is involved in that Disposal or procurement or may submit a Bid for that Contract or Property Agreement in the future.
- 30.3 All offers of gifts, money, hospitality or other inducement should be reported in accordance with the Staff Code of Conduct or the Members' Code of Conduct (as appropriate).

CSO 31. UNAUTHORISED DISCLOSURE OF INFORMATION

- 31.1 No Officer or Member is permitted to disclose to any internal or external party any information they have obtained which may reasonably be considered to be capable of influencing the outcome of the award of a Contract or a Disposal.

CSO 32. INTERNAL ADMINISTRATIVE MATTERS FOLLOWING AWARD OF CONTRACT

- 32.1 Following the entering into of any Contract, each Responsible Officer shall be responsible for⁷:
- recording details of the Contract on the Existing Contracts Register; and
 - arranging for the archiving of the original signed Contract by Legal Services (Responsible Officers are to retain an electronic local copy of the signed Contract),
 - Where a Contract is over the relevant OJEU threshold, prepare a Section 84 report

⁷ in each case in accordance with the relevant process set out within the Procurement Toolkit

APPENDIX 1 - DEFINITIONS

In these Contract Standing Orders, the following capitalised terms shall have the following meanings:

“Accredited Provider Register(s)” means the Council’s register(s) of individuals and organisations that have been appointed from time to time by the Council in accordance with these CSOs to provide relevant works, services and/or goods.

“Approved List(s)” means the Council’s list(s) of Providers that have been appointed from time to time by the Council in accordance with these CSOs to provide relevant works, services and/or goods.

“Asset Management Plan” means the Council’s plan containing details relating to the Council’s Assets.

“Assistant Director” means the deputy to an appointed Director.

“Authorisation” means the approval given by the appropriate Authorising Body before Contracts or Property Agreements may be entered into (and “Authority” and any other derivatives shall be construed accordingly).

“Authorising Body” means a body or individual acting under properly delegated authority with power, up to the relevant Authorisation Threshold, to Authorise the award of a Contract or entering into of a Property Agreements on behalf of the Council.

“Authorisation Threshold” means the threshold referred to as such in Appendix 4 (Council Thresholds and Authorisation Thresholds), as the same may be amended from time to time pursuant to CSO 2 (Amendment of Contract Standing Orders)

“Award Criteria” means the criteria, including sub-criteria, determined by the Council upon which the evaluation of tenders and quotes is based.

“Bid” means an offer submitted in response to an Invitation to Tender and/or an RfQ and/or in relation to the Disposal of a Council Asset.

“Bidder” means an individual or organisation that may or has submitted a Bid, including in each case a Consultant.

“Cabinet” means the body of Members responsible for making most of the executive decisions of the Council and which may delegate such decision making responsibility to relevant Officers.

“Call-off Contract” means an agreement entered into pursuant to a Framework Agreement pursuant to which the Provider is required to provide goods, services or works.

“Call-In Period” means the period of ten (10) days following the date on which a Key Decision is made and during which time such decision may be called in for reconsideration by Cabinet.

“Chair of Scrutiny” means the chair person of the Council’s Overview and Scrutiny Commission.

“Chief Executive” means the most senior Officer of the Council.

“Code of Practice – Disposal of Property” means the Council’s code of practice on the disposal of property from time to time in place. The current code of practice is set out in the Asset Management Plan.

“Code of Practice on procuring Consultants” means the Council’s code of practice on procuring Consultants from time to time in place. The current code of practice is set out at [Appendix 6](#)

“Commercial Services” means the Council’s Commercial Services team (within Corporate Services) or such other body as has been approved by Cabinet to perform its functions.

“Competitive Dialogue” means the procurement procedure set out in Regulation 30 which may be used in the circumstances set out in that Regulation.

“Competitive Procedure with Negotiation” means the procurement procedure set out in Regulation 29 which may be used in the circumstances set out in that Regulation.

“Concession Contract” means a Contract where the consideration (payment) paid by the Council to the Provider under the Contract includes a right for the Provider to exploit the Contract commercially. This right may be the sole form of income received by the Provider or there may also be a financial payment by the Council.

“Conflict of Interest” means a situation in which a person has multiple interests which could possibly corrupt the motivation of that person. In the context of the Council, this is likely to be a situation where a person’s duty to the Council conflicts with a private interest they have or where a person has a duty to both the Council and to another public or other body and those duties conflict and in all cases includes the appearance of such a conflict.

“Consultant” means an individual or organisation providing specialised skills and expertise that is not available within the Council and who is appointed on a clearly specified and time limited basis to carry out a specific task or to provide specialist or strategic advice and/or other similar services. Consultants do not include temporary staff such as casual and contract staff and interim managers. The term “Consultancy” shall be construed accordingly.

“Contract” means any agreement for the provision of goods, services or works, including agreements with Consultants, Framework Agreements and Concession Contracts but excluding Call-off Contracts. Contract documentation is to include the Invitation to Tender documentation and any clarification questions and answers relevant to that specific bid. Contracts do not include the evaluation documents. These are however to be kept separately in line with the Council’s retention policy.

“Contract Award Notice” means a notice sent by the Council for publication in the OJEU confirming the award of a Contract.

“Contract Notice” means a notice sent by the Council for publication in the OJEU seeking expressions of interest or inviting Bidders to submit a Bid for a Contract.

“Contract Standing Orders” means the rules and requirements relating to Contracts and Property Agreements set out in this document or referred to herein.

“Contracts Finder” means the online database administered by central Government setting out details of public sector Contracts opportunities and information relating to award of Contracts.

“Corporate Services” means the Council’s corporate services department or such other body as has been approved by Cabinet to perform its functions.

“Council Asset” means assets and/or chattels that are in the Council’s ownership or control, including Property Assets.

“Council Policies” means the policies of the Council from time to time relevant to the Contract or Disposal or as required by these Contract Standing Orders.

“Council Thresholds” means the Lower Threshold and the Upper Threshold.

“CSO” means a Contract Standing Order.

“Declaration of Interest” means the form of declaration of interest as published on the Council’s intranet.

“Director” means the appointed head Officer of a department within the Council.

“Director of Corporate Services” means the Director in charge of Corporate Services or any other Director to whom responsibility for corporate procurement functions is delegated by the Chief Executive

“Disposal” means the divestment of Council ownership in any Council Asset including a sale or other disposition of a Property Asset.

“Dynamic Purchasing System” means an electronic purchasing system for Contracts for works, services and goods commonly available in the market as described in Regulation 34.

“e-Tendering System” means the Council’s electronic procurement system from time to time.

“EIRs” means the Environmental Information Regulations 2004 (SI 2004/3391).

“Electronic Auction” means an online auction for Contracts for works, services and goods as described in Regulation 35.

“Emergency” means a genuinely unforeseen emergency situation which has significant and unforeseen consequences, for example where:

- life, property or equipment are immediately at risk; and/or
- standards of public health, welfare or safety are required to be re-established without delay, such as in the case of disaster relief or an act of terrorism.

“European Single Procurement Document” is a standard, self-declaration form for use by all EU member states, which replaces pre-qualification questionnaires. The UK generally makes use of the Crown Commercial Services, Standard Selection Questionnaire.

“UK/EU Procurement Law” means the PCR 2015, the Treaty Principles and all relevant case law and guidance published by central Government and/or the European Commission and/or other relevant body from time to time.

“EU Thresholds” means the various thresholds set by the European Commission from time to time in place and used to determine the extent to which EU Procurement Law applies. The current EU Thresholds relevant to the Council are set out in [Appendix 3 \(EU Thresholds and Procurement Thresholds\)](#).

“Exemption” an exemption from the requirement to comply with all or part of these Contract Standing Orders.

“Exemption Report” means the report (in the form report set out at [Appendix 2 \(Exemption Report\)](#)) to be completed when an Exemption is requested.

“Existing Contract” means an unexpired Contract entered into by the Council and a Provider for works, services and/or goods.

“Existing Contracts Register” means a list setting out all of the Existing Contracts, as updated from time to time and containing details of the Contract value, Contract Manager, Provider and commencement and expiry dates of the Contract.

“Financial Regulations” means the regulations setting out the financial policies of the Council from time to time in place.

“FOIA” means the Freedom of Information Act 2000 and any subordinate legislation made under that Act from time to time, together with any regulations, guidance and/or codes of practice issued by the Information Commissioner or relevant central Government department from time to time in relation to such legislation.

“Forward Plan” means the Council’s document which sets out the Key Decisions to be taken.

“Framework Agreement” means an over-arching agreement between one or more contracting authorities (which may include the Council) and one or more providers, the purpose of which is to establish the terms governing Call-off Contracts to be awarded during a given period.

“Innovation Partnership” means a Contract having as its aim the development of an innovative product, service or works and the resulting purchase by the Council of such product, service or works as described in Regulation 31.

“Invitation to Tender” means, where a Contract opportunity has been advertised, the document sent by the Council to Bidders inviting them to participate in the procurement procedure for that Contract, together with any other relevant documentation issued with that document or referred to in that document as forming a part of it. For the purpose of these CSOs, an invitation to tender means any document inviting Bids (for example, an invitation to negotiate or invitation to participate in dialogue) but excluding an RfQ and (for the avoidance of doubt) a SQ.

“Key Decision” means a decision made by Cabinet or a decision made under delegation to a Member or a Director that falls into one of the following categories:

- Type (a) - incurring expenditure or making savings which are significant having regard to the budget for the service or function to which the decision relates;
- Type (b) - significant in terms of its effects on communities and groups of service users living or working in an area comprising one or more wards or electoral divisions in the Council;
- Type (c) - amending the agreed budget and policy framework;
- Type (d) - expenditure of £500,000 or more.

“Key Decision Contract” means a Contract proposed to be awarded where the decision to award the Contract will be a Key Decision.

“Laws” means any relevant law, statute, subordinate legislation, bye-law, enforceable right, regulation, order, mandatory guidance or code of practice, judgment of a relevant court of law, directive or requirement of any regulatory body as it is in each case in force from time to time, taking account of any amendment, extension or re-enactment.

“Leader” means the Member elected as leader of the Council.

“Legal Services” means the Council’s legal services department or such other body as has been approved by Cabinet to perform its functions.

“Light Touch Regime” means the regime described at Section 7 of the PCR 2016 to apply to those social and other specific services set out at schedule 3 to the PCR 2016.

“Lots” means small related Contracts that may be entered into with the same or a number of separate Providers following the division of a larger Contract into smaller but related parts.

“Lower Threshold” means the sum set out in Appendix 4 (Council Thresholds and Authorisation Thresholds) as being the lower threshold, as the same may be amended from time to time pursuant to CSO 2 (Amendment of Contract Standing Orders).

“Member” means an elected member of the Council.

“Members’ Code of Conduct” means the Council’s code of conduct from time to time applying to Members. The current code of conduct is set on the intranet.

“Monitoring Officer” means the Officer appointed by Council under s5 Local Government and Housing Act 1989 responsible for reporting to the Council where it appears to that person that the Council has done, or is about to do, something which would contravene the Law or which would constitute maladministration.

“Officer” means an employee or officer of the Council or any temporary staff (such as casual and contract staff and interim managers) or Consultant in each case appointed by the Council to carry out procurement or associated activities in relation to any Disposal, Contract or Property Agreement (including the Responsible Officer and any Director).

“OJEU” means the Official Journal of the European Union.

“Open Procedure”: means the single stage procurement procedure to be conducted in accordance with Regulation 27.

“Options Appraisals” means a formal and documented analysis of the possible ways the Council may structure a procurement in order to obtain best Value for Money.

“Overview and Scrutiny Commission” means the body of the Council responsible for (inter alia) monitoring Council decisions.

“PCR 2015” means the 2015 Public Contract Regulations (SI 2015/102) as amended from time to time.

“PIN (Prior Information Notice)” means a notice published by the Council (in the OJEU and/or on the Council’s website) which is used as a mechanism for notifying potential Bidders of the Council’s likely future requirements for good, services and/or works and which may (in certain circumstances permitted by the PCR 2015) be used as a call for competition for a Contract opportunity .

“Procurement Board” means the body within the Council with responsibility (inter alia) for overseeing Contract procurement activities.

“Procurement, Governance and Gateway Process” means the Council’s processes and procedures for conducting, monitoring and reviewing its procurement activities as set out in the Procurement Toolkit.

“Procurement Toolkit” means the guidance, information, templates, tools and techniques to assist Officers in carrying out a procurement process for a Contract as set out on the Commercial Services’ intranet pages as amended from time to time.

“Property Agreement” means an agreement relating to land and/or buildings, including a purchase or sale agreement, lease and licence where the Council is seeking a premium/capital receipt.

“Property Asset” means any interest in land or property in the ownership or control the Council.

“Provider” means any organisation or individual providing goods, works or services (including under a Concession Contract) to the Council, which may include a Consultant.

“Restricted Procedure” means the two stage procurement procedure to be conducted in accordance with Regulation 28 where the second stage is restricted to those Bidders who have pass the previous SQ stage.

“Regulation” means, unless stated otherwise, a regulation of the PCR 2015.

“Responsible Officer” means any Officer properly authorised to carry out any of the Council’s functions in connection with a Disposal, Contract or Property Agreement entered (or proposed to be entered) into by the Council.

“RfQ (Request for Quotation)” means where a Contract opportunity has not been advertised (as permitted by these CSOs), the document issued to Bidders inviting them to submit a Bid, together with any other relevant documentation issued with that document or referred to in it as being part of it.

“Selection Criteria” means the criteria, including sub-criteria, determined by the Council upon which the assessment of responses to SQs and Suitability Questions is based.

“Scheme of Management” means the management arrangements for a department setting out the delegated authority of Officers within that department.

“Section 151 Officer” means the Officer responsible for the proper administration of the Council’s affairs appointed under section 151 of the Local Government Act 1972, being the Director of Corporate Services or any other Director to whom such responsibility is delegated by the Chief Executive from time to time.

“SME” means “SME” an enterprise falling within the category of micro, small and medium-sized enterprises defined by the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises.

“Specification” means the document setting out the Council’s requirements for the Contract to be procured.

“SQ (Standard Selection Questionnaire)” means a set of questions to be completed by Bidders to assess their suitability to be invited to the next stage of a procurement process for a Contract.

“SQ Threshold” means the various thresholds from time to time used to determine the extent to which the Council is permitted by the PCR 2015 to use a SQ. The current SQ Thresholds are set out in Appendix 3.

“Staff Code of Conduct” means the Council’s code of professional conduct from time to time applying to Officers. The current code of professional conduct is set out at [<http://intranet/councilwide/hr/staff-performance.htm>].

“Standstill Period” means the mandatory standstill period as described in Regulation 87 that must be observed between notifying Bidders of the Council’s intention to award a Contract and confirming the award of that Contract.

“Suitability Question” means in a procurement procedure that is below the SQ Threshold a question relating to information or evidence which the Council requires for the purpose of assessing whether Bidders meet requirements or minimum standards of suitability, capability, legal status or financial standing.

“Tender Documents” means all of the documents relating to the procurement process for a Contract including (as relevant) the PIN, Contract Notice, Specification, Invitation to Tender, Terms and Conditions and any other relevant documents.

“Terms and Conditions” means the actual or proposed terms and conditions of a Contract.

“Transparency Agenda” means any requirement placed on the Council or any Government policy, guidelines, codes of practice and the like relating to transparency in procurement and public contracts.

“Treaty Principles” means the principles of:

- 13.1.1 non-discrimination – which requires the Council to not discriminate against or in favour of certain Bidders or Providers;
- 13.1.2 equality – which requires the Council to treat all Bidders and Providers equally and give them all the same opportunities;
- 13.1.3 transparency – which requires the Council to be transparent in terms of the process followed and its decision making;
- 13.1.4 proportionality – which requires the Council to be proportionate and not require Bidders or Providers to comply with unnecessary requests or requirements;
- 13.1.5 mutual recognition- which requires the Council to allow for mutual recognition of diplomas, certifications and other evidence of formal qualifications.

“TUPE” means the Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006/246).

“Upper Threshold” means the sum set out in Appendix 4 as being the upper threshold, as the same may be amended from time to time pursuant to CSO 2 (Amendment of Contract Standing Orders).

“Value for Money” means the optimum combination of whole life cost and quality (or fitness for purpose) to meet the Council’s requirements.

“VCSE” means a non-governmental organisation that is value-driven and which principally reinvests its surpluses to further social, environmental or cultural objectives.

“Voluntary Transparency Notice” means a notice to be published in the OJEU setting out (inter alia) the Council’s justification for its decision to award a Contract without prior publication of a Contract Notice.

“Written” to also include receipt by email.

“Whistleblowing Procedures” means the Council’s whistleblowing procedure from time to time in place. The Council’s current whistleblowing procedure can be found on the intranet.

APPENDIX 2 - EXEMPTIONS FROM CONTRACT STANDING ORDERS

- A. Where an Exemption is sought from all or any part of these CSOs, the request for the Exemption and the reasons for requesting the Exemption (including the CSO relating to the request) must be set out in writing in an Exemption Report to the Director Corporate Services (or in their absence the nominated deputy), or the Chief Executive where the request is from the Corporate Services Department.

No Exemption shall be permitted nor take effect until the Exemption Report has been signed as agreed by the Director Corporate Services (or in their absence, their nominated deputy), or the Chief Executive where the request is from the Corporate Services Department.

- B. A non-exhaustive list of reasons for seeking an Exemption is set out below and may be referred to in the Exemption Report (by reference to this Appendix 2 and the relevant paragraph below):
- a) that only one Provider is able to perform the Contract for technical or artistic reasons or because of exclusive rights, for example, the commissioning or purchase of works or art, museum artefacts, manuscripts or archive collection items;
 - b) that time limits required for carrying out a procurement for a Contract in accordance with these CSOs cannot be met for reasons of extreme urgency (for example, in an Emergency or for Contracts where the terms of a court order set a time limit which specifically precludes all or part of the procurement process for the Contract) which were unforeseen and un-attributable to the Council;
 - c) where the Council would risk losing the opportunity of entering into a Contract or Property Agreement and reasonably considers that there is no other viable alternative to the proposed Contract or Property Agreement;
 - d) that additional goods, works and/or services are required which, through unforeseen circumstances, were not included in the original Contract and which either are strictly necessary for the completion of the Contract or, for technical or economic reasons, cannot be carried out separately without disproportionate difficulty;
 - e) that goods are required as a partial replacement for or addition to existing goods or installations and obtaining them from another Provider would result in incompatibility or disproportionate technical difficulties in operation or maintenance;
 - f) the proposed Contract is an extension to or variation of the scope of an existing Contract and demonstrates value for money;
 - g) when a grant from a public body includes a recommendation as to the Provider or is time limited;
 - h) in furtherance of the Council's social enterprise policy, or other economic development aims, subject to the prevailing financial support limits for this type of activity where the Council has agreed to collaborate with another public body and is satisfied that the contracting arrangements of the lead body (where different from the Council) do not contravene the Council's legal responsibilities in this respect;
 - i) if there are exceptional circumstances not previously identified or covered by existing policies, procedures or these CSOs.

EXEMPTION REPORT

[Please ensure that you have read [CSO 7 \(Seeking an Exemption from Contract Standing Orders\)](#) and [Appendix 2 \(Exemptions from Contract Standing Orders\)](#) prior to completing this form]

Director of Corporate Services Decision <i>(Chief Executive if a Corporate Services decision)</i>	Approved / Not Approved	Signature	Date

SUBJECT:

LEAD OFFICER:

LEAD MEMBER:

KEY DECISION REFERENCE No.:

RECOMMENDATION:

[Please include: Which CSO are you asking exemption from? Why? Total value? Total term?]

Head of Commercial Services Recommendation	Approve / Not Approve	Signature	Date

1. EXECUTIVE SUMMARY AND PURPOSE OF REPORT

[Why is this request to exclude the application of the Council’s Contract Standing Orders to the process of awarding this contract being made and what is the business case to support this request? Please provide all relevant detail.]

[Please refer to the Council’s Contract Standing Orders which form part of the Council’s Constitution and are published on the Council’s website under Council and democracy / Decision-making]

2. DETAILS

[Please include: Description of contract is the contract for goods / works / services? Current supplier, proposed contract period, Total value (including licenses etc.).]

Background Information

Current Supplier(s) (if applicable):

Proposed Contract period:

Total Contract Value

3. ALTERNATIVE OPTIONS

*[Please describe what alternative options to an exemption have been considered, for example:
• do nothing; • or undertaking a compliant procurement exercise]*

4. FINANCIAL IMPLICATIONS

[Please provide a breakdown of cost by financial year. Please describe how costs will be controlled over the duration of the contract. Please ensure that the relevant Service Financial Adviser(s) (FSA) has reviewed and provided comment]

5. BUDGET SIGN OFF

Name of Budget Holder	Budget Approved / Not Approved	Signature	Date

6. PROCUREMENT IMPLICATIONS

[Please describe how: value for money will be achieved over the duration of the contract, including contract management; social value will be considered; any potential breach of PCR2015. Please include comments from a member of Commercial Services]

7. LEGAL IMPLICATIONS AND STATUTORY PROVISION

[Is there a statutory requirement to deliver this provision? Yes / No – Please provide details. Please ensure comments are added from a member of the SLLP]

8. HUMAN RIGHTS AND EQUALITIES IMPLICATIONS

*Will this contract impact on the Councils Human Right and Equalities strategic objectives?
 'Equalities Merton' aims for full and equal access to learning, employment, services and cultural life and the celebration of diversity.*

9. CONSULTATION UNDERTAKEN

Please set out which Service Area and Officer have been consulted in the preparation of this report. As a minimum please ensure you have consulted with Commercial Services who will advise if further consultation is required.

Department	Comments	Date	Signed
Commercial Services			
Service Financial Adviser			
Legal			
[Insert details of other departments consulted]			

BACKGROUND PAPERS:

[Please insert details of any relevant reports that may have gone to CMT / Procurement Board etc.]

OFFICER CONTACT DETAILS:

Name:	
Job Title:	
Department:	
Email address:	
Telephone No.:	

APPENDIX 3– EU THRESHOLDS AND SQ THRESHOLDS

The European public contracts directive (2014/24/EU) applies to public authorities including, amongst others: government departments; local authorities; and NHS Authorities and Trusts.

The directives set out detailed procedures for the award of contracts whose value equals or exceeds specific thresholds.

Details of the thresholds, applying from **1 January 2016** are given below. (Thresholds are net of VAT).

THE EUROPEAN PUBLIC CONTRACTS DIRECTIVE (2014/24/EU)

	Supply, Services ⁸ and Design Contracts	Works Contracts ⁹	Social and other specific services ¹⁰
Other contracting authorities (e.g. Local Authorities)	£164,176 €209,000	£4,104,394 €5,225,000	£589,148 €750,000
Small Lots	£62,842 €84,000	£785,530 €1,000,000	n/a

In February 2015, the Cabinet Office and Crown Commercial Services, published Procurement Policy Note 03/15: *reforms to make public procurement more accessible to SMEs*. The reforms were introduced to ensure that public contracts would be more accessible to businesses and in particular to small and medium-sized enterprises (SMEs).

Primarily, the reforms removed the pre-qualification stage for procurements below the EU threshold. As of the 26 February 2016, the Standard Selection Questionnaire (SQ) replaced the Pre-Qualification Questionnaire (PQQ).

SQs may only be used for the award of contracts whose value equals or exceeds specific thresholds.

	Supply, Services ⁷ and Design Contracts	Works Contracts ⁸	Social and other specific services ⁹
Local Authorities	£164,176	£164,176	£164,176

⁸ With the exception of the following services which have different thresholds or are exempt:

- Social and other specific services (subject to the light touch regime) Article 74.
- Subsidised services contracts specified under Article 15.
- Research and development services under Article 14 (specified CPV codes are exempt).

⁹ With the exception of subsidised works contracts specified under Article 13.

¹⁰ As per Article 74. Services are listed in Annex XIV.

APPENDIX 4 – COUNCIL THRESHOLDS**Council Thresholds**

Lower Threshold	£25,000
Upper Threshold	£100,000

Advertising of Contracts

CONTRACT VALUE	E-TENDERING SYSTEM	CONTRACTS FINDER	OJEU
At or above £5,000 but below Lower Threshold	Make use of Quick Quotes or RfQs	Not required unless advertised elsewhere	Not required
At or above Lower Threshold but below EU Threshold	Yes	Yes	Not required
Above EU Thresholds	Yes	Yes	Yes

APPENDIX 5 - RETENTION PERIODS FOR CONTRACT DOCUMENTS

Transaction	Retention period
Contract under seal (Deed)	Twelve (12) years after expiry of Contract
Contract under hand / electronic signature	Six (6) years after expiry of Contract
Property Agreements – sales (other than right to buy)	Six (6) years
Property Agreements – right to buy	Twelve (12) years
Property Agreements – purchases	Twelve (12) years
Property Agreements – leases	Twelve (12) years from expiry of the lease
Property Agreements – licences	Six (6) years from expiry of lease
Property Agreements - compulsory purchase order	Property Agreements - indefinitely Correspondence – fifteen (15) years after completion of last transaction including settling the value

APPENDIX 6 CODE OF PRACTICE FOR THE APPOINTMENT OF CONSULTANTS**Key Considerations**

- Value for Money must be demonstrated prior to engaging a consultant. External consultants are expensive and as such the requirement to engage with a consultant must be approved by the relevant departmental Director.
- The Councils Standing Orders are applicable to the appointment of Consultants,
- The appointment of a Consultant follows the same procedures as all other procurements.
- The Procurement Toolkit contains the Council's procurement procedures and standard templates.

What is a Consultant?

1. For the purposes of this procedure, an external consultant is someone who:
 - offers specialist skills and expertise not available in-house,
 - has a clearly specified and time-limited role that is not 'business as usual'
 - is not appointed to cover a vacant position within the Council.
2. Consultants generally work on specialist, strategic or advisory projects to a clearly defined brief with set deliverables and milestones
3. Temporary staff, including casual and contract staff and interim managers, are not consultants. There is a separate procedure for employing temporary staff as set out on the HR pages of the intranet

Process to follow in appointing a consultant.

The appointment of an external consultant is no different to that used in appointing any other supplier.

Business Case

As with any requirement, a business case should be completed and approved prior to engaging the market. It is expected that for the appointment of most consultants, the need to retain such specialist skills and expertise would have been highlighted in the initial project business case.

The advice & guidance on the development of a business case is set out in the Merton Approach to Projects on the Council's intranet.

Market Engagement

The advice & guidance on market engagement is set out in the Procurement Toolkit

In accordance with these CSOs all correspondence inviting quotations and any formal market engagement must be carried out utilising the Council's e-tendering system.

The bid documents

Templates and guidance for developing the Invitation documents e.g. Specification; ITT; Contract terms are contained in the procurement toolkit. Please seek advice and guidance from Commercial Services

Terms and Conditions

It should be noted that the appointment of consultants require specific terms and conditions as set out in the Council's T&Cs for consultants. Legal advice will be required concerning which template should be used based on the nature of the consultancy to be provided. Any conditions relating to performance management and performance related payments must also be included. Insurance levels to be determined by the Council's Insurance Officer.

Advice must be sought from HR regarding the revised IR35 legislation and whether or not it will be applicable, depending on the employment status of the Consultant and/or whether or not they operate a Personal Service Company (PSC).

Recording on the Contracts Register

As with any contract over £5,000, contracts for consultants must be recorded on the corporate Contrast Register at the completion of the procurement.

THIS FORM IS TO BE COMPLETED POST APPOINTMENT OF A CONSULTANT, BE THEY AN INDIVIDUAL OR PART OF A FIRM.

Please email the fully completed and signed form to: temporaryworker@merton.gov.uk

RESPONSIBLE OFFICER

Name:		Tel Ext:
Department: Choose an item.	Division:	Section/Team:

CONSULTANCY ASSIGNMENT DETAILS

Is the appointment: a new assignment or an extension to an existing assignment
 (please tick as appropriate)

Provider's name:	
Value of assignment including all options: £	
If extension, expiry date of the current assignment:	
If extension, value of services provided to date [£.....] and value of the extension [£.....]	
Start date:	Duration of appointment in weeks:
Appointment location:	Cost code:
Assignment brief / Key deliverables:	

RATIONALE FOR ENGAGEMENT/EXTENSION OF CONSULTANTS

<p>Please give detailed reasons as to why you have engaged consultant or extended the assignment of the existing appointment. The reasons you provide must be explicit, otherwise you will be asked for more justification.</p>

PROCUREMENT PROCESS

London Tenders Portal Reference Number (if applicable):

What procurement process was followed?		
Appointment using a Framework	How many quotations were invited:	Details of Framework (e.g. title, Owner, when it was let?):

	<p>How many quotations were received:</p>	
<p>Appointment following Requests For Quotation (RFQ)</p>	<p>How many quotations were invited:</p> <p>How many quotations were received:</p>	
<p>If only one Quotation was invited then justification for a single quotation process.</p>	<p>Reason for single quotation</p>	
<p>Appointment following Invitations to Tender (ITT):</p>	<p>How many tenders were invited:</p> <p>How many tenders were received:</p>	

DRAFT

APPENDIX 7 – JOINT PROCUREMENT ARRANGEMENTS WITH THRID PARTIES

Joint procurement arrangements with third parties should be considered if such arrangements would offer the Council best value. Such third parties may include other public authorities and voluntary sector entities, and such arrangements may include membership of or use of purchasing consortia.

Any joint procurement arrangements of the type described in Appendix 7 must be approved by the Director of Corporate Services or the Chief Executive prior to the commencement of any procurement or arrangement on behalf of the Council. No such approval may be given unless there has been a satisfactory appraisal of the matters set out below.

In considering any and all such proposals, the Director of Corporate Services and/or the Chief Executive must be satisfied:

- a. that the proposed joint procurement does not breach any EU or UK law, or where the proposed third party is a foreign non-EU national, does not breach the laws of its country of registration if a company or location if a public authority; and
- b. is capable of delivering value for money; and
- c. where an exemption is required to the Council's Contract Standing Orders, (for example because it is necessary as part of the proposed arrangements to use the proposed third party's procurement regime, or because another party will be the lead body), that the proposed third party's governing procedures are sufficiently rigorous and can deliver standards of probity and transparency reasonably comparable to those of the Council's Contract Standing Orders; and
- d. that adequate consideration has been given to whether the proposed third party should indemnify the Council in the event that the third party's methods of operating and ideas may turn out to be unlawful or result in the Council being subjected to challenge, judicial review, or any similar action from any party that may lead to a financial loss for the Council.
- e. That an appropriate Inter-Authority Agreement shall be entered into by the Council and the Third Party(s).

The Director of Corporate Services and/or Chief Executive shall take procurement, legal and financial advice as they consider necessary.

APPENDIX 8 – PROCEDURE FOR ACCEPTING AND OPENING PAPER BIDS

Where the Responsible Officer, with prior agreement of the Director of Corporate Services or their nominee determines (in accordance with these CSOs), requires that paper Bids may be submitted in relation to the Disposal of a Property Asset or where Bids in relation to Contracts are also required to be submitted in paper format, the procedure set out in this Appendix 8 shall apply. Please see the Procurement Toolkit for the process around receipt of paper bids.

1. Bids must not, under any circumstances, be opened before the deadline (date and time) for receipt of Bids has passed. If a Bid is opened early in error, the Responsible Officer must seek advice immediately from the Head of Commercial Services who will consult with Legal Services.
2. The Responsible Officer must fix a time and date for the opening of Bids received, which must (if relevant) take place after the deadline (date and time) for submission of electronic Bids.
3. No person may be present at the opening of Bids unless that person has been designated as part of the Bid opening process.
4. Only Officers may be present at the opening of the Bid.
5. All Bids received for a particular Contract or Disposal must be opened at the same time and place and in the presence of the same Officers.
6. All Bids must be opened in the presence of at least three (3) Officers.
7. The Officer leading the opening procedure must record the following details for each Bid received:
 - a. the date and time specified as the deadline for receipt of Bids for the particular Disposal or Contract;
 - b. the date and time that each Bid was received;
 - c. the name of each Bidder;
 - d. the amount of each Bid;
 - e. the names of those Officers present.
8. All Officers present at the opening of Bids must sign each Bid immediately after it is opened. All Bids received must be signed:
 - a. on the front page of the Bid; and
 - b. in the pricing schedule (or place where the price is stated).
9. Bids are to be scanned and filed electronically in accordance with the Council's retention policy. A copy of the electronic documentation is to be sent to Commercial Services for reference.

APPENDIX 9 –THE COMMISSION NOTICE ON THE NOTION OF STATE AID (With relevance to Concession Contracts and Grant Agreements)

In 2016, the European Commission published its Notice on the notion of State Aid ("the Notice"), which provides guidance on when public spending falls within, and outside, the scope of EU State Aid control.

In the press release announcing the adoption of the Notice, the Commission stated that:

"If public authorities buy goods or services through tenders, which respect EU rules on public procurement, this is in principle sufficient to ensure that the transaction is free of State Aid."

This represents a departure from the Commission's previous stance conveyed in its 2012 communication on Services of General Economic Interest and in its draft notice on the notion of State Aid. These documents set out as the main rule that any public procurement procedure under the procurement Directives involving negotiation could not be assumed to comply with State Aid law. The main rule now is that the use of procurement procedures will be sufficient to avert capture by the State Aid provisions.

The apparent exclusion of State Aid control in the field of public procurement will be of interest to procurement officers. As with any rule there are exceptions to it. This update looks at the exceptional circumstances which lead to a departure from this general position.

What is State Aid?

As with the public procurement rules, State Aid rules aim to prevent protectionism. The measures are designed to eliminate financial aid given by a Member State (including an 'organ of the State' such as certain contracting authorities) that favours selected businesses and has the potential to distort competition and affect trade between EU Member States.

Certain cumulative criteria must be satisfied in order for a finding of State Aid to be made:

1. the aid favours certain undertakings, or the production of certain goods;
2. the aid may be directly or indirectly imputed to the State and must have been paid through State resources;
3. a selective economic advantage or benefit is granted, which an undertaking could not have obtained under normal market conditions; and
4. the aid has the potential of affecting competition and trade between Member States.

The interface between procurement law and State Aid

It is useful to outline the relevant interface between the procurement and State Aid rules. The awarding of a public contract which falls within the scope of the procurement rules has the potential to result in the granting of State Aid since there may be an economic advantage conferred, which the recipient undertaking would not have received under normal market conditions (point 3 above). The Commission's general rule is that the award of a public contract will not amount to State Aid provided that it is in compliance with the EU Public Procurement Directive. The rationale is that procurement law compliance adds objectivity to the contract award and thereby precludes the existence of an unwarranted selective economic advantage or benefit. The use of an open, transparent and unconditional procedure under procurement rules should

ensure a market price for the contract which corresponds to the highest price that a private investor operating in normal competitive conditions would be prepared to pay.

Exceptions to the rule

1. "Specific circumstances that make it impossible to establish a market price"

Examples of this include:

- » a direct award, made using the negotiated procedure without prior publication;
- » contracts excluded from the public procurement Directives;
- » awards made on a basis other than a tender establishing the market price, such as in-house awards; and
- » where there has been collusion by tenderers resulting in over-inflated prices.

The above examples do not comprise an exhaustive list of the circumstances falling under this category. This exception effectively allows the Commission to investigate contract awards which arouse suspicion under the State Aid rules despite adherence to the procurement rules.

2. Where only one bid is submitted

The Commission provides further clarification on this point in the Notice, by explaining what CAs can do to ensure that market conditions are established. Firstly, the procurement procedure used must be unconditional – any specific conditions attached to the tender should be non-discriminatory and closely and objectively related to the subject matter of the contract. Secondly, obtaining the market price means that in practice significant weight must be put on the price component of the bid. Effectively, the Commission is narrowing the scope of discretion for CAs to fix the award criteria.

What does this mean for contracting authorities?

The Commission's Notice has provided greater coherence between public procurement and State Aid rules. CAs are afforded a level of certainty in knowing that generally, following the rules in the public procurement rules will afford a degree of protection against the risk of falling foul of the rules on State Aid. The overarching concern for CAs, in order to benefit from protection, must be creating genuine competition for public contracts rather than formal adherence to the rules.

Why is this important?

The risks posed by State Aid regulations should be of concern to both CAs and the economic operators from whom they procure. Where the Commission makes a finding of unlawful State Aid, the economic operator must repay the aid in question, with interest, from the date of the grant. This could have a serious detrimental impact on the entity with a significant reduction in their cash flow or funds. The State Aid is repaid to the CA. This might be seen as advantageous however the CA must consider reputational damage as well as the wider commercial implications such as its contractor encountering severe financial complications, including the danger of insolvency.

APPENDIX 10 – MERTON PROCUREMENT / DEMOCRATIC GOVERNANCE

Procurement Strategy (Gateway 1) and Contract Award Reports (Gateway 2) with a total contract value of £2m (or over) and/or rated high-risk i.e. those procurement projects which have been rated 3:5 / 3:6 / 4:4 / 4:5 / 4:6 - Impact : Likelihood

[see: <http://intranet/councilwide/policyproceduresandguidance/riskmanagement.htm>]

Must be placed on the Forward Plan - preferably 2-3 months prior to the required Cabinet decision date - see <http://intranet/councillorsandcommittees/decisionmakinginmerton/forwardplan.htm>

If the need arises, the decision date on the Forward Plan items can always be pushed back a month or two without too much trouble providing sufficient notice is given to Democratic Services

Also see:

<https://democracy.merton.gov.uk/mgDelegatedDecisions.aspx?XXR=0&&DR=01%2f10%2f2013-07%2f11%2f2028&ACT=Find&RP=0&K=0&V=0&DM=0&HD=0&DS=1&Next=true&NOW=071113145709&META=mgdelegateddecisions>

NB: Please bear in mind, and flag-up any potential exempt appendices to your Award Report when filling in the Forward Plan

- Both the Gateway 1 and Gateway 2 report must go to Procurement Board as soon as practicable - Procurement Board is held once a month.

2.a	Where the Contract Award Report (Gateway 2) is for a contract with a total value (including all possible extension options) of £2m (or over) and/or rated high-risk:
	<ul style="list-style-type: none"> • The report must be approved by Procurement Board • Must be signed off by both the relevant Departmental Director(s) and relevant Cabinet Member(s) and must include comments from relevant Finance, Legal and Commercial Services Officers. • May need to go to CMT (unless otherwise agreed by a Director) • Must go to the Leader's Strategy Group for review prior to going to Cabinet (unless otherwise agreed by a Director) <p>see:</p> <p>https://mertonintranet.moderngov.co.uk/mgAgendaManagementTimetable.aspx?RP=292; and</p> <p>http://intranet/councilwide/whoswho/cmtlsg.htm</p> <ul style="list-style-type: none"> • Must go to Cabinet for approval https://mertonintranet.moderngov.co.uk/mgAgendaManagementTimetable.aspx?RP=146 • Is subject to post-decision call-in*. Please allow one week for Scrutiny to decide whether or not it would like to call in the award. If they do, this could add an additional 4 -6 weeks to the decision process. You will then need to allow for any additional standstill period required under PCR2015, where applicable, prior to notifying the bidder(s) of the award outcome.

*If you believe that the award may be politically sensitive / of political interest you may opt to offer it up for pre-decision scrutiny.

2.b	The process for Key decisions delegated to Chief Officers (i.e. with a total contract value of between £500k - £1.9m) is:
	<ul style="list-style-type: none"> • Must be placed on the Forward Plan - preferably 2-3 months prior to the required decision date • The Report must be signed off by the relevant Departmental Director(s) and published 5-days before the decision date. • May need to go to CMT (unless otherwise agreed by a Director) • A decision form must be completed and published on the decision date. • Is subject to post-decision call-in* - see http://intranet/ds-callinform.doc. Please allow one week for Scrutiny to decide whether or not it would like to call in the award. If they do, this could add an additional 4 -6 weeks to the decision process. You will then need to allow for any additional standstill period required under PCR2015, where applicable, prior to notifying the bidder(s) of the award outcome.
2.c	The process for Non-Key Decisions (i.e. with a total contract value of between £250k - £499k) is:
	<ul style="list-style-type: none"> • The Report must be signed off by the relevant Departmental Director(s) • May need to go to CMT (unless otherwise agreed by a Director) • Is subject to post-decision call-in* - see http://intranet/ds-callinform.doc. Please allow one week for Scrutiny to decide whether or not it would like to call in the award. If they do, this could add an additional 4 -6 weeks to the decision process. You will then need to allow for any additional standstill period required under PCR2015, where applicable, prior to notifying the bidder(s) of the award outcome. • A decision form must be completed and published on the decision date.

Declaration A

Name of Employee:
Department:
Post or Grade:
Permanent or Temporary:

[Please use block capitals]

I declare that I have read the attached Explanatory Notes and Declaration B and that there are no facts or circumstances that I would be required to specify if I completed Declaration B truthfully, accurately and completely.

In the event of any fact or circumstance changing this position, I agree to make Declaration B to my Chief Officer within 21 days.

Signed.....

Date.....

NOTE: This declaration must be made without amendment or qualification. If you cannot make it without amendment or qualification, you must complete Declaration B.

Chief Officer's Certificate

I have considered the above Declaration of Interests and confirm that no matters have been disclosed, and to my knowledge this is an accurate statement.

Signed.....

Date.....

**GENERAL DECLARATION OF INTERESTS FOR SENIOR MANAGERS
AND STAFF INVOLVED WITH CONTRACTS**

Declaration B

Name of Employee:
Department:
Post or Grade:
Permanent or Temporary:

[Please use block capitals]

In this declaration the interests of your family mean the interests of:

- a) your spouse or partner;
- b) any other member of your family (whatever the relationship) when you have actual knowledge of the interests of that family member. Only the interest needs to be declared not the family connection.

I declare that I have read the attached Explanatory Notes and that to the best of my knowledge and belief the answers specified below are truthful, accurate and complete. I agree to inform my Chief Officer in writing of any change to these answers within 21 days of that change taking place.

NOTE: If declaration B is to be made and the answer to any section is that you have no interest to declare in that particular section, you should write 'None'. Do not leave sections blank.

EMPLOYMENT (other than with Merton Council)
--

1. I am employed by: of (address) as a:

2. I am self-employed as a: and my place(s) of business is as follows: and I trade under the following name(s):

EMPLOYMENT (other than with Merton Council)

3. I am in partnership with:

as a:

my firm's place(s) of business are as follows:

and the firm trades under the following name(s):

4. I am a consultant with or to:

and their place of business is as follows:

and they trade under the following name(s)

DIRECTORSHIPS

5. I or a member of my family hold the following Directorships in the following trading companies (give the companies' names, any names under which the companies trade, the companies' registered addresses and the names of all other directors):

SHAREHOLDINGS

6. I, my family or my or their nominees have significant shareholdings in the following companies:

Footnotes: ¹A shareholding is significant for these purposes if its size or value (either absolutely or in relation to the share capital of the

company as a whole) is such that it could give rise to the appearance of a conflict of interest if the Council were to enter into a contract with the company.

²A shareholding need not be declared if it is in a company that trades in a field wholly unrelated to your field of work for Merton Council.

PROPERTY AND LAND OWNED BY THE LONDON BOROUGH OF MERTON

7. I, or a member of my family, or my, or their nominees hold (directly or indirectly) a tenancy / leasehold interest in the following properties/land (other than my or their principal home) which are owned by Merton Council:

Address of Property(ies):

APPROVED LIST

8. I, or a member of my family, or my, or their nominees have the following connection with the following businesses on the Council's Approved List of Contractors and Consultations or my own Department's list of suppliers:

(NB: Connections which must be declared include, but are not limited to, being employed by / in partnership with/ a consultant to/ a director or/ a shareholder in a business on the Corporate or Departmental list)

SECRET ORGANISATION

9. I am/am not* a member of any organisation which administers oaths of secrecy and which has a general or particular intention of ensuring that members assist one another. [If you are a member of such an organisation, specify the name(s) or the organisation(s) and the branch(es) or section(s):

ANY OTHER CONFLICT OR INTEREST

10. I have the following interests which could give rise to a conflict of interest or to the appearance of a conflict of interest between the said interest and my duty as an employee of Merton Council:

Signed.....

Date.....

Chief Officer's Certificate

I have considered the above Declaration of Interests and am satisfied that nothing it reveals is incompatible with the duties of the employee making the Declaration.

Signed.....

Date.....

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Committee: Standards & General Purposes Committee

Date: 7 September 2017

Wards: All

Subject: Regulation of Investigatory Powers Act
Authorisations

Lead officer: Graham Owen

Lead member: Councillor Peter McCabe

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

Recommendations:

A. That members 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 members about investigations authorised since March 2017 under RIPA.

2 DETAILS

2.1. 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.

2.2. 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.

2.3. RIPA regulates the authorisation and monitoring of these investigations to safeguard the public from unwarranted intrusion of privacy.

2.4. 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.

2.5. In line with the revised Code of Practice, reports detailing the use of RIPA are submitted to Standards and General Purposes Committee on a regular basis.

2.6. Since March 2017, no covert surveillance has been authorised.

2.7. Since March 2017, there have been no requests for CCTV footage for RIPA investigations.

- 2.8. No RIPA authorisations have been rejected by the Magistrates Court.
- 2.9. Since March 2017, one application has been made for the acquisition of communications data. The case concerned the sale over the internet of skin lightening creams containing a banned substance.
- 2.10. The website under investigation was closed down before enforcement action could be taken.

3 ALTERNATIVE OPTIONS

- 3.1. The report is for information only.

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. 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

11.1. None.

12 BACKGROUND PAPERS

12.1. None.

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Committee: Standards and General Purposes

Date: 7 September 2017

Subject: Report on the use of temporary workers and consultants

Lead officer: Kim Brown, HR Lead

Lead member: Cllr Mark Allison, Cabinet Member for Finance and Deputy Leader

Contact officer: Kim Brown Ext 3152

Recommendations:

To note progress made to monitor and control the use of temporary workers and consultants

1. Purpose of report and executive summary

1.1. The Committee has received progress in relation to the number of interim appointments and the mechanisms in place to monitor the use of such workers.

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. Every placement is reviewed with the respective DMT senior managers.

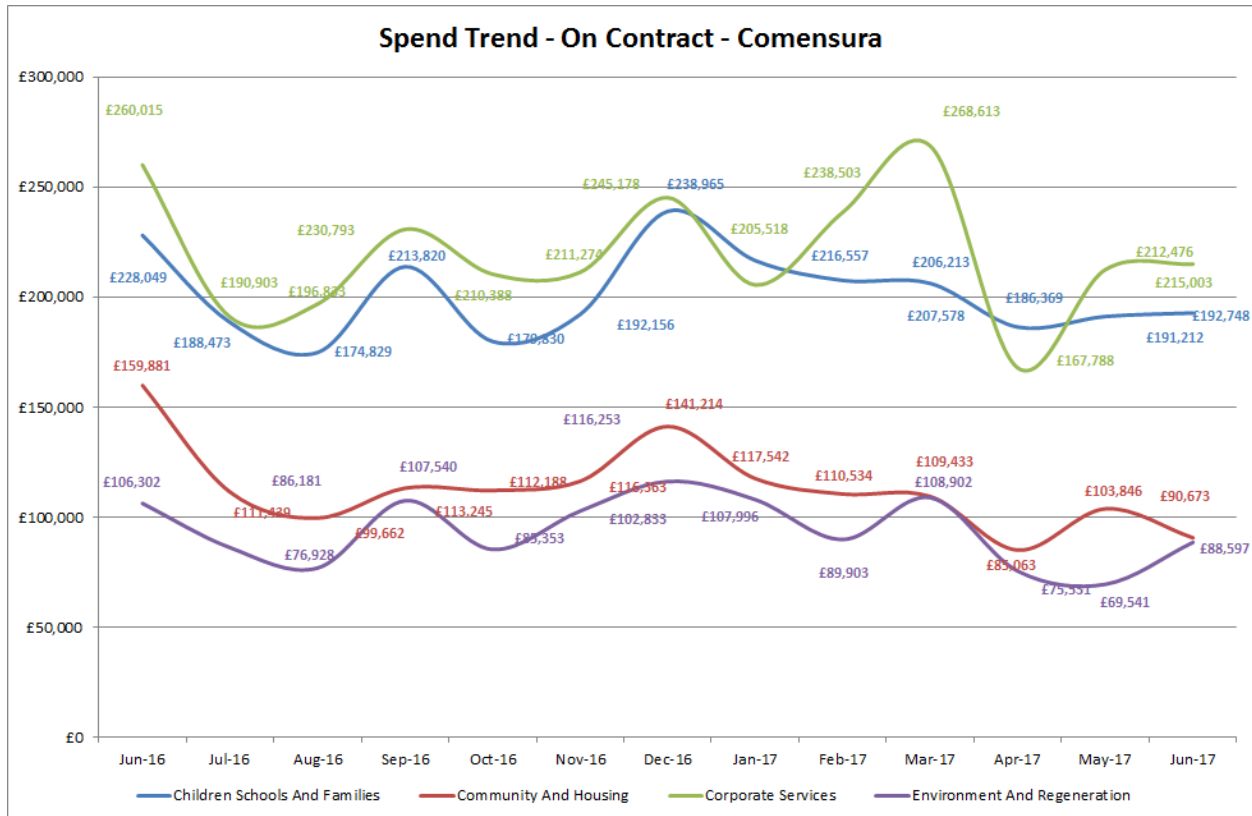
2.4 Arrangements are in place for HR to scrutinise all interim appointments and the single database provides a means of HR taking an overview of such appointments, together with the capability to ensure managerial compliance. In order to extend a placement, Comensura require written confirmation along with the signed Recruitment Authorisation form from the HR Contracts Manager. In recent months HR have actively challenged the completion of the ways the forms have been completed and have requested additional information.

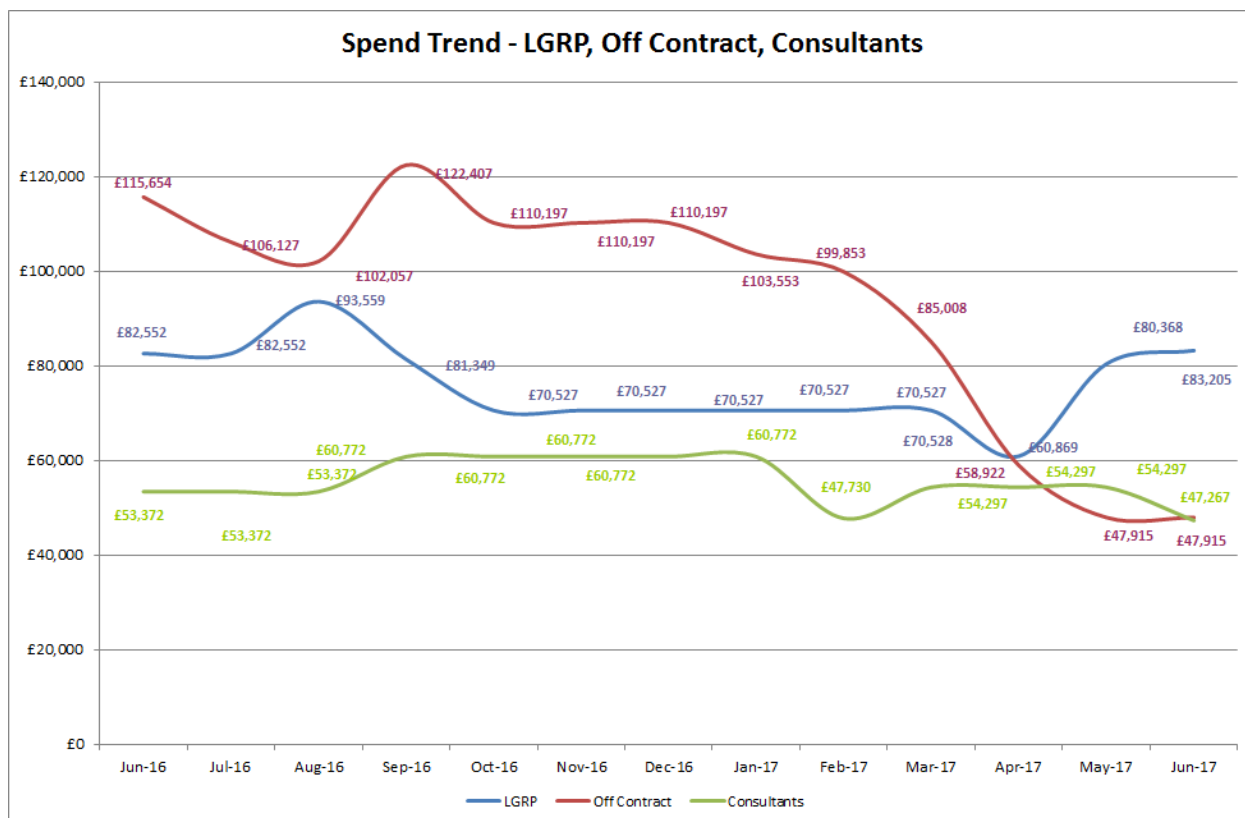
- 2.5 The engaging of most interim workers is via Comensura or the LGRP, which is a London wide contract for interim appointments. There have been instances due to market supply issues, although very few, when the Council has not used either of these contracts and has had to go 'off contract'. There are robust processes in place to manage this process, which require a business case and financial checks to ensure there is a budget to pay for the assignment, as well as sign off by the Director of Corporate Services.
- 2.6 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.
- 2.7 As at the end of June 2017, the Council employed 152 interim/temporary workers at £30 per hour (or more) compared to 156 a decrease of 3.2% since March 2017. **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.
- 2.8 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. The quarterly position will be reported to the next Financial Monitoring Task Group.
- 2.9 The new "temp to perm" guidance has been agreed and implemented. This guidance enables managers to convert longer-term agency workers into "perm" directly employed staff. The conversion process is subject to safeguards, which check that a competitive recruitment process was followed when the worker(s) were first commissioned and establishment control procedures are followed.
- Agency workers, working via the Comensura are able to move to perm contracts after 12 weeks free of charge and we are proactively trying to convert the longer working candidates onto perm contracts.
- Whilst there have been some conversions from agency workers over to permanent contracts with Merton this number has remained static with only 10 converted from 1st April 2017; there will be a verbal update at the meeting if this position has changed.
- 2.10 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 may include review of recruitment efforts, pay market data and turnover statistics as well as a supporting business case.

2.11 The committee requested that the interim monitoring data be provided on a quarterly basis. The period considered for this report is April 2017 to June 2017 and details of the spend both on and off contract year on year is detailed below:

April 2017 – June 2017





- 2.12 HR has been monitoring the off contracts closely and there has been a fall in the use of these contracts. The council will seek to permanently recruit, however there are instances where agency/temporary/interim workers if managed appropriately can assist in delivering key projects and covering vacant posts.
- 2.13 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) and our Adoption Manager. 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 currently caseload of c15 children per social worker. This is in line with the London average.

We plan to recruit 8 social workers in August which will mean that we will have only 16 frontline workers to recruit and 5 managers. We anticipate that there will be further reductions in these in autumn.

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. Targeted recruitment is in progress. Work has been undertaken with London Councils and ADASS to implement a Memorandum of Understanding for Adult Social Care Workers so that Councils do not compete with each other and in doing so stabilise the market. There has been a successful recruitment to the AD of ASC which will replace the Head of Access & Assessment and Head of Commissioning posts.

Corporate Services

There have been some delays in the recruitment plan for the Legal Shared Service, which has meant there was limited progress with reducing the number of interims. We are also seeing an increase in recruiting difficulties in areas where there is no demand in the private sector i.e. children's social care.

Environment and Regeneration

Usage is relatively low in E&R and reducing. A number of workers are covering positions, which are subject to a service review in particular the Regulatory Service Partnership where the tri-borough service with Wandsworth has recently been agreed and where a staffing review and restructure will now follow. Others are providing specialist skills or are covering [often short term] 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 as well as private sector competition [in building control particularly] has changed employment patterns and our ability to recruit and retain staff.

E&R DMT reviews this matter on a regular basis in order to manage risk including the financial impact.

3.0 The impact of IR35 on interim workers

This is an on-going process, we are actively going out to speak to Managers to assist with any questions or queries and we are also providing assistance when Managers are completing the IR35 Employment Status Test.

We have provided a payroll only service via Comensura so we are able to payroll any worker where an outcome is classed as PAYE or In Scope. This payroll will be monitored on a quarterly basis to ensure that regular payments

are not made, as they will not be registered for Pensions deductions as per automatic enrolment – the criteria is set out below:

If all the following criteria apply, the employer must automatically enrol the worker into a pension scheme and make contributions to their pension:

- they are classed as a ‘worker’
- they are aged between 22 and State Pension age
- they earn at least £10,000 per year
- they usually (‘ordinarily’) work in the UK

4. Consultation undertaken or proposed

4.1 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.
- Use of the Apprenticeship Levy for current staff to achieve higher level/professional qualifications for these hard to recruit areas.

5. Timetable

5.1 Regular monthly reports of all interim/temporary placements are sent to departments and suitable “challenge” meetings are held with DMTs 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.

6. Financial, resource and property implications

- 6.1 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.

7. Legal and statutory implications

- 7.1 There are no specific legal implications arising from the report

8. Human rights, equalities and community cohesion implications

- 8.1 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.

9.0 Crime and Disorder implications

- 9.1 None

10.0 Risk management and health and safety implications

- 10.1 These are detailed in the Ernst and Young report of 12 March 2014.

11.0 Appendices – the following documents are to be published with this report and form part of the report

- 11.1 Appendix 1 (Exempt) - Summary data of the Council's current interim positions

12.0 Background papers

- 12.1 None

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Standards and General Purposes Committee Forward work plan 2017/18

9 November 2017

- 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
- Changes to the Joint Regulatory Committee
- Risk management
- Review of Polling Places
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

15 March 2018

- External Audit
- 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.*

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