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Merton Council

Standards and General Purposes Committee Agenda

Membership

Councillors:

Mike Brunt (Chair)
John Oliver (Vice-Chair)
Laxmi Attawar
John Braithwaite
Caroline Charles
Billy Hayes
Edith Macauley MBE
Gill Manly
Robert Page
Michael Paterson
Martin Whelton
Victoria Wilson

Substitute Members:

Sheri-Ann Bhim
Andrew Howard
Samantha MacArthur
Simon McGrath

Date: Monday 28 November 2022

Time: 8.00 pm

Venue: Committee Meeting Rooms

This is a public meeting and attendance by the public is encouraged and welcomed. For more information about the agenda please contact democratic.services@merton.gov.uk or telephone [020 8545 3616](tel:02085453616).

All Press contacts: communications@merton.gov.uk, 020 8545 3181

Standards and General Purposes Committee Agenda

28 November 2022

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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. For further advice please speak with the Managing Director, South London Legal Partnership.

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Agenda Item 3

STANDARDS AND GENERAL PURPOSES COMMITTEE

13 OCTOBER 2022

(7.18 pm - 7.40 pm)

PRESENT Councillors Councillor Michael Brunt (in the Chair),
Councillor John Oliver, Councillor Stephen Alambritis,
Councillor John Braithwaite, Councillor Caroline Cooper-
Marbiah, Councillor Brenda Fraser, Councillor Billy Hayes,
Councillor Edith Macauley, Councillor Robert Page,
Councillor Michael Paterson, Councillor Victoria Wilson and
Councillor Caroline Charles

ALSO PRESENT Louise Round (Interim Executive Director of Innovation and
Change) and Amy Dumitrescu (Democracy Services Manager)

ATTENDING REMOTELY Roger Kershaw (Interim Executive Director of Finance and
Digital) and Margaret Culleton (Head of Internal Audit)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Cllr Martin Whelton, Cllr Caroline Charles attended as substitute. Apologies were also received from Independent Person, Mr Clive Douglas.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of interest.

3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

RESOLVED that the minutes of the meeting held on 21 July 2022 were agreed as a correct record, subject to clarification that the fees mentioned in item 4 were correct. (Post meeting note: the figure of £192,000 for council fees and £26,000 for the pension were the full and final fees invoiced)

4 APPOINTMENT OF INDEPENDENT PERSON (Agenda Item 4)

The Monitoring Officer introduced the report, noting that one of the Independent Persons' Katy Willison had completed her term of three years. Following agreement from Ms Willison to complete a further term of three years (the maximum permitted) officers had not sought an alternative. The Monitoring Officer confirmed that the tenure of the second Independent Person was not in sync with this one and had previously also agreed to a second term of three years.

RESOLVED:

That Standards and General Purposes Committee recommended to Council to appoint Katy Willison for a further three year period as an Independent Person for the purposes of Chapter 7 of the Localism Act. The Independent Person will be invited to attend meetings of the Standards and General Purposes Committee in that capacity.

And that the appointment is made for a period of three years from 6 February 2023

5 ANNUAL COMPLAINTS REPORT (Agenda Item 5)

The Monitoring Officer introduced the report and in response to comments from members clarified that the Independent Person is consulted if the Monitoring Officer decides that an investigation is necessary.

RESOLVED:

That the Committee noted the number and types of complaint received by the Monitoring Officer over the past two years

6 WORK PROGRAMME (Agenda Item 6)

The Committee clarified that the 20/21 Annual Complaints report would be received at the November meeting, and the 21/22 report in June

RESOLVED: that the Work Programme was noted and agreed as amended.

Committee: Standards and General Purposes Committee

Date: 28 November 2022

Wards: All Wards

Subject: Internal Audit Progress report 2022/23

Lead officer: Roger Kershaw – Interim Executive Director of Finance and Digital

Lead member: Chair of Standards and General Purposes Committee

Contact officer: Margaret Culleton - Head of Internal Audit
margaret.culleton@merton.gov.uk

Recommendation:

To consider and comment on progress of the Internal Audit Plan 2022/23

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 In March 2022, the Standards and General Purposes Committee agreed to an Annual Audit Plan comprising a total of 765 chargeable days. This report summarises Internal Audit's progress in delivering the Annual Audit Plan up to October 2022.

Details

- 2.1 The Accounts and Audit Regulations 2015 require an adequate and effective internal audit of accounting records and the system of internal control in accordance with proper practices. This task has been delegated to the responsible finance officer under Section 151 of the Local Government Act 1972. At Merton, the role of the responsible finance officer is fulfilled by the Interim Executive Director of Finance and Digital and the internal audit requirement is met through the South West London Audit Partnership (SWLAP), which Merton joined in October 2015.
- 2.2 Internal Audit follows the Public Sector Internal Audit Standards (PSIAS). These standards comprise the public sector interpretation of existing standards set by the Chartered Institute of Internal Auditors. As supplementary guidance, specific to the local government sector, an application note has been issued by CIPFA/IIA; this guidance establishes the requirement for interim reporting [of Internal Audit activity] during the year and the report is designed to meet that requirement.

Internal Audit Progress

- 2.3 The agreed deliverable audit days is 765 days, based upon the original audit plan agreed at committee 10 March 2022, which included 43 pieces of work. The table shown below summarises the progress of audit activity since April 2022.

2022/23 Audit Plan	Audits
Number of final audits	19
Number of audits at draft stage	4
Number of audits in progress	15
Due to start	9*
Total	47

* Some of these audits may be completed in 2023/24

3.2 Eighteen audit assurance opinions have been issued since April 2022, categorised as follows:

- 0 (0%) **Full Assurance** audit opinion
- 14 (78%) **Substantial Assurance** audit opinions
- 4 (22%) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

126 audit recommendations were issued to management, of which:

- 11 (9%) were Priority 1
- 106 (84%) were Priority 2
- 9 (7%) were Priority 3

3.3 The originally agreed audit plan may change as areas of higher risk are identified, or requirements to complete an investigation on an area of concern. Scheduled audit may then be moved to next year's audit plan.

3.4 Appendix A includes details of the results of all individual audit assignments that were initiated during the period up to October 2022, including the draft audits and recommendations, which may be subject to change.

3.5 Each audit is given an opinion based on 4 levels of assurance depending on the conclusions reached and the evidence to support those conclusions. Members and management should note that the assurance level is an opinion of controls in operation at the time of the audit.

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

PRIORITY OF RECOMMENDATIONS	
1	Major issues that we consider need to be brought to the attention of senior management.
2	Important issues which should be addressed by management in their areas of responsibility to avoid exposure to risk.
3	Minor issues where the risk is low. Action is advised to enhance control or improve operational efficiency.

3.6 In addition, each recommendation emanating from the audit review is given a priority rating of 1, 2 or 3 for implementation, with priority 1 being a high risk requiring immediate attention. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

3.7 The year-end position on all work undertaken during 2022/23, including any third-party assurances, will be evaluated, and reported in July 2023 and used to determine the Head of Audit's annual opinion on the Council's internal control environment.

Advisory reviews

3.8 Internal Audit undertake advisory reviews as well as signing off grant claims and accounts. To date the following accounts and grant returns have been reviewed and signed off by the Head of Internal Audit.

- Merton and Sutton Joint Cemetery account
- Mayors accounts
- Protect and Vaccinate Grant
- Contained Outbreak Grant
- Test and Trace Support Grant
- Universal Drug Grant

3.9 The work currently undertaken as advisory reviews are: -

- Financial procedures and Financial Regulations – advisory work and input for an on-going review, being undertaken by Finance.
- Co-ordinate the Councils Annual Governance Statement (input from all areas of the Council, self-assessments from Directors and Assistant Directors on the Internal Control's and Governance arrangements in place in their areas of responsibility)
- Attendance at the Corporate Risk Management Group
- Lead on the Whistleblowing Monitoring group (Head of Audit, Monitoring Officer, Head of HR and Legal). Co-ordinator of whistleblowing register.
- Other ad-hoc advice on all potential fraud concerns and weaknesses in internal control. Anti-fraud policies review and update.

Financial Systems

3.10 The Audit Plan includes the following key financial systems in 2022/23. The current status of these reviews are as follows: -

System	Progress
General Ledger	Final -Substantial Assurance
Accounts Payable Supplier Creation and Amendments Duplicate payment checks	Final - Substantial On-going
Accounts Receivable	In progress
Payroll- full system review -Bank mandate changes	In progress Final -Limited
Cash & Bank Adelante Cash Receipting system Cash Office	In progress Final – Substantial
Pension Administration	In progress
Business Rates	In progress

Data Analytic Work

3.11 The way we audit has adapted as we are required to audit remotely, and this has included the increased use of data analytics in audit reviews. We have one area of continuous audit that we undertake on duplicate payments.

- Accounts Payable - Duplicate Payments - since April 2022 we have undertaken 2 quarterly duplicate payment checks covering the period up to 30/9/22, to identify possible duplicate payment matches. There were confirmed duplicates totalling £900 found in quarter 1 (April-June) and

£35,705.99 found for quarter 2. Payments of £35,519.88 have since been recovered and payments totalling £186.11 are due to be recovered shortly. We will continue to run quarterly duplicate payment checks going forward.

School Audits

3.12 School audits are designed to assess their corporate governance, compliance with the Council's Scheme for Financing Schools, and financial management arrangements. The current status of the reviews undertaken or planned are as follows:-

- Rutlish High School -Final Report -Substantial assurance
- Hillcross Primary School -Final Substantial assurance
- Ricards Lodge High School- Final Substantial assurance
- Wimbledon College - Draft Substantial assurance
- Ursuline High School- in progress
- Haslemere Primary School- booked
- Cranmer Primary School- booked

Limited Assurance reviews

3.13 Since April 2022, we have issued 2 final limited assurance reports: Payroll bank changes and Children Placement Commissioning. We have 2 draft limited assurance reports, where we are waiting for management comment.

3.14 Payroll bank changes

Issues: Clear, documented procedures were not in place where employees request bank account changes, to their pay. Changes to bank accounts should be made by the employee on the Itrent system. Where changes are required to be made by HR, appropriate due diligence checks should be undertaken. HR staff should be provided with training on this process.

Action: We have started to prepare documented procedures and have sent out an email to all HR staff to inform them of the due diligence checks to be undertaken.

3.15 Children Placements Commissioning (1 audit actions outstanding)

Issues: There are no contracts in place with providers that have been commissioned and procured outside of the London Commissioning Alliance (LCA) Procurement approved the use of the Light Touch Regime to set up a pseudo-framework agreement for the delivery of semi-independent accommodation and key-work support, this framework is still in the consultation stage. Audit testing and confirmation from the Service Manager concluded that the procurement of providers of Supporting Housing and Lodging (Semi-Independent Accommodation) have not been established. Individual Placement Agreement to agree the individual child's terms and cost of the contract have not been completed and agreed with the providers on placements, since December 2020.

Actions: Management are liaising with the LCA to start a new contract or to introduce a 1 year SLA Contract for all semi-independent accommodation and those providers outside of the framework. This is with legal with a target date of

the end of November to approve and sign off Individual Placement Agreements are being issued and the backlog has been assigned to relevant officers to work through. All providers that are being used for supporting housing and lodging (including Semi-independent accommodation) have been contacted and all details and key information has been provided (in order to establish a contract).

Progress of Priority 1 audit actions

- 3.16 We currently have 11 Priority 1 actions outstanding on limited assurance audits, 10 actions are for audits completed prior to 2022/23 and 1 action for a final report issued since April 2022. An update on progress of all outstanding Priority 1 actions is included in Appendix B.

Final Limited Assurance reports issued in 2022/23, with outstanding Priority 1 audit actions.

Audit	Final Report Date	Number of Priority 1 recommendations	Actions outstanding
Children Placements Commissioning	19/5/22	5	1
iTrent bank changes	6/9/22	1	0
Total P1's		6	1

Limited Assurance reports issued prior to 2022/23, with outstanding Priority 1 audit actions.

Audit	Final report date	Number of Priority 1 recommendations	No of P1's outstanding
Building Control	5/8/20	3	2
PCI compliance	20/12/19	3	3
Care Management System (CM2000)	16/6/21	4	1
Transport Fleet Management (Substantial)	20/12/21	1	1
Parking Enforcement	9/2/22	12	3
Total P1's		23	10

4 Counter-Fraud and Investigations

- 4.1 The responsibility for managing the risk of fraud and its prevention and detection lies with management. However, Internal Audit's planned work includes evaluating controls for their effectiveness in mitigating the risk of fraud.
- 4.2 Counter-fraud work has been undertaken by the South West London Fraud Partnership (SWLFP) since April 2015. This falls across three categories, namely:

- Reactive investigations arising from external intelligence, management referrals or whistleblowing disclosures
 - Co-ordination and investigation work in line with the requirements of the National Fraud Initiative data matching exercise
 - Proactive counter-fraud work which includes data matching and online fraud awareness training.
- 4.3 A separate report is provided twice yearly by the SWLFP detailing the cases referred and the outcome of any investigations.
- 4.4 Any allegations of corporate fraud or corruption are brought to the attention of the Head of Internal Audit in the first instance. Whistleblowing concerns are also recorded by Internal Audit and the outcome reported annually to the Committee.
- 4.5 Any areas of potential internal control weaknesses identified during fraud investigations are considered for inclusion in the internal audit plan.

Alternative options

None for the purposes of this report.

6 Consultation undertaken or proposed

6.1 n/a

7 Timetable

7.1. None for the purposes of this report.

8 Financial, resource and property implications

8.1 The Council's budget includes provision for the audit plan.

9 Legal and statutory implications

9.1 This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2022/2023. The Local Government Act 1972 and subsequent legislation sets out a duty for Merton and other Councils to make arrangements for the proper administration of their financial affairs. This report also complies with the requirement of the following:

- Local Government Act 1972
- Accounts and Audit Regulations 2015
- CIPFA/IIA: Public Sector Internal Audit Standards (PSIAS)
- CIPFA/IIA: Local Government Application Note for the UK PSIAS

The provision of an Internal Audit service is integral to the financial management at Merton and assists in the discharge of the Council's duties.

10. Human rights, equalities and community cohesion implications

10.1 n/a

11 Crime and disorder implications

11.1 n/a

12 Risk management and health and safety implications

12.1 n/a

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

Appendix A – Audit Assurances since April 2022

Appendix B- Update on all outstanding Priority 1 actions

Audit Assurance Opinions: 2022/23

AUDIT TITLE	Department	FINAL DATE	ASSURANCE LEVEL				RECOMMENDATIONS		
			FULL	SUBSTANTIAL	LIMITED	NO	Priority 1	Priority 2	Priority 3
Final/completed reviews									
1 Protect and Vaccinate Grant	CH	13/4/22	£10K						
2 Children Placements Commissioning	CSF	19/5/22			Y		5	10	1
3 Supporting Families closing report 2021/22	CSF	23/5/22		Y		-	-	-	-
4 MSJCB	CS	7/6/22	Accounts sign off						
5 Rutlish High School	CSF	13/6/22		Y		-	-	21	-
6 Test and Trace Support Payment Scheme Funding	CS	20/7/22	£790K						
7 Supporting families quarter 1 review	CSF	30/6/22		Y		-	-	-	-
8 Duplicate payments quarter 1 review	CS	30/6/22		Y					
9 Money Laundering review	CS	11/7/22		Y		-	-	-	-
10 Contained Outbreak Grant	CH	13/7/22	£7.239m						
11 Cash Office	CS	14/7/22		Y				1	
12 Annual Governance review	All	21/7/22		Y				6	
13 General Ledger	CS	2/8/22		Y				4	4
14 Universal Drug grant	CH	2/8/22	£186K						

15	Accounts Payable -Bank Mandates	CS	7/9/22		Y			6	
16	Payroll -bank mandate changes	CS	7/9/22			Y	1	3	
17	Hillcross Primary School	CSF	23/9/22		Y			15	-
18	Supporting families quarter 2 review	CS	30/9/22		Y				
19	Duplicate payments quarter 2 review	CS	30/9/22		Y				
	Draft reports								
20	Petty Cash Imprests	CS	7/9/22			Y	1	7	1
21	Ricards Lodge	CSF	19/10/22		Y	-	-	23	-
22	Financial Review – 14+ and Children in Care Teams	CSF	4/11/22		-	Y	4	9	-
23	Wimbledon College	CSF	28/10/22		Y			1	3
	Audits in progress								
24	Ursuline High School	CSF							
25	Mayor's account	CS							
26	Adelante (cash receipting system) post implementation	CS							
27	Overtime	CS							
28	Parking Income	ER							
29	PPE	CS/CH							
30	Adult Safeguarding	CH							
31	Direct Payments (adults)	CH							
32	Pension administration (Joint audit with Wandsworth Council)	CS							
33	Sharepoint- file access	CS							
34	Planning Enforcement	ER							

35	Payroll -shared (RBK/LBS/LBM)	CS								
36	IT- Governance policy and strategy	CS								
37	Supporting families grant quarter 3	CSF								
38	Duplicate payment checks quarter 3	CS								
	Quarter 4 audits									
39	GDPR (scoped)	CS								
40	Business Rates	CS								
41	Recruitment	CS								
42	Climate Change agenda	ER								
43	Transition from Children to Adult Services	CSF/CH								
44	Haslemere Primary School	CSF								
45	Cranmer Primary School	CSF								
46	Supporting families grant quarter 4	CSF								
47	Duplicate payment checks quarter 4	CS								

TOTALS				0 (0%)	14 (78%)	4 (22%)	0 (0%)	11 (9%)	106 (84%)	9 (7%)
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Update on all outstanding Priority 1 audit actions

Appendix B

1 Building Control (final report issued 5/8/20)

Agreed Action	Management Response-	Target date
A full system reconciliation should be established and undertaken regularly to ensure that the requests for inspection fees have been recorded correctly on M3, submitted to finance for payment and payment subsequently received on E5.	A Review of Building Control started in July 2022. This will be looking at a wide range of issues and will include the financial issues outlined. Whilst the review may conclude by the end of this year, it will then take some time for actual processes and recruitment to be put in place	31/3/23
The building control surveyor should not be the same officer involved in agreeing the invoices, undertaking site inspections, reviewing the applications for approval, updating the M3 system and issuing the completion certificate. The lack of separation of duties in the work undertaken by building control surveyors should be reviewed and an appropriate separation in approval processes or a peer review process introduced.	A Review of Building Control started in July 2022. This will be looking at a wide range of issues and will include the financial issues outlined. Whilst the review may conclude by the end of this year, it will then take some time for actual processes and recruitment to be put in place	31/3/23

2 PCI compliance (final report issued 20/12/19)

Agreed Actions	Management Response	Target date
An approve charter for the PCI DSS compliance programme should be put in place by management to include a communication structure that ensures senior managements are accountable for and aware of any compliance impacting risks on an ongoing basis. This should also include sets of metrics that summarises the performance of implemented security controls and compliance programme that can be reported to Senior Management monthly.	2/11/22 comments. This is an ongoing task which is the finance team's responsibility but is very much dependant on other areas, and the relationship with Adelante. Details have been sent to the PCI DSS Audit company, Prism Infosec who are reviewing and will feedback, and finance will meet again for progress. At present there is no set date for completion, but this will be provided within the next 2 weeks	31/12/22
Management should review the findings within the report produced by Prism Infosec and instigate a remediation project immediately. Following that, a second security review should be undertaken to assess the effectiveness of any controls that have been implemented.	See comments above	31/12/22

<p>Quarterly PCI scanning should be conducted by an Approved Scanning Vendor (ASV) to ensure that internal and external vulnerabilities are timely identified, and remedial actions are timely taken.</p>	<p>See comments above.</p>	<p>31/12/22</p>
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3 **CM2000 Home Care Monitoring (final report 16/6/21)**

Agreed Action	Management Response	Target date
<p>The LBM guidance on sealing contracts advises that for services relating to vulnerable adults, consideration should be given to having a deed, even if the value of the contract is lower than £250,000. Legal services should be contacted for advice regarding the signing and sealing of the contracts.</p>	<p>Comments on final report: Legal Services have been contacted and we are waiting for a response. 2/11/22 updated comments: This matter is still with legal services.</p>	<p>30/11/22</p>

4 **Transport Fleet Management Final report 20/12/21 (Substantial assurance – 1 P1 outstanding)**

Agreed Actions	Management Response	Target date
<p>LBM does not currently have a formal Fleet Management Strategy. A formal Fleet Management Strategy should be developed to identify LBM's fleet requirements both currently and in the future. Once a formal strategy has been developed, management should monitor performance in delivering the actions contained within the strategy, and against agreed performance management standards</p>	<p>This is a key work stream in 2022/23. The new department restructure was undertaken in the fourth quarter of 2021/22 following which the service has a dedicated full-time manager overseeing the creation and formal approval of a new Fleet Management Strategy. This is due to be implemented by October 2022. 2/11/22 updated comments 'For your information the restructure and appointment of a new Transport Manager has been placed on hold subject to the new Corporate Executive restructure. Following this the new Executive Directors will agree and implement their individual structures. At this stage it is unclear exactly where Passenger Transport will sit within the new directorates'</p>	<p>31/3/23</p>

5 **Parking Enforcement (Final Report 9/2/22)**

Agreed Actions	Management Response	Target date
<p>A review of the contracts of employment should be carried out to confirm the terms and conditions for off contract work to ensure consistency of approach.</p> <p>The process regarding the payment of breaks for all staff working on the tennis tournament should then be reviewed.</p>	<p>This will be reviewed and completed by December 2022, in the light of the arrangements made for the 2022. Any changes to previous working arrangements will be clearly communicated to all effected staff.</p> <p>b) All officers were paid for breaks during the 2022 Championships. This will be reviewed by December 2022 in respect of future.</p>	<p>31/12/22</p>
<p>Detailed procedures should be prepared to include the method of allocating overtime to staff, and the process involved. This process should ensure that there is more than one officer involved with sufficient oversight and authorisation from management.</p> <p>All staff should be required to complete an overtime claims form confirming the actual hours they have worked. The form should be signed and dated by the officer making the claim, as well as the authorising officer. A copy of the document should be retained on file for future reference. The process should ensure that supporting documentation is held electronically in an accessible folder and that the documentation is sufficient to provide a complete audit trail and enable a reconciliation of the additional hours worked to the hours claimed on iTrent</p>	<p>A revised procedure for allocating overtime will be drafted in the light of lessons learned during 2022 setting out a clear and approved process for allocating overtime.</p> <p>HR advice will be sought to ensure the allocation process adheres to all council processes and is open and transparent. The document will set out the agreed process for claiming overtime via an online solution which will also provide a documented Audit trail.</p> <p>All documents will be stored in the SharePoint system or be held in a secure database.</p>	<p>31/12/22</p>
<p>The roles and responsibilities for the additional hours required should be reviewed and clearly defined.</p>	<p>Previous working practices will be reviewed to ensure a balanced and effective service delivery.</p> <p>The review will identify all operational requirements, including:</p> <ul style="list-style-type: none"> • On Street Patrols, • Day/Evening Team Leader support. • Parking Enforcement Manager oversight. • Evening cover. • Silver control by Team Leaders and the Parking Enforcement Manager • Contingency in the absence of the Parking Enforcement Manager and other key personnel. • Responsibilities for escalation 	<p>31/12/22</p>

	<p>A Service Level Agreement was agreed with AELTEC in advance of the 2022 Championships and payment for both the 2021 and 2022 Championships has now been received. The SLA will be reviewed by both parties in advance of the 2023 Championships.</p>	
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6 **Children’s Placement Commissioning- (Final report 19/5/22)**

Agreed Actions	Management Response	Target date
<p>A review of all providers that are not part of the London Commissioning Alliance SLA should be undertaken to ensure that contracts are established. In line with Contract Standing Order the Resource Commissioning Team Manager must ensure that all contracts (including extensions) are signed by both the Councils representative and the service provider, at the time the agreement is entered into. Once contracts have been established, a protocol to establish the monitoring of the contract should also be agreed</p>	<p>7/10/2022 updated comments: The contract for off framework providers is now sitting with the Director of Children Services. we are awaiting her sign off before this can be sent out. Once signed, we will issue contracts to the semi-independent providers. We can then send the contracts to residentials and Independent Fostering Agencies (IFA). The vast majority of the off spend are with the semi-independent providers so we are seeking to complete this first and then move onto the IFAs and residential</p>	<p>30/11/22</p>

Committee: Standards and General Purposes Committee

Date: 9th November 2022

Subject: Fraud Update

Lead officer: Roger Kershaw – Interim Executive Director of Finance and Digital
Lead member: Mike Brunt Chair of Standards and GP Committee
Contact officer: Kevin Holland – Head of Shared Fraud Partnership
Tel.–020 8871 6451
kevin.holland@richmondandwandsworth.gov.uk

Recommendation:

That members note the Fraud Progress report that includes an indicative plan for the application of resources for 2022/23, a review of activity completed during 2021/22 and 2022/23 to October 2022, and comment on the matters arising from it.

1. Purpose of Report and Executive Summary

- 1.1 One of the responsibilities of the Committee is to maintain an overview of the effectiveness of the Council's arrangements for corporate governance, particularly those concerned with risk management, internal control, financial governance, treasury management, and counter fraud and corruption; obtaining assurance that appropriate action is being taken on any issues raised.
- 1.2 Members recognise that the funds the Council administers and services it provides are targeted by fraudsters, and support the fight against Fraud and Corruption through an anti-fraud strategy and culture that seeks to:
 - Have robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.
 - Acknowledges and understands fraud risks and commits to support and resource tackling fraud through maintaining a robust anti-fraud response.
 - Prevent and detect more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
 - Prioritises fraud recovery and the use of civil sanctions. Developing capability and capacity to punish fraudsters. Supports collaborative work

across geographical sector boundaries. Learning lessons and reducing fraud risks where possible.

- Protect ourselves, residents and service users from becoming disadvantaged by those seeking to commit fraud through recognising the harm that fraud can cause in the community and seeking to minimise this.

- 1.3 This report seeks to provide the Committee with assurance over the arrangements for protecting the Council, it's residents and service users against fraud and corruption.
- 1.4 Merton Council entered into a shared fraud investigation service, known as the South West London Fraud Partnership (SWLFP), with Kingston, Richmond, Sutton & Wandsworth Councils, in April 2015.
- 1.5 This pooling of resource under a single team helps strengthen resilience for individual authorities, enhances collaborative approach to fraud investigations and introduces the ability to undertake regional proactive counter fraud exercises, and have call upon a larger fraud resource when needed, enhancing both capacity and capability.
- 1.6 For 2022/23 the SWLFP investigation team comprises 14.5 posts, with a mixture of expertise from both within and outside local government. All Investigation Officers are members of the Government Counter Fraud Profession (GCFP) and in addition we have three officers who are completing the GCFP Counter Fraud Investigator Apprenticeship. The professionalisation of the team will help ensure investigative techniques are both current and legally compliant, helping to sustain capability.
- 1.7 Individual partner authorities retain responsibility for ensuring that its affairs are managed in accordance with proper standards of financial conduct and for preventing and detecting fraud and corruption.
- 1.8 The use of technology and ongoing improvements to accessing key systems, intelligence sources and records for fraud detection and prevention means that the fraud response capability has been able to manage and address the volume of fraud referrals received and to deliver and promote fraud awareness training.
- 1.9 Members can be reasonably assured that there are suitable systems in place for the identification and investigation of allegations of fraud. Most referrals are received from in-house teams which is a good indication that a reasonable level of fraud awareness exists across all Council staff supported by the Council's Anti-Fraud and Anti-Corruption Strategy and culture.
- 1.10 The Council has made suitable provision for the investigation and prevention of fraud and corruption.

2. 2022/23 Indicative Fraud Plan

- 2.1 Priority areas of coverage for individual partner Councils are agreed through consultation with the Shared Services Board and the Heads of Audit.

2.2 Tables 1 & 2 provide an indicative breakdown of how the fraud resource for 2022/23 will be applied in terms of reactive and proactive work, with a split by fraud type, and the key performance targets.

Table 1: 2022/23 Indicative Fraud Response Plan

	Estimated Days	%	Resource Allocation by fraud type	%
Referral Triage & Review	38	9.3	Internal (e.g. employee)	23.5
Proactive Fraud Drives	73	17.9	CTR/SPD/Business Support Grant	21.1
Fraud Investigations	258	63.2	Parking Permit	4.7
Fraud Awareness/prevention	18	4.4	Corporate – Other	8.5
Contingency	21	5.2	Tenancy	32.8
			Housing applications	4.7
TOTAL	408	100.0	Right to Buy	4.7

2.3 The SWLFP continues to work closely with the Social Housing Providers in relation to concerns over tenancy fraud and abuse and facilitate the Social Housing Investigation Partnership (SHIP), a forum that is accessible to social housing providers who have property within at least one of the fraud partnership authorities. Every property recovered frees up a place for a family on the Council’s waiting list therefore reducing the impact of the temporary housing costs on the General Fund.

2.4 Partnership working provides a sound framework to help identify and respond to tenancy fraud and abuse resulting in the recovery of misused tenancies which can be assigned to those in genuine eligible need thus reducing the call upon temporary housing provided by local authorities.

Table 2: Key Performance Targets 2022/23

Activity	Performance Indicator	Target
Work with Housing Associations and Housing teams to establish and deliver a programme of proactive fraud checks including illegal subletting	Properties brought back into Housing Associations/ Council control following identification of fraud	9 properties
Develop joint working with Housing teams to proactively identify housing fraud	Housing applications withdrawn as a result of fraud work	20 applications withdrawn
Delivery of the Fraud Plan	% of the Fraud Plan delivered	95% of the Fraud Plan by 31 March

3. Summary of Fraud Investigations and Performance Results

3.1 The Tables below summarise the fraud work undertaken, with Table 3 summarising progress against the key fraud performance targets. In total, 153 fraud cases have been worked on (115 new cases, with 38 cases c/f from 2021/22) as a result of either referrals received, or concerns highlighted through pro-active fraud drives since April 2022. For 22/23, to October 2022, 153 fraud cases have been worked on.

Table 3: Performance against key objectives and targets for 2022/23

Activity	Performance Indicator	Target	Actual
Work with Housing Associations and Housing teams to establish and deliver a programme of proactive fraud checks including illegal subletting	Properties brought back into Housing Associations/ Council control following identification of fraud	9 properties	0 (3 other cases are with legal for recovery action)
Develop joint working with Housing teams to proactively identify housing fraud	Housing applications withdrawn as a result of fraud work	20 applications withdrawn	89 applications withdrawn
Delivery of the Fraud Plan	100% of the Fraud Plan	95% of the Fraud Plan by 31 March	39.37%

Table 4: Summary of fraud referrals

	2020/21	2021/22	2022/23 (to 31/10/22)
Referral accepted in period for investigation by type:			
- Tenancy fraud/abuse	48	40	26
- Housing Applications	2	66	82
- Right to Buy	3	5	0
- Permit Fraud	4	3	7
- Internal - Employee	17	10	7
- External - CTR & SPD	6	12	21
- Other	23	11	10
Total referrals in period	103	147	153
Closed in period			
- Closed no fraud	45	33	20
- Closed with sanction	8	78	93
Referrals still under investigation	50	36	40

3.2 Tables 4 and 5 provide a breakdown of the fraud/abuse referrals that have been accepted for investigation and a summary of the value of fraud/overpayments and notional savings identified as a result of the fraud work undertaken, with comparisons to previous years.

Table 5: Summary of Overpayments and Notional savings

(* notional savings figures as per Audit Commission estimates)	2020/21 £	2021/22 £	2022/23 £ To 31/10/22
Social Housing (notional @ £93k per property recovered from 2020)	372,000 (4 props) 26,423	465,000 (5 props)	Nil
Housing Applications Rejected (notional £3,240 from 2020 per application cancelled)	3,240 (1 app)	191,160 (59 apps)	262,440 (81 apps)
Right to buy (notional @ £100k discount)	Nil	100,000 (1 app)	Nil
Blue Badges & Parking Permit (including notional @ £575 per case from 2020)	575	1,150	1,979
Internal – Employee (notional £6k per case)	12,000 (2 cases)	24,000 (4 cases)	12,000 (2 cases)
Council Tax (identified overpayments and administrative penalties)	Nil	43,882	15,794
Other/NFI	10,000	188,700	22,000
Total actual and notional savings	424,238	1,013,892	314,213

3.3 For the past two years progression on fraud cases has been affected by Covid and changed working practices, notably within the ability to progress Tenancy Fraud was limited as access to Courts was reduced and there were periods where the ability to action eviction notices was suspended.

3.4 Whilst Merton Council do not directly manage any social housing, the cost of temporary accommodation does rest with the Council, so every property, that is being misused, recovered represents a nomination right for the Council and the opportunity to place a family in need into more secure accommodation and reduce to call upon Council funds.

- 3.5 We have continued to notice a lower than expected volume of tenancy fraud referrals 22/23, with system issues, with the main social housing provider within the borough, impacting their ability to report fraud concerns. Whilst issues with referrals and progress on case investigations will remain until these system issues are resolved, the team are reviewing alternative approaches to highlighting potential fraud concerns.
- 3.6 Whilst movement restrictions were applicable to everyone during Covid, the volume of fraud remained at similar level, as fraudster changed their methods quickly moving onto to target the funding support arrangements that were put in place to support those in need. In response, significant resources have been applied to support services delivering Government Funded business support grants and this work continues with support of the ongoing post payments assurance work that is required.
- 3.7 Although we have not had as regular direct contact with Council teams, contact has been maintained through regular use of Microsoft Teams meetings has supplemented some activities previously undertaken in person.
- 3.8 **Closed Investigations:** Appendix A provides a brief summary of the completed investigations, in 2022/23, into fraud and financial irregularity that have resulted in a sanctioned outcome. The variety of the type of referrals received reflects the effectiveness of the implementation of the Council's Anti-Fraud and Anti-Corruption Strategy and indicates a reasonable level of general fraud awareness by officers across all the Council's departments.
- 3.9 **Tenancy Fraud:** In addition to the 5 properties that were recovered in 2021/22, Notices and legal action has commenced on a further 3 cases. All three cases have been impacted by extended delays following the Covid-19 pandemic and the backlog of cases awaiting further Court action.
- 3.10 Discussion are being held with legal to monitor and respond to the Covid 19 impact upon the on-going and future proposed possession action as the Civil and Criminal Court systems will have to address the backlogged of cases and rationale for case prioritisation.

4. Developments in Fraud Detection and Prevention

- 4.1 The fundamental challenge that public bodies face with fraud is that it is often a hidden crime with those committing it actively try to conceal it so we must be proactive in our efforts to seek it out.
- 4.2 **Data Analytics:** The principles for maximising collaborative and smarter working through data sharing are key to the successful operation of the National Fraud Initiative.
- 4.3 London Councils working with NFI have established a London centric fraud hub. This is intended to enhance localised data-matching, supplementing the statutory national fraud prevention and detection initiative with an opportunity

for closer to real-time data-matching or areas of local concern. It can also provide an on-line repository that can be used to validate applications for certain Council provided services.

4.4 National Fraud Initiative (NFI): The Mandatory National 2022/24 NFI exercise is about to commence where data is requested in accordance with Part 6 of the Local Audit and Accountability Act 2014 and for Sutton Council this meant the provision of the following datasets:

- Blue Badge Parking Permits	Deferred Pensions
- Creditors History	Pensions Gratuities
- Creditors Standing	Pensions
- Concessionary Travel Passes	Payroll
- Council Tax Reduction Scheme	Resident Parking Permits
- Right to Buy	Waiting Lists

4.5 Service Leads have been contacted to ensure that they will be in position to provide the required data by the due dates. System developments will always mean that there may changes in how data is held and made available and any concerns with to supply of the mandated data files will be reported to the Director of Corporate Services.

4.6 **On-line Fraud Awareness Training:** An on-line fraud awareness training package, aligned to Merton's policies and procedures, has been made available for all officers to increase awareness and understanding of how and to who suspicions of fraud or irregularity should be reported. With continual changes in staffing and staff roles regular reminders on fraud awareness helps support and robustly maintain the Council's Anti-Fraud and Anti-Corruption Strategy and Culture.

4.7 The on-line fraud awareness training package for officers has been revised and is now separated into three modules covering: Anti-Bribery & Corruption, Whistleblowing and General Fraud Awareness. The modules have been provided to the Human Resource Team who will be making it available to all officers on the new training platform. has been commissioned. This learning platform, which is shared with two other authorities and managed by Human Resource, should be ready for use this Autumn.

5. **Regulation of Investigatory Powers Act:**

5.1 The Regulation of Investigatory Powers Act 2000 (RIPA) sets out the circumstances in which councils may lawfully instigate covert surveillance activity which may result in obtaining private information about an individual. The ability to use surveillance is an essential investigation tool and can be the only pragmatic method for securing sufficient evidence of suspected offences to enable sanctions or prosecution, where necessary.

- 5.2 Where offences do not attract the potential sentence of 6 months or more of imprisonment, surveillance can still be undertaken but it is no longer possible to obtain the full RIPA shield. This includes the investigation of offences such as the misuse of a disabled person's Blue Badge (an offence under Section 117 of the Road Traffic Regulations Act 1984). In such instances the full RIPA process is followed to demonstrate full consideration of the necessity and proportionality for the need to deploy surveillance but without the final approval stage from a justice of the peace. These are classified as Non RIPA applications.
- 5.3 Oversight and authorisation of full RIPA applications is undertaken by the Monitoring Officer as the designated Senior Authorising Officer for RIPA and oversight and authorisation of a Non RIPA application is undertaken by the Head of the SWLFP. A summary of RIPA and Non RIPA applications made since 1st April 2020 is shown in Table 6 below.

Table 6: Summary RIPA and Non RIPA applications

	2020/21	2021/22	2022/23 (to 31/10/22)
Full RIPA applications	0	1	0
Non RIPA applications	0	0	4

- 5.4 The full RIPA application in 2021/22 related to misuse of a stolen disabled persons Blue Badge that had been seen in use within the borough. Unfortunately, although the Blue Badger was recovered the evidence collated was not sufficient to support further prosecution.
- 5.5 All four of the Non RIPA applications relate to suspected Blue Badge misuse under the Road Traffic Regulations Act. One case has resulted in a successful prosecution and for another a prosecution file is being prepared. Investigation is still ongoing for the two remaining cases.
- 5.6 The Council's arrangements for the use of RIPA were last inspected in January 2020 by the Investigatory Powers Commissioner's Office (IPCO), and having taken on board recommendations made within their report the Council has suitable arrangements in place for the appropriate use of directed surveillance under RIPA.

6. Local Government Transparency Code.

- 6.1 Under the code the Council is required to publish the following data regarding its Fraud Investigation activity. Listed below are 2022/23 figures (with 2021/22 comparative figures shown within brackets).

Accredited number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers

	(21/22)	22/23 (to 31/10/22)
Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014	5	1
The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013	1	0
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud		
	Absolute	FTE
Fraud Investigation - SWLFP #	15 (15)	14.5 (14.5)
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists		
Government Counter Fraud Profession (GCFP)	11 (n/a)	11.0 (n/a)
GCFP Counter Fraud Investigator Apprentices	3 (n/a)	3.0 (n/a)
PINS trained Fraud Specialist	n/a (6)	n/a (6.0)
CIPFA Certificate in Investigative Practices	n/a (2)	n/a (2.0)
CIPFA Accredited Counter Fraud Specialist	n/a (4)	n/a (4.0)
Total amount spent by the authority on the investigation and prosecution of fraud		
	21/22	22/23
Fraud Investigation, awareness & prevention	£128.5k	£131.1k
Total number of fraud cases investigated.		(to 31/10/22)
Housing/Tenancy related Investigations	106	108
Right to Buy	5	0
Permit Fraud Investigation	3	7
Other Investigations	<u>33</u>	<u>38</u>
TOTAL	147	153

6.2 To ensure that sufficient knowledge and capability for fraud investigation Merton Council entered a partnership with four neighbouring boroughs, the SWLFP. The Council has access to the pool of trained fraud investigation officers' dependent upon the demands of any individual fraud referral. Merton's resource contribution for 2022/23 equates to 2.0 FTE Investigators.

7. Financial, Resource and Property Implications.

7.1 There are no specific financial, resource or property implications. completed within existing resources.

8. Legal and Statutory Implications

8.1 This report provides details of 22/23 fraud activity levels as required under the Local Government Transparency Code.

9. Human Rights, Equalities and Community Cohesion Implications

9.1 There are no specific human rights, equalities or community cohesion implications, except in so far as this report is wholly concerned with good governance.

10. Risk Management and Health and Safety Implications

10.1 There are no specific risk management or health and safety implications.

11. APPENDICES – The following documents are to be published with this report and form part of this report

11.1 Appendix A: Summary of Closed Cases with Sanction 2022/23.

GLOSSARY

CIPFA	Chartered Institute of Public Finance and Accountancy
CTR	Council Tax Reduction
GCFP	Government Counter Fraud Profession
FTE	Full Time Equivalent
IPCO	Investigatory Powers Commissioner's Office
NFI	National Fraud Initiative
PINS	Professionalism IN Security
RIPA	Regulation of Investigatory Powers Act
SHIP	Social Housing Investigation Partnership
SPD	Single Person Discount
SWLFP	South West London Fraud Partnership

FRAUD, CORRUPTION AND FINANCIAL IRREGULARITIES – RESULTS OF CASES CLOSED for 2022/23

Offence/irregularity, sanctions and redress	Key outstanding actions
<p><u>Housing Tenancy</u></p> <p>1. Clarion Housing have had a major cyber security incident and lost access to all of their systems and documents for some months. They are slowly starting to regain access and meetings have been held with them regarding the Fraud work. Clarion have advised that this has not been their priority, essentially since the Pandemic began, but are now assigning some time to deal with the outstanding Fraud cases. Officers from SWLFP have arranged to visit Clarion at their Merton base and go through all the outstanding cases in order to progress some action.</p> <p><u>Housing Waiting List</u></p> <p>2. 492 housing applications have been identified from NFI for removal from the waiting list. Merton advised of a staffing issue, therefore, in line with the next NFI data run in September, it was agreed that Merton work on 81 of the cases identified for deceased tenants. These applications have now been removed.</p>	<p>None</p> <p>None</p>

Offence/irregularity, sanctions and redress	Key outstanding actions
<p><u>Corporate Internal</u></p> <p>1. (8434) False Claims to Obtain Employment: Allegation that individual had provided falsified qualifications and references in order to gain employment within LBM. Investigations revealed that the previous job titles and experience had been exaggerated and it was not possible to verify the references. Disciplinary meeting held and contract terminated.</p> <p>2. (8438) Theft of Wonde Vouchers: Allegation that a breach of the Wonde system had occurred at Garfield School whereby unused vouchers had been downloaded at the school and cashed at Sainsbury's. Member of staff Interviewed Under Caution and a report was issued. Disciplinary action began and staff member resigned before the hearing.</p>	<p>None</p> <p>None</p>
Offence/irregularity, sanctions and redress	Key outstanding actions
<p><u>Permit Fraud</u></p> <p>3. (8190) Blue Badge Misuse: Blue Badge found being used regularly near Merton Council Offices, was identified as having been lost/stolen. Vehicle found to be linked to an agency worker who left the organisation before further investigation could be undertaken and insufficient evidence of who had been misusing the badge to pursue further action. Badge recovered and case closed.</p> <p>4. (8928) Blue Badge Misuse: Previous investigation into the misuse of a child's Blue Badge being used by an individual. The person was identified as a parent of the child and interviewed under caution. The parent denied the misuse of the badge however, checks confirmed that the child was at school at the time the badge was being misused. Case taken to court where individual pleaded guilty to the 5 charges. The Court imposed costs & fine totalling £828.00. Case closed – successful prosecution.</p> <p>5. (9052) Blue Badge Misuse: Previous investigation into a copy of a Blue Badge being used by an individual who was subsequently prosecuted. The vehicle had subsequently been seen again and enquiries were conducted into who was driving the vehicle and displaying the Blue Badge. Case closed NFA.</p>	<p>None</p> <p>None</p> <p>None</p>
<p><u>CTR/SPD</u></p> <p>6. (8302) Undeclared Income: Claimant declared income as an employee and failed to declare that he was the Director of 2 companies that had applied for a Covid 19 Grant. Claim re-assessed and a CTR adjustment of £3,395.26 was created as well as a Housing Benefit overpayment of £10,318.29</p>	<p>None</p>

<p>7. (8816) Undeclared income: NFI match indicated that partner was employed which had not been declared. Earning details sent to Benefits as claim was being paid on the basis of DWP Benefits. Re-assessment carried out and CTR adjustment of £4,038.55 created.</p>	<p>None</p>
<p>8. (8817) Undeclared Pension: NFI match identified that claimant was in receipt of a pension which had not been declared. Investigation found that private pension had not been declared. CTR adjustment of £578.57 created and incorrect award of £200 covid grant.</p>	<p>None</p>
<p>9. (8834) Undeclared Non-Dependant: NFI match identified an undeclared non-dependant residing at the property. Information requested from claimant who confirmed the information and Benefits were asked to re-assess the claim. CTR adjustment of £658.76 created.</p>	<p>None</p>

NFI Match Category/Number	Number of matches closed NFA	Sanction Outcomes (No. & value)
Pensions-(180)	163	1
Payroll-(61)	42	2
Procurement-(27)	11	0
Resident Parking Permit-(10)	8	0
Blue Badge-(547)	264	0
Waiting List-(1346)	22	411
Creditors-(2531)	2241	0
CTR Scheme-(1259)	679	18
HB-(429)	8	3

Glossary

ASB	Anti-Social Behaviour
NFI	National Fraud Initiative
RTB	Right to Buy
TNTQ	Tenant's Notice to Quit

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Committee: Standard and General-Purpose Committee

Date: 28 November 2022

Wards: All

Subject: 2021-22 Statement of accounts and Audit Results

Lead Officer: Roger Kershaw – Interim Executive Director of Finance and Digital

Lead Member: Councillor Billy Christie

Contact Officer: Nemashe Sivayogan – Head of Treasury and Pensions

Recommendations:

- A. That Committee approve the revised Statement of Accounts, including the Group Accounts and the Pension Fund Accounts (Appendix 2), subject to any further comments from the External Auditor.
- B. To note EY's Audit Results Report (Appendix 3) and the Letter of Representation for the Statement of Accounts.
- C. To note EY's Audit Results Report (Appendix 4) for the Pension Fund accounts and the Letter of Representation.
- D. That the Standards and General Purposes Committee delegate authority to the Executive Director of Finance and Digital to sign off the final accounts once completed, subject to the Committee receiving a copy for inspection prior to signing.

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. This report presents the audited Statement of Accounts for the year ended 31 March 2022 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. A summary of the Statement of Accounts is attached as Appendix 1. The full draft accounts are attached as Appendix 2 to this report. Appendices 3 and 4 contain Ernst & Young's (EY'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.

2 DETAILS

- 2.1. The 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.

- 2.2. 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.
- 2.3. 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 local government.
- 2.4. Accounts and Audit Regulations: These specify the timetable for producing the Council’s accounts. The timetable for the 2021-22 Statement of Accounts is exceptional in allowing a longer period for the production and audit because of the continuing impact of the COVID-19 pandemic.
- 2.5. The table below compares the 2021-22 timetable with the dates actually achieved and with the requirements of the 2021-22 timetable. The paragraphs below the table provide more specific details about the 2021-22 timetable.

Table 1 Audit of Accounts

	2019/20 Actual	2020-21 Actual	2021-22 Actual/expected
Accounts ready for audit	31 August 2020	12 July 2021	29 July 2022
Publication of accounts	30 Nov 2020	04 Feb 2022	March 2023

- 2.6. Accounts ready for audit: The Council’s statement of accounts must have been ready for audit by no later than 31st August 2022. The Chief Financial Officer must have signed and dated the accounts and certified 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.
- 2.7. Publication of accounts: the statutory deadline to publish the 2021-22 statement of accounts is 30 November 2022. However, the external auditors have informed the officers that they will not be signing the audit until the audit guidance on how to treat the Council’s infrastructure assets is published by the government and they complete the audit accordingly. The auditors expect to sign the Merton statement of accounts by March 2023 and then we will publish on the Council’s website.
- 2.8 That the Standards and General Purposes Committee delegate authority to the Executive Director of Finance and Digital to sign off the final accounts once completed, subject to the Committee receiving a copy for inspection prior to signing.

- 2.9 Audit Progress: Ernst & Young are still in the process of auditing the Merton Statement of accounts. The progress and the outstanding audit items are listed in the EY audit results report (Appendix 3) . Until the audit work is fully complete, it is possible that amendments may arise. 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.
- 2.10 Audit Results Reports: Ernst & Young has issued its draft 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. The key matters being reported by EY are in respect of-
- 2.11 Going Concern_The accounts include in Note 42, "Critical Judgements in Applying Accounting Policies", specific reference to the fact that the accounts have been prepared on a Going Concern basis. The underlying principle is that accounts have been prepared on the basis that the authority will continue in operational existence for the foreseeable future from the date the accounts were authorised for issue (29 July 2022). This reference was included as a response to the significant financial risks arising from Covid-19 which have affected this and other authorities. The current note provide assurance that the Council is in a strong on-going financial position
- 2.12 Covid-19 disclosures – In addition, following audit requests and collaborative working between the finance team and EY, the Council's revised statement of accounts at Note 42 now includes a more enhanced disclosure of the impact of the Covid-19 pandemic on the Council's finances.
- 2.13 Property, plant and equipment (PPE) valuations and the material uncertainty reported by the Council's valuer – The Council's valuer has followed the guidance issued by the Royal Institute of Chartered Surveyors (RICS) EYRE is still in the process of auditing he Council property plant and equipment. The Council provided list of Councils PPE in April 2022 to carry out their audit.
- 2.14 Audit Adjustments: In carrying out their audit work, the external auditors, EY, identify amounts in the financial statements which they consider are misstated. A misstatement is a difference between the figure which EY consider should be disclosed and the figure disclosed. The audit differences identified are contained in the "Audit Differences" on page 21, of the Audit Results Report.
- 2.15 Audit differences – accounts adjusted: These are summarised here (and include rounding). Please note that the correction of these misstatements does NOT affect the level of Usable reserves and balances.
- Collection Fund – various adjustments £5.6m
 - Cash balances (Schools) - £1.1m

- 2.16 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.
- 2.17 Following the completion of audit and before signing the accounts an updated letter of Representation will be signed by the S151 officer. Chair of the Committee is then required to sign agreement to the Letter of Representation
- 2.18 Reserves: Table 2 contains a breakdown of all reserves, divided into Usable Reserves and Unusable Reserves.
- 2.19 Usable Reserves: Revenue reserves and fund balances are £127.781m as at 31 March 2022 (£124.085m as at 31 March 2021). This represents an increase of £3.696m.
- 2.20 Unusable Reserves: These are now £443.556m as at 31March 2022 (£281.850m as at 31March 2021) an increase of £161.706m.

Table 2: Reserves

Reserves	2021-22	2020-21
	Expected Final Accounts still subject to audit £000	Audited Accounts £000
Usable reserves		
General fund balance	14,000	14,000
Earmarked reserves (excluding schools)	102,228	98,357
Earmarked reserves- schools	11,553	11,728
Total Revenue reserves and balances	127,781	124,085
Unapplied capital receipts	0	451
Unapplied capital grants	31,049	25,443
Other usable reserves	31,049	25,894
Total usable reserves	158,830	149,979
2. Unusable reserves		
Collection fund	(2,359)	(16,383)
Other unusable reserves	445,915	298,233
Total unusable reserves	443,556	281,850
Total reserves	602,386	431,829

2.22 The Table shows the final outturn for the year.

Table 3: 2021/22 Outturn and Budget Variances

	2021/22 Budget	2021/22 Outturn	2021/22 Variance
	£000	£000	£000
Department			
Corporate Services	11,247	10,638	(609)
Children, Schools & Families	63,644	66,389	2,745
Community & Housing	73,855	73,440	(415)
Environment & Regeneration	16,309	20,206	3,897
Net Service Expenditure	165,055	170,672	5,618
Corporate Provisions	(4,082)	(21,209)	(17,126)
Total General Fund	160,972	149,464	(11,509)
Grants inc COVID	(34,877)	(34,169)	708
Business Rates	(40,587)	(40,587)	(0)
Council Tax and Collection Fund	(85,509)	(85,510)	(1)
Funding			707
Net balance transferred to Earmarked Reserves			(10,802)
Reserves:			
Cost of Living	-	-	2,000
Income Loss Protection Reserve			2,500
Voluntary Sector Support			302
Inflation Protection Reserve			2,000
Civic Pride Fund			2,000
Climate Change Reserve			2,000
Net balance transferred to Earmarked Reserves			10,802

3 ALTERNATIVE OPTIONS

3.1 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 August 12th September 2022 and was advertised on the Council's website at www.merton.gov.uk/finance.

- 4.2 During the inspection period there were no formal enquiries about the accounts. There were no requests to question the auditors about the accounts.

5 ADDITIONAL

- 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. EY provide an assurance statement to the National Audit Office in respect of the WGA return as part of their audit work and they expect to provide this statement in November or December.
- 5.2 The audit has not started as we are still waiting for guidance from the government.

6 AUDIT OF COUNCIL'S SUBSIDIARY COMPANIES

- 6.1 The Council has a wholly owned subsidiary; CHAS 2013 Ltd Statement of Accounts are audited by Ernst and Young separately. The 2021-22 audit is completed on the 7 October 2022.

7 FINANCE, RESOURCE AND PROPERTY IMPLICATIONS

- 7.1 The expected cost of the audit is £110,493 excluding the cost of non-audit services (the audit of the Housing Benefits grant claim and the Teachers Pensions return).
- 7.2 However, this figure does not include the charges proposed by EY for the number of significant risks and areas of audit focus highlighted in the audit plan as areas of additional work. The estimated additional fee quoted is £133,276. PSAA has provided outline amounts to charge for the work required to address these latter areas.

8 LEGAL AND STATUTORY IMPLICATIONS

- 8.1 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.

9 TIMETABLE

- 9.1 Covered in the main part of the report

10. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 10.1 None for the purposes of this report.

11 CRIME AND DISORDER IMPLICATIONS

10.2 None for the purposes of this report

11 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

11.1 None for the purposes of this report

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

1. Summary Accounts; Appendix 1
2. Revised Statement of Accounts; Appendix 2
3. Audit Results report for LBM; Appendix 3
4. Audit Results report for Pension Fund, Appendix 4

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Summary Statement of Accounts

31st March 2022

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 are available on the Council's website at:

<https://www.merton.gov.uk/council-and-local-democracy/finance/statement-of-accounts>

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 Scheme (Defined Benefit Pension Scheme) - Shows member contributions to the scheme and the benefits paid from it, together with details of investment activity during the year. It excludes Pension Fund liabilities.

FINANCIAL HIGHLIGHTS 2021/22

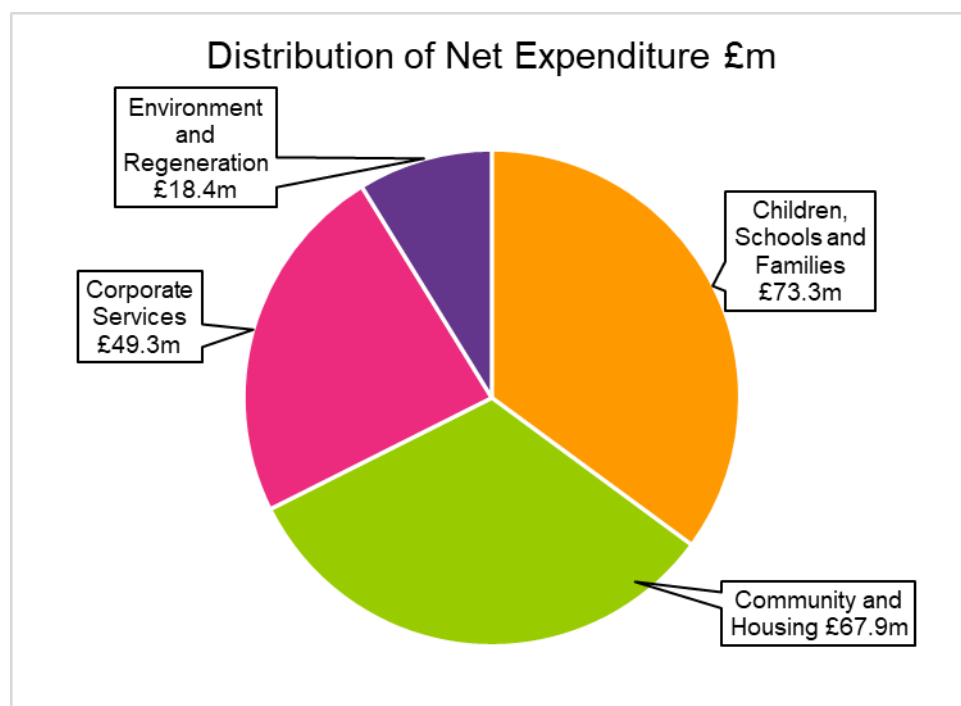
- Total net assets increased by £170m, comprising a £9m increase in usable reserves and a £162m increase in unusable reserves. The £162m increase in unusable reserves was due to a £115m increase in capital reserves, an increase in Collection Fund adjustments, and a reduction in the pensions reserve of £34.5m.
- Borrowing still remains at £109m at 31/03/22.
- The Council had a net underspend of £10.8m against its budget in 2021/22, which has been added to earmarked revenue reserves.

REVENUE SPENDING

Merton's net cost of services was £208.9m, attributable to services as shown below:

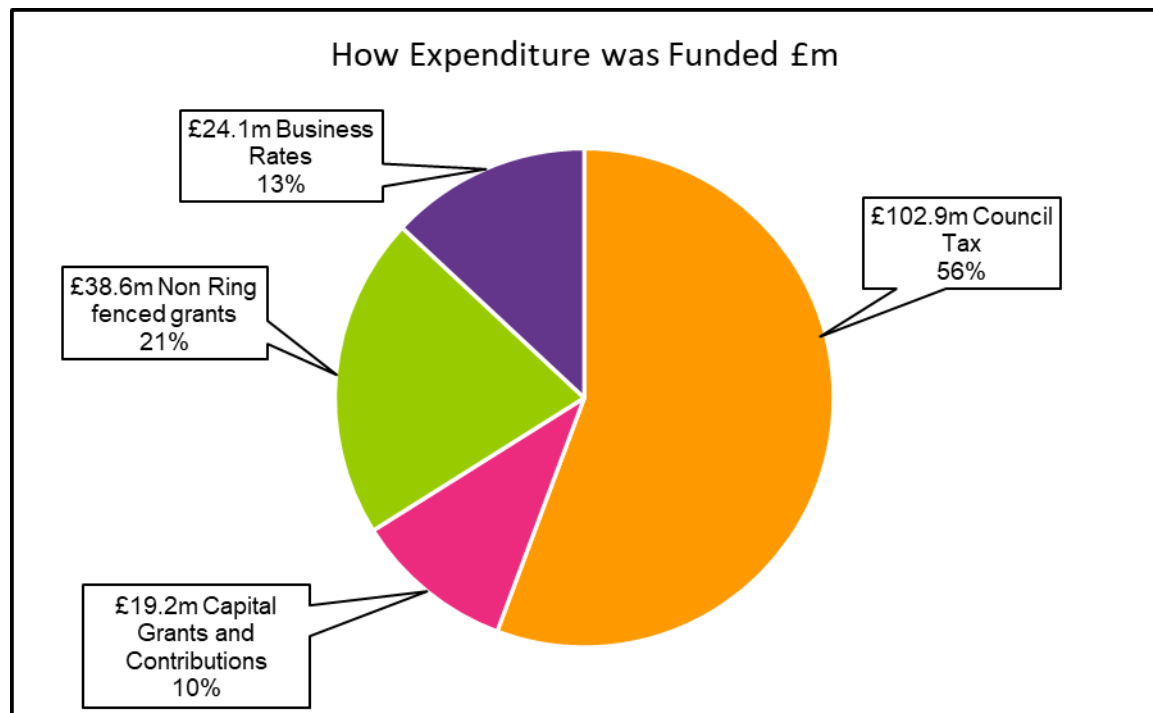
Service Areas	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Children, Schools and Families	276.1	(202.8)	73.3
Community and Housing + Public Health	109.3	(41.4)	67.9
Corporate Services*	129.6	(80.2)	49.3
Environment and Regeneration	62.2	(43.8)	18.4
Net Cost of Services	577.1	(368.2)	208.9

* Includes Housing Benefits



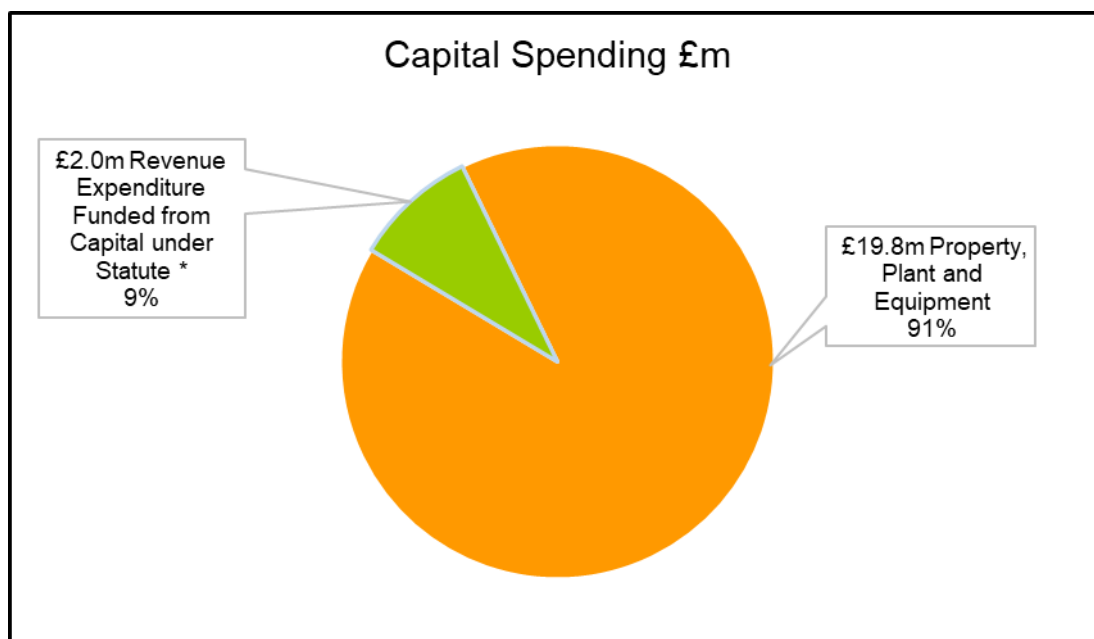
How was expenditure funded?

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



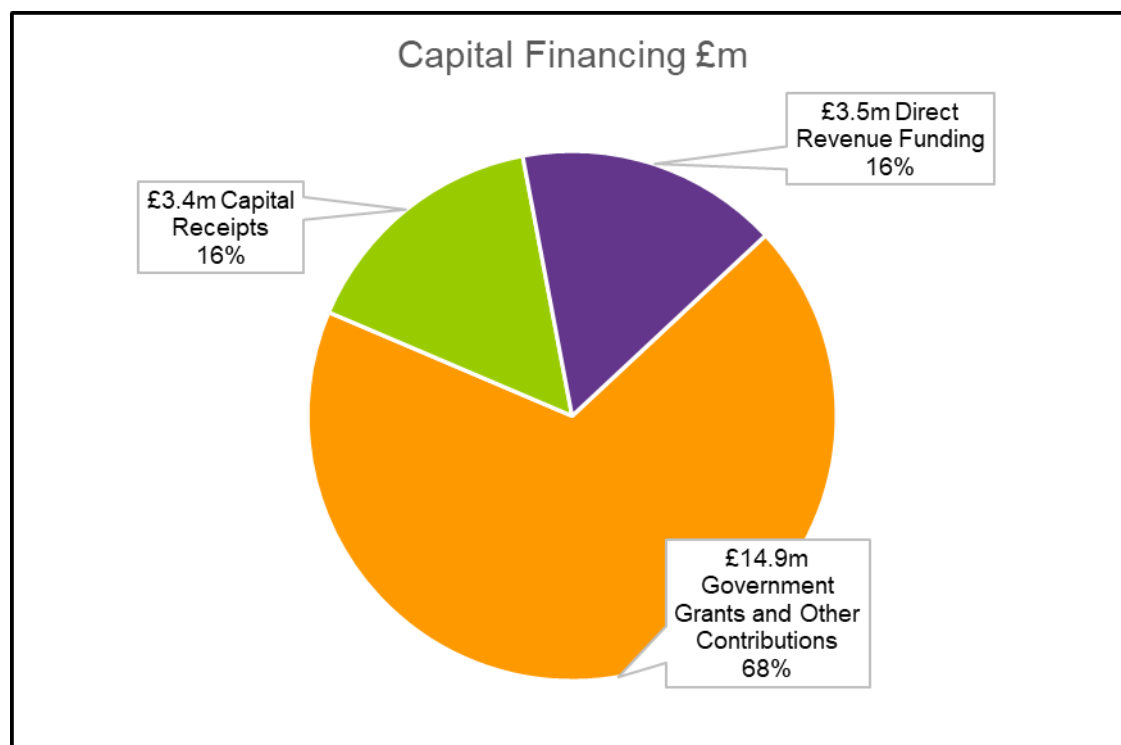
CAPITAL SPENDING

Capital expenditure relates to spending on fixed assets such as buildings and equipment where the benefits to the Authority last for more than one year. The Council spent £19.8m in 2021/22 as shown below.



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

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



Capital expenditure and the budget for the next four years, is shown by department in the following table. The budget is based upon the budget approved in March 2022 plus slippage:

Department	Outturn 2021/22	Capital Budget (£000's)			
	£000s	2022/23	2023/24	2024/25	2025/26
Corporate Services	2,260	8,522	5,570	4,755	12,427
Community and Housing	1,275	2,530	972	720	1,237
Children, Schools and Families	6,682	6,441	3,400	4,300	3,479
Environment & Regeneration	11,559	15,118	8,108	6,174	22,923
Total	21,776	32,611	18,050	15,949	40,066

FINANCIAL HEALTH

The Balance Sheet gives a snapshot of the Council's financial position at the year-end (i.e. 31st March 2022). It shows what the Council owns (its assets) and what it owes (its liabilities) and the funds which support them.

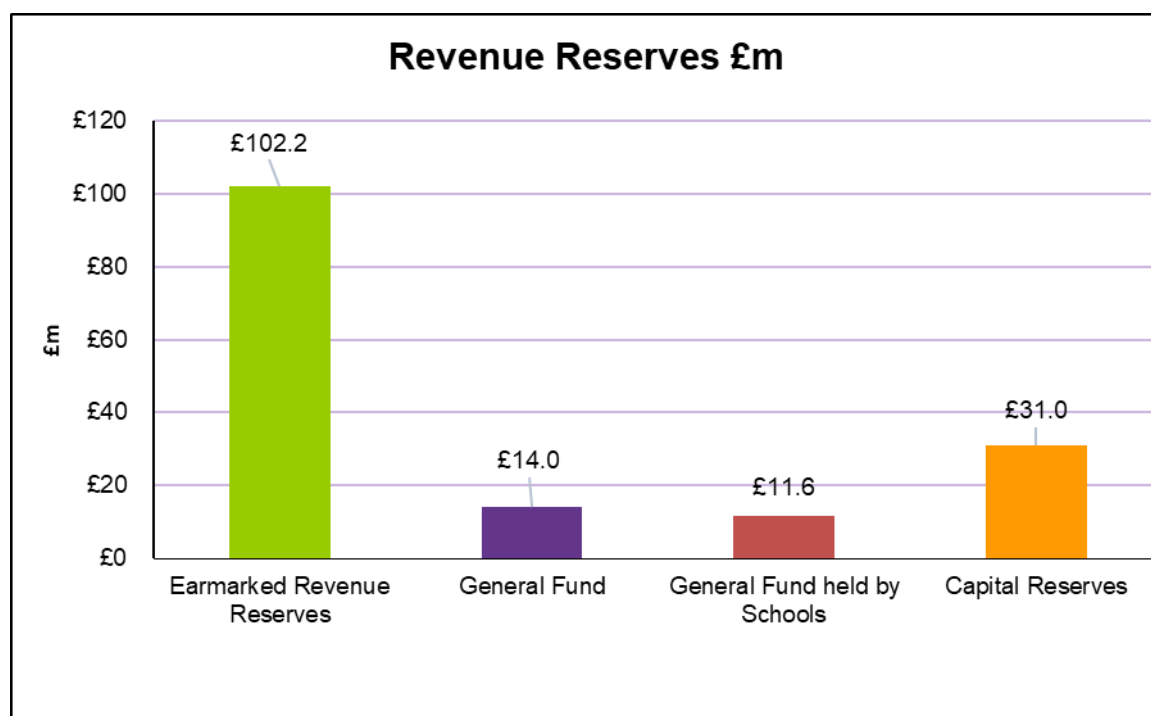
Summary Balance Sheet

Summary Balance Sheet	As at 31 st March 2021 £m	As at 31 st March 2022 £m
Fixed and Other Long Term Assets	838	945
Current Assets including investments, cash and debtors	209	221
Current Liabilities including creditors and short term borrowing	(118)	(111)
Total Assets Less Current Liabilities	929	1,055
Long term borrowings	(109)	(109)
Other liabilities and provisions	(48)	(39)
Pension Fund Liability	(340)	(305)
Total Long Term Liabilities	(497)	(453)
Total Net Assets	432	602
Represented by:		
Reserves and balances which can be spent	(150)	(159)
Reserves and balances which cannot be spent	(282)	(444)
Total Net Worth	(432)	(602)

RESERVES AND FUND BALANCES

In total, the Council now has usable reserves and fund balances amounting to £158.8m, being £31.0m capital receipts and grants, and £127.8m fund balances and revenue reserves which are broken down below.

Breakdown of Fund Balances and Revenue Reserves



PENSION SCHEME

The pension scheme is financed by contributions from employees and the employer, together with income and proceeds from investments administered by the Council. The Council is required to report where the assets and liabilities stand on an IAS19 commitment basis. On this basis, the assets in the scheme increased by £24m during the year to £857m and the estimated pension liability decreased by £11m to £1,162m. This led to an overall £35m decrease in the pension deficit, which stands at a notional £305m. 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.

The annual funding level monitoring (as at 31st March 2022) showed a funding level of 104%. The 2022 Triennial valuation process is underway and will be completed in early 2023.

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 2021/22 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.



**Draft
Statement
of Accounts**
For the year ending
31 March 2022

Statement of Accounts

For the year ending 31st March 2022

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Narrative Statement

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

It follows approved accounting standards and where complex language is required a glossary of key terms can be found at the end of this publication.

Introduction

Welcome to the London Borough of Merton's 2021/22 Statement of Accounts, which reports the Authority's financial performance during the year and its financial position at 31st March 2022. The format and content of the financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and the Service Reporting Code of Practice 2021/22.

Organisational overview

The pandemic has had, and continues to have, a profound impact on the people and businesses of Merton. Many people have spent more time locally as a result of the lockdowns. They have come to appreciate more than ever the assets that the borough has, in particular its green spaces, community spirit and local high streets. In September 2020, Cabinet asked officers to develop an ambition for the future of Merton as part of our recovery planning from the pandemic. They asked for this ambition to be co-designed with residents, businesses and partners.

Alongside this ambition, we have developed a strategic framework for delivery which includes 5 priorities, 10 principles and a range of delivery objectives for each of the priorities. This strategic framework is intended to shape and guide the future delivery of the council, how it invests its resources and its approach to working with partners.

Our ambition is to make Merton a place you are proud to call home - a borough that enables you to get as far as you want to go, and a place where nobody is left behind.

The five strategic priorities to shape and guide delivery are:

- Maintaining excellent education and skills for all ages and needs;
- Promote a dynamic, connected and inclusive community and economy with safe, vibrant high streets and jobs for our residents;
- Support residents who are most in need and promote the safety and wellbeing of all our communities;
- Ensure a clean and environmentally sustainable borough with inclusive open spaces where people can come together and enjoy a variety of natural life;
- Work to make Merton a fairer, more equal borough and support those on lower income by tackling poverty and fighting for quality affordable housing

Key Challenges

COVID-19

The true scale of the financial impact was substantial in 2020/21 and additional strain on services and on the budget continued into 2021/22. The pandemic has had a significant impact on the Council's resources in terms of increased expenditure, significant reductions in income and the non-delivery of a range of savings committed in the Medium Term Financial Strategy (MTFS).

It is important to highlight how the Council has responded to the challenge imposed by the pandemic in 2021/22. When the pandemic struck, the Council's immediate response in March 2020 was to implement enhanced management arrangements with a structure based on Gold (strategic), Silver (tactical) and Bronze (operational) groups including key partners, to facilitate rapid responses to the evolving position, facilitate appropriate decision-making powers as allowed for in the Council's constitution and clear communication. This helped address the different challenges posed by the pandemic by balancing our work force and the way we deliver services.

As part of Central Government's response to the COVID-19 pandemic, the Council continued to receive additional grants and payments in advance, over and above budgeted receipts, to aid with cash flow, additional responsibilities and functions and to allow the Council to help both residents and businesses.

The Government published its roadmap in May 2021 for moving to the next stage in the COVID-19 response and phasing the lifting of lockdown and reopening of the economy. The impact of COVID-19 continued to have a widespread impact on the workforce of the Council and the way in which the Council delivers services during financial year 2021/22. The Council has utilised technology to allow staff to work from home to minimise disruption to services. However, facilities started to reopen during 2021/22 and the council had to adopt a flexible and proactive approach to achieve this effectively. We are proud of the way our staff have adapted to the pandemic by working flexibly and assisting the Council in delivering critical services to those most in need.

Dedicated Schools Grant (DSG) deficit

The DSG grant supporting the education sector continues to be challenging due to the growth of Special Educational Needs and Disabilities (SEND) children within Merton and the local authority statutory responsibility to support and provide suitable educational provision. Growth in Education and Health Care Plans (EHCPs) detailing the required SEN support of children attending a suitable educational provision has continued to grow and due to the ongoing reported DSG deficit, the Department for Education (DfE) has supported the local authority as part of the national Safety Valve program. During 2021-22, an agreement has been signed and recovery of the cumulative deficit over 1-5 years and in support an in-year DSG payment of £11.6m contributed to the in-year deficit reporting net £1.952m. This has increased the cumulative DSG from £24.991m to £26.933m after the first tranche of funding via the Safety Valve Agreement with the DfE. As part of the Safety Valve agreement, quarterly monitoring is required to be submitted to the DfE of the recovery of the safety valve plan and Schools Forum is regularly

updated of the ongoing recovery work within Merton to eventually bring the DSG deficit into a balanced position over the next few years.

Operational Model

The Council delivers some services itself, commissions others to provide some services on its behalf and works in partnership with other boroughs and organisations to deliver services. The voluntary sector is a key partner in the Borough.

The Council is organised into four directorates:

- Children, Schools and Families
- Community and Housing
- Corporate Services
- Environment and Regeneration

Financial performance

Revenue Summary

Outturn

The Authority's financial performance is summarised by the table below

	2021/22	2021/22	2021/22
	Current Budget	Outturn	Variance
	£000	£000	£000
Department			
Corporate Services	11,247	10,638	(609)
Children, Schools & Families	63,644	66,389	2,745
Community & Housing	73,855	73,440	(415)
Environment & Regeneration	16,309	20,206	3,897
Net Service Expenditure	165,055	170,672	5,618
Corporate Provisions	(4,082)	(21,209)	(17,126)
Total General Fund	160,972	149,464	(11,509)
Grants inc COVID	(34,877)	(34,169)	708
Business Rates	(40,587)	(40,587)	(0)
Council Tax and Collection Fund	(85,509)	(85,510)	(1)
Total Funding	(160,973)	(160,266)	707
Total General Fund Less Funding	0	(10,802)	(10,802)

Net balance transferred to Earmarked Reserves			(10,802)
<u>Reserves:</u>			
Cost of Living	-	-	2,000
Income Loss Protection Reserve			2,500
Voluntary Sector Support			302
Inflation Protection Reserve			2,000
Civic Pride Fund			2,000
Climate Change Reserve			2,000
Net balance transferred to Earmarked Reserves			10,802

The net service expenditure has an adverse variance of £5.618m including the effect of DSG deficit but after applying the Safety Valve Agreement grant, which reduced the provision need for the offset reserve. The revenue outturn for 2021/22 is now a favourable position of £10.8m.

The Government has implemented a scheme to reimburse Councils for lost income from sales, fees, and charges, but not commercial income, whereby the Council absorb the

first 5% of losses and thereafter are compensated 75p for every £1 lost for the first quarter of 2021/22.

The grant income the Council has received is reflected in COVID-19 grant funding line in the table above.

A summary of the various COVID grants relating to 2021/22 is shown on the next page. For accounting purposes some of these grants are treated as agency arrangements, whereby the Council is passporting grants received from government through to recipients. They are therefore not reflected in the gross income or expenditure in the statement of accounts and do not appear within the grant income note to the accounts (Note 6). However, they are included in the summary below for completeness and transparency.

COVID-19 Grants Summary	Grant received	Claim/Spend	Balance as at	Grant received	Claim/ Spend	Accrual raised/ Repaid to Government	Balance as at
	2020/21 £000	2020/21 £000	31/03/21 £000	2021/22 £000	2021/22 £000	2021/22 £000	31/03/22 £000
National Leisure Recovery fund	381	(2)	379	26	(405)	0	0
Restart Grant	0	0	0	9,348	(6,947)	(2,402)	0
Businesses Discretionary Grant Fund Allocation	1,324	(1,324)	0	0	0	0	0
Business Support Grant - Small Businesses & Retail, hospitality and Leisure businesses	28,270	(28,160)	110	0	0	0	110
Self-isolation payments funding (test and trace support payments)	498	(253)	245	183	(695)	0	(267)
Local Restriction Support Grants (Closed)	23,917	(10,065)	13,852	0	(1,021)	(12,831)	0
Infection Control Round 3 (70% only) see also below	0	0	0	812	(721)	0	91
ASC - Rapid Testing Fund	331	(284)	47	746	(768)	(25)	0
Omicron - Hospitality and Leisure Grant	0	0	0	1,278	(1,099)	0	179
SUB-TOTAL: AGENT	54,721	(40,088)	14,633	12,393	(11,656)	(15,257)	113
Restart and Additional Restrictions Grant (ARG) - Admin. Grant	0	0	0	100	(100)	0	0
Self-isolation payments funding (test and trace support payments) - Admin Grant	70	(65)	5	39	(44)	0	(0)
Small businesses and Retail Hospitality & Leisure grant scheme- Admin grant	130	(130)	0	0	0	0	0
Local Restriction Support Grants new burdens admin grant	59	(59)	0	251	(251)	0	0
Omicron - Hospitality and Leisure Grant - Admin. Grant	0	0	0	54	(54)	0	(0)
Covid-19 Rough Sleepers	11	(11)	0	0	0	0	0
Cold Weather Rough Sleepers	0	(10)	(10)	10	0	0	0
Protect Plus Fund	0	(20)	(20)	20	0	0	0
Next Step Accommodation	174	(174)	0	0	0	0	0
Community Testing	84	(80)	4	0	0	0	4
Outbreak Contains Management (COMF)	4,367	(728)	3,639	1,288	(3,167)	0	1,760
Lateral Flow Testing	0	(599)	(599)	599	(634)	0	(634)
Operation Eagles Surge (**)	0	(138)	(138)	138	(91)	0	(91)
Variant of Concern (VOC) SW19 Surge (**)	0	(58)	(58)	58	(46)	0	(46)
Infection Control Fund (1 and 2)	2,835	(2,782)	53	956	(653)	(328)	28
Infection Control Round 3 (30% only)	0	0	0	348	(309)	0	39

	Grant received	Claim/Spend	Balance as at	Grant received	Claim/ Spend	Accrual raised/ Repaid to Government	Balance as at
COVID-19 Grants Summary	2020/21 £000	2020/21 £000	31/03/21 £000	2021/22 £000	2021/22 £000	2021/22 £000	31/03/22 £000
Workforce Capacity Social Care	374	(270)	104	1,441	(1,377)	(104)	64
Clinically Extremely Vulnerable (CEV) Support (Covid Support)	238	(50)	188	778	(364)	0	602
Defra - Covid19 Emergency Food & Support	176	(176)	0	0	0	0	0
Covid Winter Grant	481	(481)	0	721	(721)	0	0
Local Authority Compliance and Enforcement Grant	93	(79)	14	0	0	0	14
Emergency Active Travel Fund	100	(100)	0	0	0	0	0
Reopening High Streets Safely Fund		(33)	(33)	62	(317)	0	(288)
Council Tax Hardship Fund	1,484	(1,484)	0	0	0	0	0
Local Authority Support Grant - Tranches 1-4	14,467	(14,467)	0	0	0	0	0
Sales, Fees and Charges compensation	6,957	(8,971)	(2,014)	3,548	(1,534)	0	(0)
Local Restriction Support Grants (Open)	667	(296)	371	0	0	(371)	0
Additional Restrictions Grant (ARG)	5,966	(1,095)	4,871	2,419	(7,350)	61	0
Covid-19: LA Support Grant (Relative Needs Grant)	0	0	0	4,989	(4,989)	0	0
Covid-19: Local Council Tax Support Grant	0	0	0	1,823	(1,823)	0	0
COVID-19 Additional Relief Fund	0	0	0	4,787	0	0	4,787
Outbreak Control (Test & Trace)	1,585	(244)	1,341	0	(1,072)	0	269
SUB-TOTAL: PRINCIPAL	40,318	(32,599)	7,718	24,427	(24,896)	(742)	6,507
*Total COVID-19 Government Grant	95,039	(72,688)	22,351	36,821	(36,551)	(16,000)	6,620

* Excludes expanded retail discounts on business rates payable to the Council as section 31 grant in lieu of lost business rates income.

** reimbursement of cost, but included here for completeness

NOTE:

Grants designated as "Agent" - the Authority is deemed to be an agent where it is acting as an intermediary. Where the Authority is acting as a distribution point for grant monies to other bodies and has no control over the amount allocated to a recipient, then the Authority is likely to be acting as an agent (Source: Cipfa Bulletin 09)

Grants designated as "Principal" - the Authority is principal where it is deemed to be acting on its own behalf. Where the Authority is acting as principal, the transactions are included in the comprehensive income and expenditure statement (CIES) in accordance with the relevant section of the Code of Practice. Where an authority is able to conclude that it has control over the distribution or amounts of the grant it is deemed to be acting as principal.

Reserves

During 2021/22 usable reserves increased by £8.851m (5.9%) with the change in revenue reserves being £3.696m (3.0%) with capital reserves increasing by £5.155m (19.9%).

The increase in revenue reserves was largely due to the addition of £10.8m to various reserves which was made possible by the receipt of £11.6m DSG Safety Valve Agreement grant which meant that resources that the Council had set aside to offset against the DSG deficit were no longer required. There was also a reduction of c. £8.1m in the Business Rates Adjustment Reserve as these resources were utilised towards the large Collection Fund deficit caused by the pandemic. The Balancing the Budget Reserve has increased by c. £12.4m in 2021/22 but this reserve will be fully utilised in 2022/23 and 2023/24 as reflected in the MTFS 2022-2026.

Narrative Statement	Balance at	Movement	Balance at
Usable Reserves	31st Mar	2021-22	31st Mar
	2021	2021-22	2022
	£000	£000	£000
General Fund:			
Balances held by schools	(11,728)	175	(11,553)
General Fund Balances	(14,000)	0	(14,000)
Earmarked reserves	(83,939)	(11,970)	(95,909)
Business Rates & Total Income Guarantee (TIG)	(14,418)	8,099	(6,319)
Total General Fund	(124,085)	(3,696)	(127,781)
Capital:			
Capital Receipts Reserves (CRR)	(451)	451	0
Capital Grants Unapplied (CGU)	(25,443)	(5,606)	(31,049)
Total Capital	(25,894)	(5,155)	(31,049)
Total Usable Reserves	(149,979)	(8,851)	(158,830)

Analysis of main changes in Revenue Reserves	£000
Earmarked Reserves	
Outstanding Council Programme Board	3,092
Balancing the Budget Reserve	(12,381)
Revenue Reserve for Capital/Revenuisation	3,621
Local Land Charges Reserve	1,778
Corporate Services Reserve	(1,671)
Spending Review Reserve (Cover for DSG deficit)	(3,196)
COVID-19: Merton Emergency Funding	5,864
COVID-19 Year End balances	(1,837)
Adult Social Care Grants	1,022
Business Rates & Taxation Income Guarantee scheme (TIG)	8,099
Apprenticeships Reserve	629
Civic Pride Fund	(1,764)
Climate Change Reserve	(1,550)
Cost of Living Reserve	(2,000)
Income Loss Protection Reserve	(2,500)
Inflation Protection Reserve	(2,000)
(Other movement in Reserves > +/-) £0.5m)	923
Net Movement in Revenue Reserves 2021/22	(3,871)

Financial resilience

The Council has built up General Fund reserves over a period of time to provide financial resilience against increased expenditure from demand led services, the impact of a recession, and more recently the global pandemic and the current cost of living crisis. Over recent years the Council has faced two major issues that have had a significant potential impact on the Council's financial outlook, the scale of the financial implications of COVID-19 and the growing DSG deficit. Following on from this there is now the cost of living crisis driven by high inflation levels and utilities costs and lending support to the fallout from the war in Ukraine.

The Council's robust monitoring and financial planning has ensured that financial resilience has been maintained throughout this difficult period. Without sound and prudent financial management the council would not have been in as good a position to address these major issues as it currently is.

The Council will continue to update the Medium Term Financial Strategy (MTFS) during the business planning process for future years with an analysis of the impact of high inflation on council services over the next four years and beyond. In addition, it will be important to continue to closely monitor the implementation of the DSG Safety Valve Agreement to ensure that the deficit is cleared by 2026/27. The changing environment and addressing climate change is also likely to result in the Council reviewing the services it provides, its delivery models, and outcomes that are the highest priority when addressing these difficult budget issues.

Risks

One of the key risks affecting the Council relates to its financial position. There are a number of issues which individually present a major risk for the Council:-

1. Cost of Living and High Inflation including Utilities Costs

The inflation outlook has changed significantly and rapidly over the past year. Since January 2021 to May 2022 CPI inflation has increased from 0.7% to 9.1% and is expected to exceed 11% by the end of 2022 before dropping back to the Government's target level of 2% over the next two years. As part of the monetary policy to control inflation, the Bank of England has increased the base rate from 0.1% in March 2020 to 1.25% in July 2022 and current market expectations are for a further rise to just under 3% by the end of the year.

The 2022/23 budget includes 2% for pay increases and 2.5% for prices. Each 1% increase on pay costs c. £1m and 1% on prices costs c. £1.5m so continuing high levels of inflation will inevitably have an impact on the Council's financial position, although action has been taken to provide contingencies and reserves in the short term to mitigate against increased costs due to inflation.

2. DSG Deficit – The Council reached an agreement with the Government (Department for Education) in March 2022 and signed a DSG Safety Valve Agreement to implement a DSG Management plan to reach a positive in-year

balance on its DSG Account by the end of 2026-27. Subject to compliance with the terms of the Agreement, the Department for Education has agreed to contribute £28.8m between 2021-22 and 2026-27 towards Merton's DSG costs (£11.6m received in 2021-22). There is therefore an additional £17.2m at risk if the Council fails to bring its DSG costs within budget and therefore rigorous financial monitoring and control will be required to ensure that the DSG Safety Valve Agreement is delivered, on target.

3. Social Care –the Council has provided for significant additional financial support to be allocated to social care in recent years. The impact of COVID-19 has shone a spotlight on social care and the government has been forced to acknowledge the growing impact that changing demographic circumstances are having on social care responsibilities and therefore costs in both the NHS and local government. Within Merton, there are particular pressures currently within Children's Social Care where the cost of agency social workers and high cost of social care placements are creating pressures which need to be monitored closely.
4. Ukraine crisis
The Council has reacted positively in support of the Ukrainian refugees arising from the war with Russia but there will inevitably be implications for the demand for Council services.
5. Covid-19 – Whilst it is hoped that the worst impacts of the pandemic are behind us there is still the risk of further variants and some ongoing impacts which need to be monitored. In particular, the levels of income have not yet returned to pre-pandemic levels and this needs to be considered within the Council's MTFS.
6. Central Government policy including Brexit

Although the UK voted to leave the EU six years ago the implementation of Brexit and impact on the national economy are still uncertain and this continues to be the case given the change in Prime Minister. There will inevitably be an impact on local government finance and it is important that the Council is proactive and able to respond to changing circumstances as they arise. The Council's approach to medium term financial planning is flexible and able to adapt to take on board changes.

Government funding for local government services is subject to changes arising from the delayed Fair Funding Review and possible changes to the Business Rates as a source of funding. Any financial implications arising from these will be reflected in future Government Spending Reviews, Budgets and Local Government Finance settlements and incorporated into the MTFS accordingly. Strong financial management is vital to ensure that the Council is financially resilient and prepared to meet any future challenges.

Whilst every year the Council has managed to set a balanced budget in accordance with statutory requirements, there continues to be a significant budget gap over the four year period of the Medium Term Financial Strategy. At the same time, delivery of the annual

budget is also dependent upon the delivery of savings which have been identified and agreed by Council as part of the annual budget process.

Economic Outlook

As set out in the section on risks, the uncertainty about future funding makes effective medium term financial planning extremely challenging.

Cost pressures as well as demand pressures are significant elements in local authority financial pressures. The significant loss of income due to COVID-19 will take considerable time and effort to replace.

Since 2010 local government finance issues have been dominated by cuts in government funding and pressure to keep council tax increases down with a recent change in emphasis to allow council tax increases to help alleviate service pressures, particularly in adult social care. Indications, prior to COVID-19, were that the financial restrictions were beginning to relax but now the future financial uncertainty is more prevalent than ever before and although, hopefully, the worst of the pandemic is over, there is a cost of living crisis and high inflation and utilities cost providing a further challenge.

It is one of the Council's stated priorities to keep council tax low. To achieve this, the Council must have regard to the major risks to its financial position and in particular:

- Addressing the remaining financial implications of COVID-19
- Delivering the DSG Deficit Safety Valve Agreement by 2026/27
- Delivering services within a high inflation and utilities cost environment
- The current economic position including future risks relating to Brexit
- Demand pressures on the budget including social care and Ukraine
- Identifying and achieving cost and income improvements
- Risks to Government funding levels, particularly in light of delays to the Fair Funding Review
- Uncertainty over the future of Business Rates as a sustainable source of local government funding

Major Issues impacting over the medium term financial strategy and areas of uncertainty

Understandably, in the past two years the Government has concentrated effort and resources on tackling COVID-19. The Council will have many issues to consider when reviewing and refreshing its Medium Term Financial Strategy

COVID-19

Whilst hopefully the worst of the pandemic is over, the Council will continue to have a role in addressing the remaining implications for the foreseeable future. This will cover a wide range of different support, from vulnerable clients in social services to support for local business and council taxpayers. Whilst the Government has provided significant

financial support towards the extra costs incurred over the past two years, this is ending and the Council will need to tackle remaining implications, particularly the loss of income which is continuing

Government Autumn 2022 Budget, Spending Review 2022 and Local Government Finance Settlement 2023-24

It is key for effective medium term planning to have a clear idea of government funding over a period of at least three years so that the Council can forward plan in a strategic way. There is some uncertainty as to the approach the Government will take to local government finance, particularly given the impending change in Prime Minister.

The impact of Brexit over the medium term

Although the UK voted to leave the EU six years ago there is still a high level of uncertainty about implementation and the resulting implications for interest rates, inflation, and impact on the local economy which will have consequences for local authority finances.

Fair Funding Review

Central government funding for local authorities is based on an assessment of its relative needs and resources. The overarching methodology that determines how much funding each authority receives each year was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 per cent business rates retention scheme in 2013/14. The review has been delayed but when announced will have implications for all local authorities as resource allocations are revised.

Business Rates

Plans to reset Business Rates Baselines have been deferred along with other reforms to the Business Rates Retention scheme. The impact of Covid-19 on local authority business rates income streams has been significant and has led to sufficient uncertainty to result in the disbandment of the London Business Rates pool. Over the medium term the sustainability of business rates as a major source of local authority funding has been questioned and must be a source of major uncertainty.

Use of Reserves

Reserves have been used to protect services and although unsustainable in the medium term, it has helped in the management of the significant underlying financial pressure and its ultimate impact on service users and residents. The Council maintains a minimum level of general fund reserves to protect against uncertainty and fluctuations in demand led budgets. At the current time reserves have an increasingly important role in preserving the Council's financial resilience whilst under threat from the pressures of the cost of living crisis, high utilities costs and uncertainty over future levels of government support given the need to return national finances to pre-pandemic levels.

Climate Change

In November 2020, the Council approved Merton's Climate Strategy and Action Plan which aims to make Merton a net-zero carbon borough by 2050. The Council is taking a range of actions to reduce our carbon footprint, and are asking residents and local businesses to consider taking actions of their own. The Climate Strategy and Action Plan forms Merton's response to our declaration of a climate emergency, which set net zero carbon targets of 2050 for the borough and 2030 for the Council. This 30 year plan sets out our vision for Merton in 2050 and the key actions required to get to net-zero carbon across four thematic areas (the Green Economy, Buildings and Energy, Transport and Greening Merton), as well as how the Council is going to decarbonise its own

operations by 2030. The Council has identified some resources and actions to achieve the targets set and this will need to be monitored carefully in future years.

Civic Pride

Merton Council, along with many other local organisations, is making plans for the future of the borough. We want to develop a vision that sets out what the borough should aim to look like in the future and how it recovers from the impact of the Covid-19. This will help the Council and other organisations to decide what issues to focus their attention on and how to use their resources. The Council will seek the views of businesses and residents to develop an ambition for the borough which reflects what is most important to them. This will set out the ambitions and priorities for the future of Merton and a plan for how we get there.

The Council has five strategic priorities to shape and guide delivery of its ambition and has developed ten guiding principles to inform how we implement the strategic priorities and related delivery objectives.

The Authority's full Business Plan including performance indicators is published at: <https://www.merton.gov.uk/council-and-local-democracy/finance/budgets>

Capital Summary

Capital investment amounted to £21.8m in 2021/22 (£16.9m in 2020/21). The programme was financed through the application of capital grants/contributions £14.9m (£10.9m in 2020/21), capital receipts £3.4m (£4.0m in 2020/21) and revenue contributions £3.5m (£1.5m in 2020/21). Capital receipts received in year totalled £3.0m (£2.4m in 2020/21).

Of the total £21.8m capital expenditure, £19.8m (£16.0m in 2020/21) was spent on the purchase/enhancement of property and £2.0m (£0.9m in 2020/21) was spent on revenue expenditure funded from capital under statute.

Capital Investment Plans

The Council's capital investment budget for the next four years (approved in March 2022) and before slippage after outturn, is shown in the following table, alongside 2021/22 outturn. Capital investment is required both to maintain existing levels of service and to expand service provision in some areas

Department	Outturn 2021/22 £000s	Capital Budget (£000's)			
		2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s
Corporate Services	2,260	8,522	5,570	4,755	12,427
Community and Housing	1,275	2,530	972	720	1,237
Children, Schools and Families	6,682	6,441	3,400	4,300	3,479
Environment and Regeneration	11,559	15,118	8,108	6,174	22,923
Total	21,776	32,611	18,050	15,949	40,066

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

Capital projects aimed at service expansion	Capital Budget (£000's)			
	2022/23	2023/24	2024/25	2025/26
Supported Living	1,533	145	0	0
Special Educational Needs School Expansions	2,218	900	1,800	900
Morden Town Centre Regeneration	2,000	2,000	2,000	0
Total	5,751	3,045	3,800	900

Further information about capital investment plans can be found in the Council's Business Plan, located at: <https://www.merton.gov.uk/council-and-local-democracy/finance/budgets>

Investments and Borrowing

The Authority's Treasury activities are managed in accordance with the Council's Treasury Management Strategy (approved by full Council in March 2022). The Authority manages its cash in-house, placing deposits for periods ranging from overnight to 12 months depending on anticipated cash flow requirements.

As at 31 March 2022 the Authority held all of its available cash in short-term deposits £70.2m (2020/21 - £55.1m) and Money Market Funds £50m (2020/21 - £60m). This is after considering the advice received from the Authority's Treasury Management consultants and the Authority's cash flow needs.

In the year the Authority earned £530k of income from the deposits placed. (2020/21 - £840k). This represents a 36% drop from the 2020/21 interest income received. This is mainly due to the following reasons;

- Low interest rate for the most part of the year
- The Authority's decision to hold most of its cash so as to be as liquid as possible and could not place them on deposit to earn interest.
- The Authority's Treasury strategy of prioritising security and liquidity over yield and this limits capacity to earn high yields by lending to counterparties with low ratings.

The Authority's property investments delivered satisfactory returns even though the property sector was heavily impacted by Covid. Property income accounted for 71% of the total investment income. As at 31 March 2021 the Authority completed another year without the need to make any new long-term borrowing. Borrowing was further reduced to £109m with £2m matured in 2021/22. In the year the Authority paid £6.079m in interest (£6.306m in 2020/21) on these borrowings.

Pensions

The Merton Pension Fund is a LGPS defined benefit pension scheme administered by London Borough of Merton. The scheme is managed in accordance with the Local Government Pension Scheme Regulations 2013. As at 31 March 2022 the Fund's net asset value was £927m and it had 15,025 members in total.

After the heavy impact of COVID-19 the Fund began to recover steadily from Q2 2021, and its value continued to increase until early 2022. The Russian invasion of Ukraine in February 2022 has negatively impacted investment markets, but they began to stabilise towards the year end. Any negative impact to Merton's Fund was reduced by the Fund's diversified portfolio.

The Council is the largest employer in the Merton Pension Fund (91%) and, as at 31 March 2022, there were 13,608 Council employees in the Fund. At the 2019 triennial valuation the Fund was 103% funded. The annual fund level monitoring (as of March 2022) showed a funding level of 104%. The 2022 triennial valuation process is underway and will be completed in early 2023. A revised employer contribution rate will be based on the new funding level and will come into effect from April 2023.

Financial Overview - Collection Fund

Under the legislative framework for the collection fund, billing authorities such as the Council, major preceptors such as the GLA and central government (for business rates) share proportionately the risks and rewards that the amounts of council tax and business rates collected could be more or less than predicted. In order to provide some certainty for budgetary arrangements, the Council's share of council tax and non-domestic rates proceeds for any year is based on the amount that it is estimated will be collected before the start of that year. Where these estimates are different from the actual amounts collected, the Council makes good any deficit or benefits from any surplus in the following year.

In 2020/21 and 2021/22, although the legislative framework has remained unchanged, the pandemic has led to temporary exceptionally high collection fund deficits which will be expected to eventually return to normal levels in the next two years or so, subject to no further exceptional events.

To support businesses through COVID-19, the government introduced a number of measures which have impacted upon the accounting arrangements between the General Fund and Collection Fund including:-

- rate reliefs to support business sectors for which the council received Section 31 grants to replace business rate income
- the introduction of a 75% Tax Income Guarantee compensation scheme for irrecoverable losses for council tax and business rates
- the creation of a Business Rates Adjustment Reserve to facilitate the accounting arrangements to address the Business Rates deficit by utilising section 31 grant received in place of business rates

- as authorities were expected to estimate a larger-than-normal deficit on the 2020-21 Collection Fund in January 2021, creating a resource and budget pressure for 2021-22, Government amended secondary legislation to allow authorities to spread the estimated deficit on the 2020-21 Collection Fund over the three years 2021-22 to 2023-24.

As a consequence of the accounting arrangements covering the collection fund, during 2021/22 Merton repaid c. £30m to central government of Section 31 grants received in 2020/21 and utilised £12.9m from the Business Rates Adjustment reserve towards the collection fund deficit brought forward from 2020/21.

Statement of Accounts

The Statement of Accounts is comprised of the following statements:

- **Core Financial Statements**
 - **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 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 Balance Sheet** - summarises the Authority's financial position at year-end.
 - **The Cash Flow Statement** - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Notes to the Core Financial Statements** - provides additional information which supports and explains the figures in the core financial statements. It also includes a technical annex which contains the accounting policies.
- **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.
- **Group Financial Statements** which combine the core financial statements of this authority with those of its subsidiary CHAS comprise the following -

- **Group Comprehensive Income and Expenditure Statement**
 - **Group Movement in Reserves Statement (MIRS)**
 - **Group Balance Sheet**
 - **Group Cash Flow Statement**
-
- **Statements of Responsibilities for the Statement of Accounts** - set out the different responsibilities of the Authority and the Director of Corporate Services.

Single Entity 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.

2020/21			Comprehensive Income and Expenditure Statement	Note	2021/22		
Gross Expenditure £000	Gross Income £000	Net £000			Gross Expenditure £000	Gross Income £000	Net £000
			Continuing Operations				
252,371	(186,927)	65,444	Children, Schools and Families	1	276,059	(202,751)	73,309
85,575	(30,201)	55,374	Community and Housing	1	92,214	(27,526)	64,688
110,044	(78,353)	31,691	Corporate Services	1	129,562	(80,227)	49,335
67,550	(41,597)	25,953	Environment and Regeneration	1	62,199	(43,842)	18,357
12,154	(17,627)	(5,473)	Public Health	1	17,076	(13,871)	3,204
527,694	(354,705)	172,989	Cost of services		577,110	(368,216)	208,893
		(1,040)	Other operating income and expenditure	3			(1,983)
		18,749	Financing and investment income and expenditure	4			13,872
		(185,515)	Taxation and non-specific grant income	5			(184,746)
		5,183	Deficit on Provision of Services				36,036
		(38,261)	(Surplus) on revaluation of non-current assets	17			(115,548)
		44,687	Re-measurement of the net defined benefit liability/ (asset)	17, 32			(91,047)
		6,426	Other Comprehensive (Income) and Expenditure				(206,595)
		11,609	Total Comprehensive (Income) and Expenditure				(170,559)

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 Council, analysed into 'usable reserves' (i.e., those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The statement shows how the movements in year of the Council'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.

Movement in Reserves 2020/21	Note	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 2019		(69,088)	(2,059)	(21,900)	(93,047)	(350,392)	(443,439)
<u>Movement in reserves during 2020/21</u>							
Total Comprehensive Income and Expenditure		5,183	0	0	5,183	6,426	11,609
Adjustments between accounting basis & funding basis under regulations	18	(60,180)	1,608	(3,543)	(62,115)	62,115	0
(Increase)/Decrease in Year		(54,997)	1,608	(3,543)	(56,932)	68,541	11,609
Balance at 31 March 2021 carried forward		(124,085)	(451)	(25,443)	(149,979)	(281,850)	(431,829)

Movement in Reserves 2021/22	Note	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 2021		(124,085)	(451)	(25,443)	(149,979)	(281,850)	(431,829)
<u>Movement in reserves during 2021/22</u>							
Total Comprehensive Income and Expenditure		36,036	0	0	36,036	(206,595)	(170,559)
Adjustments between accounting basis & funding basis under regulations	18	(39,733)	451	(5,606)	(44,889)	44,889	0
(Increase)/Decrease in Year (includes roundings)		(3,697)	451	(5,606)	(8,852)	(161,707)	(170,559)
Balance at 31 March 2022 carried forward		(127,782)	(0)	(31,049)	(158,831)	(443,557)	(602,387)

3. Balance Sheet

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

31 Mar 2021	Balance Sheet		31 March 2022
£000		Notes	£000
825,546	Property, Plant & Equipment	19	934,700
802	Heritage Assets	21	945
0	Long Term Investments	9&10	0
0	Investment in Subsidiaries	34	0
4,234	Intangible Assets	20	3,470
7,067	Long Term Debtors	7	6,347
837,649	Long Term Assets		945,461
55,117	Short Term Investments	9&10	70,162
1	Inventories	36	0
70,652	Short Term Debtors	7	61,207
0	Assets Held for Sale	22	0
83,589	Cash and Cash Equivalents	14	89,907
209,359	Current Assets		221,276
(3,025)	Short Term Borrowing	9&10	(1,308)
(114,180)	Short Term Creditors	8	(108,973)
(1,180)	Current Provisions	11	(791)
(118,385)	Current Liabilities		(111,072)
(8,778)	Provisions	11	(6,511)
(109,010)	Long Term Borrowing	9&10	(108,700)
(27,134)	Other Long Term Liabilities	9	(25,405)
(339,658)	Pension Liability	32	(305,198)
(12,214)	Capital Grants Receipts in Advance	6	(7,463)
(496,794)	Long Term Liabilities		(453,277)
431,829	Net Assets		602,387
(149,979)	Usable Reserves	16	(158,830)
(281,850)	Unusable Reserves	17	(443,557)
(431,829)	Total Reserves		(602,387)

Signed

Caroline Holland
 Director of Corporate Services
 29 July 2022

4. Cash Flow Statement

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

2020/21 £000	Cash Flow Statement	Note	2021/22 £000
5,183	Net deficit on the provision of services		36,036
(81,288)	Adjustments to net deficit on the provision of services for non-cash movements	15a	(64,244)
16,186	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	15b	22,215
(59,918)	Net Cash flows from Operating Activities	15c	(5,993)
(23,962)	Investing Activities	15d	17,608
33,247	Financing Activities	15e	(17,933)
(50,633)	Net (increase)/decrease in cash and cash equivalents		(6,318)
32,957	Cash and cash equivalents at the beginning of the reporting period		83,589
83,589	Cash and cash equivalents at the end of the reporting period	14	89,907

Notes to the Core Financial Statements

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INCOME AND EXPENDITURE

NOTE 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 Council (i.e. 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.

2020/21			Note1	2021/22		
Net Expenditure Chargeable to General Fund Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the CIES £000	DEPARTMENT	Net Expenditure Chargeable to General Fund Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the CIES £000
59,844	5,600	65,444	Children, Schools and Families	66,389	6,920	73,309
60,786	(10,885)	49,901	Community and Housing (including Public Health)	73,440	(5,547)	67,892
11,802	19,889	31,691	Corporate Services	10,638	38,698	49,335
26,944	(991)	25,953	Environment and Regeneration	20,206	(1,849)	18,357
159,376	13,613	172,989	Sub-total - Cost of Services	170,672	38,221	208,893
(214,372)	46,566	(167,806)	Other income and expenditure	(174,369)	1,512	(172,857)
(54,996)	60,177	5,183	Deficit/(Surplus)	(3,697)	39,733	36,036
(69,089)			Opening General Fund Balances	(124,085)		
(54,996)			Less deficit / (surplus) in year	(3,697)		
0			Rounding	0		
(124,085)			Closing General Fund Balances	(127,782)		

NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

Analysis of Differences between General Fund and CIES 2021/22

Analysis of Differences between General Fund and CIES	Adjustments for capital purposes	Net change for pensions adjustments	Other statutory adjustments	Other differences	Total adjustments
	(1)	(2)	(3)	(4)	
Department	£000	£000	£000	£000	£000
Children, Schools and Families	11,149	14,963	412	(19,604)	6,920
Community and Housing (including Public Health)	832	4,659	(73)	(10,965)	(5,547)
Corporate Services	2,939	25,955	(343)	10,147	38,698
Environment and Regeneration	11,923	4,203	(179)	(17,796)	(1,849)
Sub-total of adjustments within net cost of services	26,843	49,780	(184)	(38,218)	38,221
Other income and expenditure	(31,442)	6,807	(12,071)	38,218	1,512
Total adjustments	(4,599)	56,587	(12,255)	0	39,733

Analysis of Differences between General Fund and CIES 2020/21

Analysis of Differences between General Fund and CIES	Adjustments for capital purposes	Net change for pensions adjustments	Other statutory adjustments	Other differences	Total adjustments
	(1)	(2)	(3)	(4)	
Department	£000	£000	£000	£000	£000
Children, Schools and Families	10,969	7,019	778	(13,166)	5,600
Community and Housing (including Public Health)	889	2,948	24	(14,746)	(10,885)
Corporate Services	3,000	(6,692)	389	23,192	19,889
Environment and Regeneration	12,514	1,965	182	(15,652)	(991)
Sub-total of adjustments within net cost of services	27,372	5,240	1,373	(20,372)	13,613
Other income and expenditure	(19,978)	5,963	41,777	20,372	46,566
Total adjustments	7,394	11,203	43,150	0	60,179

NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

Column 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.

Column 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 Council 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.

Column 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).

Column 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.

NOTE 2: EXPENDITURE AND INCOME BY NATURE

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

2020/21 £000	Note 2: Income and Expenditure by Nature	Note	2021/22 £000
	EXPENDITURE		
229,258	Employee expenses*		256,636
272,061	Other service expenses		293,131
27,061	Depreciation, Impairment losses and revaluation increases within Cost of Services (i)	18	26,538
(687)	Support Services Recharges		(681)
527,693			575,624
6,307	Interest Payments relating to Financial Instruments	9	6,080
4,000	Other Interest Payments inc PFI and Leases	9	4,201
962	Precepts & Levies	3	959
5,963	Interest on net defined benefit liability (asset)	32	6,807
0	Loss on disposal of fixed assets	3	0
(57)	Trading accounts deficit/(surplus)	35	145
544,868	Total Expenditure		593,816
	INCOME		
(75,060)	Fees, charges and other service income	-	(78,489)
(279,645)	Government grants	6	(288,242)
(354,705)	Subtotal		(366,731)
(1,676)	Interest & investment income receivable	4	(1,222)
(2,002)	(Gain) on disposal of fixed assets	3	(2,942)
4,213	Other finance and investment (income)/expenditure	4	(2,138)
(185,515)	Taxation & non-specific grant income	5	(184,746)
(539,685)	Total Income		(557,779)
5,183	Deficit on the Provision of Services		36,037

(i) In addition, depreciation of £0.305m was charged to Trading services.

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

NOTE 2: EXPENDITURE AND INCOME BY NATURE

Note 2: Income and Expenditure by Nature		
Employee Expenditure	2020/21 £000	2021/22 £000
VA Schools	34,262	34,951
Foundation Schools	6,879	7,376
Total	41,141	42,327

A segmental analysis of certain types of income and expenditure within Cost of Services is shown below.

Note 2: Income and Expenditure by Nature						
2020/21 Segmental Analysis			Department	2021/22 Segmental Analysis		
Fees Charges and Other service income	Revenues from transactions with other operating segments of the authority	Depreciation amortisation and revaluations		Fees Charges and Other service income	Revenues from transactions with other operating segments of the authority	Depreciation amortisation and revaluations
£000	£000	£000		£000	£000	£000
(3,904)	5,754	10,238	Children, Schools and Families	(4,710)	0	11,149
(14,172)	5,038	832	Community and Housing (including Public Health)	(12,983)	(0)	832
(15,960)	(16,833)	2,887	Corporate Services	(17,673)	(10)	2,939
(41,024)	5,354	13,104	Environment and Regeneration	(43,123)	(671)	11,618
(75,060)	(687)	27,061	Total	(78,489)	(681)	26,538

NOTE 3: OTHER OPERATING INCOME AND EXPENDITURE

2020/21 £000	NOTE 3: OTHER OPERATING INCOME AND EXPENDITURE	2021/22 £000
962 (2,002)	Precepts and Levies (Gains)/losses on the disposal of non-current assets	959 (2,942)
(1,040)	Total	(1,983)

NOTE 4: FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2020/21 £000	NOTE 4: FINANCING AND INVESTMENT INCOME AND EXPENDITURE	Note	2021/22 £000
10,306	Interest payable and similar charges	9	10,281
5,963	Net interest on defined pension liability	32	6,807
(1,676)	Interest receivable and similar income (i)	9	(1,222)
(57)	Trading accounts not related to services	35	145
1,941	Other (income)/expenditure including income from subsidiary (ii)		(2,138)
2,272	Merantun Impairment		0
18,749	Total		13,872

Notes

(i) This figure includes receivable income from finance leases

(ii) Includes dividend payment and Intellectual Property licence fee payment from subsidiary CHAS 2013, Discretionary Rate Reliefs, and expenditure related to government COVID grants to businesses where the Authority acted as principal

NOTE 5: TAXATION AND NON-SPECIFIC GRANT INCOMES

2020/21 £000	NOTE 5: TAXATION AND NON-SPECIFIC GRANT INCOMES	Note	2021/22 £000
(95,863)	Council tax income	6	(102,915)
(11,155)	Non domestic rates	6	(24,060)
(64,731)	Non-ringfenced government grants	6	(38,553) 0
(13,766)	Capital grants and contributions	6	(19,218)
(185,515)	Total		(184,746)

NOTE 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 2021/22:

Grants Credited to Taxation and Non Specific Grant Income

NOTE 6: Credited to Taxation and Non Specific Grant Income	2020/21 £000	2021/22 £000
Council Tax	(95,863)	(102,915)
Revenue Support Grant	(5,159)	(5,187)
Business Rates	(11,155)	(24,060)
NDR Pool Tariff / (Top-up)	(9,534)	(9,534)
Net NDR Pool Benefit	(2,801)	(711)
Capital Grant Income	(13,766)	(19,218)
PFI Contribution	(4,797)	(4,797)
New Homes Bonus Grant	(1,438)	(612)
Section 31 Grant	(18,448)	(4,237)
Covid-19 Emergency Funding	(21,363)	(8,346)
Social Care Grant	0	(4,466)
Other grants under £1 million	(1,190)	(663)
Total	(185,515)	(184,746)

Grants and Contributions Credited to Services

NOTE 6: Grants and Contributions Credited to Services	2020/21 £000	2021/22 £000
Grants Credited to Services		
Schools Delegated Budget	(155,428)	(173,622)
Housing Benefits Subsidy	(60,133)	(54,857)
Public Health Grant (inc Test and Trace)	(17,366)	(13,650)
Housing Support Grant (Enforcement)	0	(1,154)
Bed & Breakfast Accommodation	0	(1,514)
Pupil Premium	(5,729)	(5,976)
Sixth Form Funding	(5,438)	(6,010)
Adult Social Care Grant	(8,920)	(4,963)
Adult Education Main	(1,099)	(1,137)
Teachers Pension	(4,432)	(556)
Universal Infant Free School Meals	(1,981)	(1,945)
Other Grants passed direct to Schools	(1,955)	(2,212)
Premises and Contracts	0	(1,327)
Unaccompanied Asylum Seekers	(1,802)	(1,877)
COVID19 Infection Control	(2,781)	(3,151)
COVID 19 Additional Relief Fund	0	(4,787)
Total grants under £1million (iv)	(12,581)	(9,504)
Total Grants	(279,645)	(288,242)
Contributions over £1million and material items		
Contributions from CCG	(3,651)	(2,282)
Local Taxation Services	(369)	(1,189)
Shared Legal Service	(3,605)	(2,932)
Recharge for out of borough SEN support	(1,574)	(1,835)
Other contributions	(13,320)	(12,040)
Total Contributions	(22,519)	(20,278)
TOTAL GRANTS AND CONTRIBUTIONS	(302,164)	(308,521)

The Council 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

NOTE 6: Long Term Liabilities Capital Grants Receipts in Advance	2020/21 £000	2021/22 £000
Government Grants and Other Contributions	(2,624)	(3,605)
Section 106	(9,215)	(3,573)
Schools Capital Grants	(375)	(284)
Total	(12,214)	(7,462)

DEBTORS, CREDITORS AND CASH FLOW

NOTE 7: DEBTORS

Debtors Long and Short term

31-Mar 2021			Note 7: Debtors	31 March 2022		
Gross Debt £000	Impairment £000	Net Debt £000		Gross Debt £000	Impairment £000	Net Debt £000
			Long Term Debtors			
600	0	600	Other local authorities	564	0	564
10,858	(4,391)	6,467	Bodies external to general government	10,021	(4,239)	5,782
11,458	(4,391)	7,067	Total Long Term Debtors	10,585	(4,239)	6,346
			Short Term Debtors			
18,568	0	18,568	Central government bodies	8,509	0	8,509
7,206	0	7,206	NHS bodies	6,164	0	6,164
4,580	0	4,580	Other local authorities	5,429	0	5,429
57,317	(17,019)	40,298	Bodies external to general government	55,323	(14,217)	41,106
87,671	(17,019)	70,652	Total Short Term Debtors	75,425	(14,217)	61,208
99,129	(21,410)	77,719	Total Debtors	86,010	(18,456)	67,554

Financial Instruments in Debtors

31-Mar 2021			Note 7: Debtors	31 March 2022		
Gross Debt £000	Impairment £000	Net Debt £000	Financial Instruments in Debtors	Gross Debt £000	Impairment £000	Net Debt £000
			Long Term Debtors			
600	0	600	Other local authorities	564	0	564
6,144	(245)	5,899	Bodies external to general government	5,785	(92)	5,694
6,744	(245)	6,499	Total Long Term Debtors	6,350	(92)	6,258
			Short Term Debtors			
7,206	0	7,206	NHS bodies	6,164	0	6,164
4,084	0	4,084	Other Local Authorities	5,274	0	5,274
32,016	(5,230)	26,786	Bodies external to general government	34,843	(3,956)	30,886
43,306	(5,230)	38,076	Total Short Term Debtors	46,281	(3,956)	42,324
50,050	(5,475)	44,575	Total Financial Instruments in Debtors	52,630	(4,048)	48,582

NOTE 8: CREDITORS

Short Term Creditors

31/03/2021 £000	NOTE 8: CREDITORS - Short Term	31/03/2022 £000
	Short Term Creditors	
(57,879)	Central government bodies	(43,865)
(8,237)	Other local authorities	(5,526)
(1,759)	NHS bodies	(4,970)
(103)	Public Corporations and Trusts	(169)
(46,202)	Bodies external to general government	(54,443)
(114,180)	Total Short Term Creditors	(108,973)

Financial Instruments in Creditors

31/03/2021 £000	NOTE 8: CREDITORS - Financial Instruments in Creditors	31/03/2022 £000
	Short Term Creditors	
(8,208)	Other local authorities	(5,496)
(1,760)	NHS bodies	(4,970)
(103)	Public Corporations and Trusts	(169)
(39,234)	Bodies external to general government	(44,131)
(49,305)	Total Financial Instruments in Short Term Creditors	(54,767)

NOTE 9a FINANCIAL INSTRUMENTS

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

The Council 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 Council's accounts.

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

Financial Assets

NOTE 9a Financial Assets 31 Mar 2022	Non current		Current		TOTAL
	Investments	Debtors	Investments	Debtors	
	£000	£000	£000	£000	£000
Fair Value through Profit and Loss	0	0	10,000	0	10,000
Amortised Cost	0	6,350	60,162	46,281	112,792
Total	0	6,350	70,162	46,281	122,792

Financial Assets 31 Mar 2021	Non current		Current		TOTAL
	Investments	Debtors	Investments	Debtors	
	£000	£000	£000	£000	£000
Fair Value through Profit and Loss	0	0	10,000	0	10,000
Amortised Cost	0	6,744	45,117	43,306	95,167
Total	0	6,744	55,117	43,306	105,167

The Council also held cash and cash equivalents of **£89.907m** at the Balance Sheet date (£83.589m 2020/21) which are also carried at amortised cost.

NOTE 9a FINANCIAL INSTRUMENTS

Financial Liabilities

NOTE 9a Financial Liabilities 31 Mar 2022	Non current		Current			TOTAL
	Borrowings £000	PFI & Finance Leases £000	Borrowings £000	PFI and Finance Leases £000	Creditors £000	£000
Amortised Cost	108,700	25,405	1,308	1,729	53,037	190,180
Total	108,700	25,405	1,308	1,729	53,037	190,180

(a) Includes £2.0m borrowing now due within 1 year

Financial Liabilities 31 Mar 2021	Non current		Current			Total
	Borrowings £000	PFI & Finance Leases £000	Borrowings £000	PFI and Finance Leases £000	Creditors £000	£000
Amortised Cost	109,010	27,134	3,025	1,673	47,632	188,474
Total	109,010	27,134	3,025	1,673	47,632	188,474

The Council'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 Council's criteria for the minimum creditworthiness required for investment counter parties.

NOTE 9a: FINANCIAL INSTRUMENTS

Items of Income, Expense, Gains or Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2020/21		NOTE 9a: Items of Income, Expense, Gains or Losses	2021/22	
Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000		Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
		Interest Revenue		
(1,676)	0	Financial assets measured at amortised cost	(1,222)	0
(1,676)	0	Total Interest Revenue	(1,222)	0
6,307	0	Interest Expense - Borrowings	6,080	0
4,000	0	Interest Expense - Finance Leases	4,201	0
10,307	0	Interest Expense	10,281	0

NOTE 9b: FINANCIAL INSTRUMENTS

Investments

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

NOTE 9b: Investment Profile	31 Mar 2021 £000	31 Mar 2022 £000
Long term	0	0
Short term	55,000	70,000
Accrued Investment Income	117	162
Total	55,117	70,162

NOTE 9b: Investments - Movement in year	£000
Investments at 1 April 2021	55,117
Change in investment managed internally	15,000
Change in accrued investment income	45
Investment at 31 March 2022	70,162
Long term investment (book value)	0
Short term investment (book value)	70,162

NOTE 9b:	Book Value	Fair Value	Unrealised Profits/ (Losses)
	£000	£000	£000
Managed Internally	70,000	70,000	0
Managed Externally	0	0	0
Total	70,000	70,000	0

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). (Note 40 - Accounting Policy (xxv) refers).

The fair value of the Council's internally managed investment portfolio is not materially different to the book value and is disclosed in the table above.

NOTE 9b FINANCIAL INSTRUMENTS

The Council 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 Council is directly exposed. The Council 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 2022 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.

NOTE 9b FINANCIAL INSTRUMENTS

NOTE 9b: Borrowing at source - Fair Value	31 March 2021		31 March 2022	
	Fair Value £000	Book Value £000	Fair Value £000	Book Value £000
Public Works Loan Board	67,757	52,010	62,400	51,700
Market Loan	99,830	57,000	91,302	57,000
Loans maturing < 1 year.	2,061	2,000	324	310
Total	169,648	111,010	154,026	109,010

NOTE 9b: Borrowing - Maturity Profile	31 March 2021 £000	31 March 2022 £000
Less than 1 year	2,000	310
Between 1 and 2 years	310	26,200
Between 2 and 5 years	26,200	0
Between 5 and 10 years	4,500	4,500
More than 10 years	78,000	78,000
Total Borrowings	111,010	109,010
Accrued Interest (Short Term Borrowings)	1,025	998
	112,035	110,008
Short Term Borrowing	3,025	1,308
Long Term Borrowing	109,010	108,700
Total Borrowing	112,035	110,008

The balance sheet figures are based upon the maturity profile of borrowings. No early repayment or impairment is recognised. For instruments with maturity of less than 12 months or trade or other receivables, their fair value is assessed as the carrying or billed amount. The fair value of the Council's total liabilities is greater than the carrying amount because the Council's loans portfolio includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. This comparison demonstrates a notional future loss as at 31st March 2022 as a consequence of a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £62.4m (2020/21 £67.8m) 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 Council 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. The Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets.

NOTE 9b FINANCIAL INSTRUMENTS

Statutory Override on Pooled Investments

The Council holds a £10m pooled investment in a property fund. As a result of the change in accounting standards for 2018/19 under IFRS 9, The Department for Levelling Up, Housing and Communities (DLUHC) agreed to allow English Authorities time to adjust their portfolios of all pooled investments by announcing a statutory delay to the implementation of IFRS 9 for five years commencing from April 2018. The Council will use the statutory override to account for any changes in the fair value on its pooled investments.

Investments in Equity Instruments

The Council has no investments in equity instruments to be treated under IFRS 9 as fair value through other comprehensive income.

Fair Value of Financial Instruments

The Council holds units in CCLA Property Fund. The Fair Value calculated on the quoted share price is not materially different from the value in the balance sheet.

NOTE 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 Council's customers.

Lending and Investments

In the case of lending/investing surplus funds, risk is minimised through the Council'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 2021/22 were as follows:

Category	Fitch	Moody's	Standard & Poor's	Definition
Banks and Building Societies				
Short Term	F1	P-1	A-1	Highest credit quality on a 12 month view
Long Term	A-	A3	A-1	Very low expectation of credit risk developing
Viability/Rating	bbb+	c-	n/a	Adequate institution with limited weakness
Support	1	n/a	n/a	Expectation of central government support
Money Market Funds	AAAmf	Aaa-mf	AAAm	

In addition to deposits in higher rated deposit-takers, the Council may use an AAA rated Money Market Fund, (which spreads risk taking across deposit takers), and may also place deposits in UK public sector institutions, such as local authorities.

At 31 March 2022 the disposition of investments was:

Category	£000	%	Spread (number of counterparties)	Fitch Rating
UK Clearing Banks	55,000	78.57%	10	F1, A, a-,1
UK Building Society	5,000	7.14%	1	F1, A, a-,1
Pooled Property Fund	10,000	14.29%	1	AAAmf
Total	70,000	100.00%	12	

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.

NOTE 10: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Current Deposits and Trade Debtors

No losses or impairments were incurred in 2021/22, nor are expected for the duration of current deposits. The Council does not generally allow credit for customers. The Council'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:

Trade Debtors	31 March	31 March
	2021	2022
	£000	£000
< 3 months	7,164	9,687
3 to 12 months	3,065	3,798
> 1 year	6,020	2,799
Total	16,249	16,284

Cash

The Council'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 Council'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 Council will be unable to raise finance to meet its commitments under financial instruments, although there is risk the Council 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:

	31/03/2021	%	31/03/2022	%
	£000		£000	
Under 12 months	2,000	1.80%	310	0.28%
1yr to 2yrs	310	0.28%	26,200	24.04%
2yrs to 5yrs	26,200	23.60%	0	0.00%
5yrs to 10yrs	4,500	4.05%	4,500	4.13%
10yrs and over	78,000	70.27%	78,000	71.55%
Total	111,010	100.00%	109,010	100.00%

NOTE 10: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The above represents the nominal exposure to debt maturities, but some Lender's Options, Borrower's Options (LOBO) debt, allows the Lender to prompt a repayment by requesting an interest rate change that is unacceptable to the Council. 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 Council is therefore not exposed to immediate refinancing risk. In addition, if redemption were required, the Council has adequate resources to finance it, and its occurrence would currently offer the prospect of cost saving.

LOBO debt exposure with market rates of:	Pro-spectively repayable / requiring Re-finance		Proportion of total debt
		£000	%
4.00 - 4.99%		5,000	11.12%
5.00 - 5.99%		20,000	44.44%
6.00 - 6.99%		15,500	34.44%
7.00 - 7.99%		0	0.00%
8.00 - 8.99%		4,500	10.00%
Total		45,000	100.00%

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

At 31 March 2022 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 2022	10,000	14.3
July to September 2022	20,000	28.6
October to December 2022	10,000	14.3
January 2023 to March 2023	10,000	14.3
April 2023 to June 2023	0	0.0
July 2023 to September 2023	0	0.0
October 2023 and beyond	20,000	28.5
	70,000	100.0

The Council did not experience any liquidity problems in 2021/22 and does not currently anticipate any for 2022/23.

NOTE 10: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Interest Rate (or Market) Risk

The Council 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:

	2021/22 £000	0.5% £000	1.0% £000
Borrowings	109,010	546	1,090
Investments	(70,000)	(350)	(700)
Impact on CIES	N/A	196	390

Mitigation

In the short term, a 0.5% or 1.0% rise in market interest rate is unlikely to have any impact on the existing debt portfolio because of the LOBO rates in the portfolio. On the other hand, should a 0.5% or 1.0% change in market interest rate be translated directly into a corresponding increase in investment rates, the existing investment portfolio will be affected to the extent by which the Council is locked into its investments until maturity. A premium would be payable to unwind the fixed deposits.

NOTE 10: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Borrowings

The Council'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 2021		At 31st March 2022	
	£000	Interest Rate %	£000	Interest Rate %
Under 12 months	2,000	6.5	310	6.6
1 to 2 years	310	6.6	26,200	6.6
2 to 5 years	26,200	6.6	0	0.0
5 to 10 years	4,500	8.4	4,500	8.4
10 to 15 years	12,500	5.2	12,500	5.2
15 to 20 years	0	0.0	0	0.0
20 to 25 years	13,500	6.6	13,500	6.6
25 to 30 years	0	0.0	0	0.0
30 to 35 years	32,000	4.6	32,000	4.6
35 to 40 years	0	0.0	0	0.0
40 to 45 years	20,000	5.0	20,000	5.0
45 to 50 years		0.0		0.0
	111,010	4.12	109,010	3.58

Prudential Indicator Limits

Maximum % exposure to	2020/21	2021/22	2022/2023	2023/2024
	%	%	%	%
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.

NOTE 10: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

	2020/21	2021/22	2022/2023	2023/2024
	%	%	%	%
Maximum investment over 1 year as percentage of total investments	50	50	50	50

At 31st March 2022, the investment portfolio's exposure to interest rates is set out in the following table.

Deposit Maturity in:	At 31st March 2021		At 31st March 2022	
	£000	Interest Rate %	£000	Interest Rate %
0-3 months	0	0.0	10,000	0.3
3-6 months	35,000	0.2	20,000	1.1
6-9 months	10,000	0.1	10,000	0.2
9-12 months	0	0.0	10,000	0.9
over 12 months	10,000	4.3	20,000	2.4
	55,000	0.92	70,000	0.98

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 Council (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 Council 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.

NOTE 10: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Refinancing and Maturity Risk

The Council 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 Council'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.

NOTE 11: PROVISIONS

NOTE 11: Current Provisions	
NDR Appeals	£000
Balance at 1 April 2021	(1,180)
Change in provision made during the year	380
Amounts used during the year	9
Balance at 31 March 2022	(791)

NOTE 11: Long Term Provisions				
	Insurance Fund	NDR Appeals	PFI	Total
	£000	£000	£000	£000
Balance at 1 April 2021	(4,728)	(3,725)	(325)	(8,778)
Change in provision made during the year	(576)	1,238	325	987
Amounts used during the year	748	531	0	1,279
Balance at 31 March 2022	(4,555)	(1,956)	0	(6,511)

Insurance Fund:

The Council self-insures for claims up to a certain value. As part of this it maintains an Insurance Fund to cover claims. The Council tops up the fund at year end, so it is maintained within the suggested limits recommended by the Council's actuaries and addresses any further risks.

NDR Appeals:

The Collection Fund contains a provision of £9.158m for the estimated cost of appeals against NDR (Business Rates) charges which may be settled in future years.

The Authority's share of this provision (30%) is £2.747m, £0.791m current and £1.956m non-current. During 2021/22, the Authority's share charged against this sum was £0.540m and its share of money set aside to cover future appeals reduced by £1.617m. The balance of the appeals provision (70%, £6.410m) is held within the Collection Fund as part of consolidated balances for the GLA and MHCLG.

NOTE 12: CONTINGENT LIABILITIES

Employment Cases

There are ten employment disputes with a maximum potential liability of £0.172m. These cases are subject to the outcome of litigation.

Audit Fees EY

EY have proposed additional scale fees of £0.133m for the 2021/22 audit. Payment of these fees is subject to decisions by Public Sector Audit Appointments.

Business Rates Appeal

The Council was narrowly unsuccessful in a recent case at the Court of Appeal in a business rates matter. That involves an order to pay costs estimated at £0.100m., however we are preparing an appeal to the Supreme Court.

Mitigation of Risk

Where appropriate, the Council defends itself against claims. Due to the inherent uncertainties surrounding the outcome of disputes, the Council has not made provision for these in the accounts.

Synthetic Sports Pitch - Agreement

In 2020, the Council entered into an agreement with The Wimbledon Club in regard to provision of a replacement synthetic pitch at Raynes Park High School.

In the event of the Council terminating the lease without the consent of the school it is required to make payment to the Governing Body. The amount of the payment, which equalled the Agreement amount of £0.501m reduces by 1/15 each year until 2033/34.

Whilst the above does theoretically place a liability on the Council, this would only arise if the council needed to develop the land which, with Section 77 requirements protecting playing fields, could only happen if the school were to close.

NOTE 13: CONTINGENT ASSETS

Bishopsford Bridge

There is one potential claim by the council concerning repairs to Bishopsford Bridge. The potential claim is still being calculated but it is likely to amount to approximately £4million. As with all litigation, any case arising could have legal costs claims that may add to or reduce the sum claimed.

Business Rates Appeal

A case is being prepared for the Supreme Court. If the Council is successful, we expect to be awarded costs of £160,000.

NOTE 14: CASH AND CASH EQUIVALENTS

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

2020/21 £000	NOTE 14: CASH AND CASH EQUIVALENTS	2021/22 £000
339	Main bank account	16,667
680	Cash in transit (held by agents)	446
22,556	Cash advanced to schools	22,779
60,000	Short Term Deposits	50,000
14	Cash advanced to establishments (Cash imprests)	14
83,589	Total Cash and Cash Equivalents	89,907

NOTE 15: CASH FLOWS

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

2020/21 £000	NOTE 15a: CASH FLOWS	2021/22 £000
	Non Cash Movements	
(24,211)	Depreciation	(24,759)
(1,780)	Revaluation	(490)
(1,382)	Amortisation	(1,594)
(2,528)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(3)
(11,204)	Movement in Pension Liability	(56,587)
(3,176)	(Increase)/Reduction in provision for the impairment of bad debts	2,955
1,994	(Increase)/Reduction in Provisions	2,655
(42,287)		(77,823)
	Accruals Adjustments	
0	Increase/(Reduction) in Inventories	0
31,940	Increase/(Reduction) in Debtors	(13,854)
(286)	Increase/(Reduction) in Interest Debtors	45
(70,660)	(Increase)/Reduction in Creditors	27,361
5	(Increase)/Reduction in Interest Creditors	27
(39,001)		13,579
(81,288)	Total	(64,244)

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

2020/21 £000	NOTE 15 b: CASH FLOWS	2021/22 £000
2,420	Proceeds from the sale of PP&E, investment property and intangible assets	2,997
13,766	Any other items for which the cash effects are investing or financing cash flows	19,218
16,186	Total	22,215

NOTE 15: CASH FLOWS

15c. Operating Activities

2020/21 £000	NOTE 15c : CASH FLOWS OPERATING ACTIVITIES	2021/22 £000
(68,549)	Cost of Services less Receipts	(15,052)
(1,676)	Interest received from investments and finance leases	(1,222)
6,307	Interest paid on borrowings	6,080
4,000	Interest paid in respect of finance leases	4,201
(59,918)	Net cash flows from operating activities	(5,993)

15d. Investing Activities

2020/21 £000	NOTE 15d: CASH FLOWS INVESTING ACTIVITIES	2021/22 £000
16,701	Purchase of property, plant and equipment, investment, property and intangible assets	19,339
45,000	Purchase of short-term and long-term investments	85,000
100	Purchase of short-term and long-term investments: investment in Subsidiary	0
(70,000)	Proceeds from short-term and long-term investments	(70,000)
(24,900)	Net	15,000
(2,297)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,264)
(13,466)	Other receipts from investing activities	(14,467)
(23,962)	Net cash flows from investing activities	17,608

15e. Financing Activities

2020/21 £000	NOTE 15e: CASH FLOWS FINANCING ACTIVITIES	2021/22 £000
(393)	Cash payments/ (receipts) for the reduction of finance leases	73
1,661	Cash payments/ (receipts) for the reduction of PFI	1,600
2,000	Repayment / (receipt) of short- and long-term borrowing	2,000
29,979	Other payments/(receipts) from financing activities	(21,606)
33,247	Net cash flows from financing activities	(17,933)

RESERVES

NOTE 16: USABLE RESERVES

This note sets out the amounts set aside from the General Fund in Earmarked Reserves to provide financing for future expenditure plans, and the amounts posted back from Earmarked Reserves to meet General Fund expenditure in 2021/22.

Usable Reserves	Balance at 31st Mar 2020 £000	Transfers out 2020/21 £000	Transfers in 2020/21 £000	Balance at 31st Mar 2021 £000	Transfers out 2021/22 £000	Transfers in 2021/22 £000	Balance at 31st Mar 2022 £000
General Fund:							
Balances held by schools	4,295	(24,981)	8,958	(11,728)	843	(668)	(11,553)
General Fund Balances	(13,778)	0	(222)	(14,000)	0	(0)	(14,000)
Earmarked reserves	(59,607)	32,350	(71,099)	(98,357)	52,968	(56,840)	(102,228)
Total General Fund	(69,090)	7,369	(62,363)	(124,085)	53,811	(57,508)	(127,781)
Capital:							
Capital Receipts Reserves (CRR)	(2,059)	4,028	(2,420)	(451)	3,448	(2,997)	(0)
Capital Grants Unapplied (CGU)	(21,900)	3,760	(7,303)	(25,443)	7,179	(12,785)	(31,049)
Total Capital	(23,959)	7,788	(9,723)	(25,894)	10,627	(15,782)	(31,049)
Total Usable Reserves	(93,049)	15,158	(72,086)	(149,979)	64,439	(73,290)	(158,830)

Balances held by Schools

This summarises the reserves that are held on behalf of Merton's schools and comprise of the following reserves summarised in the table below: -

Balances held by schools Breakdown	Balance at 31st Mar 2020 £000	Transfers out 2020/21 £000	Transfers in 2020/21 £000	Balance at 31st Mar 2021 £000	Transfers out 2021/22 £000	Transfers in 2021/22 £000	Balance at 31st Mar 2022 £000
Earmarked Schools balances	(8,355)	0	(3,223)	(11,578)	360	0	(11,218)
Schools Fund	(100)	0	(50)	(150)	208	(392)	(334)
DSG Reserve	12,750	(24,981)	12,231	0	276	(276)	0
Total balances held by Schools	4,295	(24,981)	8,958	(11,728)	843	(668)	(11,553)

DSG (Dedicated Schools Grant) Reserve

Note that the DSG deficit has been transferred to an unusable reserve.

General Fund Balance

This fund includes any surplus after meeting net expenditure on Council services. The fund remains at £14m which is the level of minimum risk as reported to Council in March 2022.

NOTE 16: USABLE RESERVES

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 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 unapplied Community Infrastructure Levy receipts.

NOTE 16: USABLE RESERVES

Reserve	Balance at 31st Mar 2020 £000	Net Transfer (to)/from Reserve £000	Balance at 31st Mar 2021 £000	Transfers out 2021/22 £000	Transfers in 2021/22 £000	Balance at 31st Mar 2022 £000
Outstanding Council Programme Board	(5,171)	(333)	(5,504)	3,092	0	(2,412)
For use in future years' budgets	(11,202)	3,278	(7,924)	310	(12,691)	(20,305)
Revenue Reserve for Capital/Revenuisation	(4,413)	546	(3,867)	3,638	(17)	(246)
Renewable energy reserve	(1,821)	29	(1,792)	0	0	(1,792)
Repairs and renewals fund	(2,090)	0	(2,090)	0	0	(2,090)
Pension fund additional contribution	(453)	0	(453)	453	0	0
Local land charges	(2,385)	(193)	(2,578)	2,000	(222)	(801)
Apprenticeships	(975)	(948)	(1,923)	779	(150)	(1,294)
Community care reserve	(895)	0	(895)	0	0	(896)
Local welfare support reserve	(315)	(449)	(764)	168	0	(595)
Corporate services reserves	(2,002)	(1,205)	(3,207)	142	(1,813)	(4,879)
Spending Review Reserve	(7,735)	(16,009)	(23,744)	0	(3,196)	(26,940)
COVID-19 Emergency Funding: Merton Council funding	(6,173)	203	(5,970)	5,864	0	(106)
Wimbledon tennis courts renewal	(150)	0	(150)	0	0	(150)
Governor support reserve	(28)	0	(28)	0	(6)	(34)
New Homes Bonus scheme	(122)	0	(122)	122	0	0
Adult social care grants	(4,062)	237	(3,825)	1,052	(30)	(2,803)
Culture & environment contributions	(200)	6	(194)	423	(408)	(178)
Culture & environment grants	(594)	166	(428)	30	(27)	(425)
Children & education grants	(184)	(159)	(343)	283	(12)	(72)
Housing GF grants	(865)	0	(865)	0	0	(866)
Public health grant reserve	0	(494)	(494)	356	(102)	(240)
Insurance reserves	(1,955)	0	(1,955)	0	0	(1,955)
Schools PFI fund	(5,791)	(501)	(6,292)	0	0	(6,292)
CSF Reserves	(25)	(27)	(52)	52	(108)	(108)
Business Rates & TIG- Covid-19 Adjustments Reserve	0	(14,418)	(14,418)	29,280	(21,181)	(6,319)
COVID-19: Year end balances	0	(4,979)	(4,979)	4,238	(6,075)	(6,816)
Civic Pride Fund	0	(1,000)	(1,000)	236	(2,000)	(2,764)
Voluntary Sector Support	0	(500)	(500)	0	(302)	(802)
Climate Change Reserve	0	(2,000)	(2,000)	450	(2,000)	(3,550)
Cost of Living Reserve	0	0	0	0	(2,000)	(2,000)
Income Loss Protection Reserve	0	0	0	0	(2,500)	(2,500)
Inflation Protection Reserve	0	0	0	0	(2,000)	(2,000)
Grand Total	(59,606)	(38,750)	(98,356)	52,968	(56,840)	(102,228)

NOTE 16: USABLE RESERVES

Purpose of Earmarked Reserves

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

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

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

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

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

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

Corporate services reserves: This reserve funds corporate projects, LPFA former GLC contributions 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.

Spending Review Reserve: This reserve is to provide for funding risk arising from measures that may be implemented as part of the Government's forthcoming Spending Review and for the DSG deficit offset.

COVID -19 Emergency Funding Reserve: Merton Council funding

This reserve includes funds from Merton's own resources to contribute to expenses arising from COVID-19 which are not covered by government grant or Merton's budgets.

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

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.

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 Master planning; and Morden Retail Gateway.

Adult social care grants: To ensure that government grant provided for Adult Social Care is utilised efficiently and effectively.

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 GF grants: The balance brought forward relates to funds used to manage the rent guarantor scheme. Grant is received to provide rent deposits for homeless people and LBM are required to refund a deposit at the end of the agreed lease period (in line with defined conditions). In addition, it includes some government grant in connection with the new burdens arising from the Homelessness Reduction Act and some Migrant Rough Sleepers Grant.

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

NOTE 16: USABLE RESERVES

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.

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

CSF Reserves: To fund one-off projects within CSF.

Business Rates & TIG – COVID -19 Adjustments Reserve

This reserve has been created in line with LAAP guidance. It will be used in 2021/22 to fund that element of the estimated Collection Fund deficit at 31 March 2021 which is transferred from the Collection Fund Adjustment Account back to the General Fund in 2021/22. It also includes the Taxation Income Guarantee Compensation scheme.

COVID - 19: Year end balances on government grants for COVID

This reserve includes balances from government grants awarded in 2020/21 and 2021/22 to fund specific COVID-19 expenses which are required for continuing issues in 2022/23. (See separate schedule)

Civic Pride Fund: This reserve provides resources to enable the Council to undertake work towards creating a vision for the borough that everyone can get behind.

Voluntary Sector Support Reserve:

This reserve provides some funding to support the voluntary sector in its work for vulnerable groups.

Climate Change Reserve: This reserve provides resources to help implement Merton's Climate Strategy and Action Plan which aims to make Merton a net-zero carbon borough by 2050.

Cost of Living Reserve: This reserve provides resources to help support vulnerable groups that have been adversely affected by the current cost of living pressures.

Income Loss Protection Reserve: This reserve provides resources to services which have suffered significant loss of income due to the ongoing impact of Covid and other pressures.

Inflation Protection Reserve: This reserve provides resources to support Council services that have been severely impacted upon by the high cost of utilities and the significant increase of inflationary pressures above those provided for in Council budgets.

NOTE 17: UNUSABLE RESERVES

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice.

31 March 21 £000	NOTE 17: UNUSABLE RESERVES SUMMARY	Note	31 March 22 £000
(428,552)	Revaluation Reserve (RR)		(536,469)
(235,117)	Capital Adjustment Account (CAA) includes rounding		(242,208)
(5,390)	Deferred Capital Receipts Reserve(DCRR)		(5,374)
339,658	Pensions Reserve(PR)	32	305,198
16,383	Collection Fund Adjustment Account (CFAA)		2,360
6,186	Accumulated Absences Account (AAA)		6,002
24,981	DSG Adjustment Account	26	26,933
(281,850)	Total Unusable Reserves		(443,557)

NOTE 17: UNUSABLE RESERVES

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 to provide services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

31 March 21 £000	NOTE 17: REVALUATION RESERVE		31 March 22 £000
(397,778)	Balance at 1st April		(428,552)
(52,040)	Upward revaluation of assets	(125,607)	
13,779	Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services	10,059	
(38,261)	Sub Total: Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of services within the CIES		(115,548)
7,147	Difference between fair value depreciation and historical cost depreciation		7,630
340	Accumulated gains on assets sold or scrapped		1
7,487	Sub Total: Amount written off to the Capital Adjustment Account		7,631
(428,552)	Balance at 31st March		(536,469)

NOTE 17: UNUSABLE RESERVES

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.

NOTE 17: UNUSABLE RESERVES

31-Mar-21		NOTE 17: Capital Adjustment Account	31 March 22	
£000	£000		£000	£000
	(235,372)	Balance at 1st April		(235,115)
	(7,487)	Amounts written out of the Revaluation Reserve		(7,631)
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
24,211		Charges for depreciation and impairment of non-current assets	24,759	
2,796		Revaluation losses charged to CIES for Property, Plant and Equipment where there is no prior Revaluation Reserve balance	3,188	
(1,017)		Reversal of revaluation losses charged to CIES of non-current asset in prior years where the non-current assets have had an upward revaluation in year	(2,699)	
1,382		Amortisation of intangible assets	1,594	
862		Revenue expenditure funded from capital under statute	1,949	
2,528		Amounts of non-current assets written off on derecognition or sale as part of gain/loss on disposal	3	
	30,762	Sub Total		28,794
	23,275	Net reversal of the cost of non-current assets consumed in the year		21,164
		Capital financing applied in the year:		
(4,028)		Use of Capital Receipts Reserve to finance new capital expenditure	(3,448)	
(10,912)		Application of grants and contributions to capital financing or the Capital Grants Unapplied Account	(14,829)	
0		Donations received	0	
(6,574)		Statutory provision for the financing of capital investment charged against the General Fund (i)	(6,514)	
(1,539)		Capital expenditure charged against the General Fund	(3,500)	
	(23,053)	Sub Total		(28,292)
	35	Loan Repayments		35
	(235,115)	Balance at 31st March		(242,208)

NOTE 17: UNUSABLE RESERVES

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements.

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2020/21 £000	NOTE 17: Pensions Reserve	Note	2021/22 £000
283,767	Balance at 1st April		339,658
44,687	Remeasurements of the net defined benefit liability/asset	32	(91,047)
27,732	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	17/32	73,890
(16,528)	Employer's pensions contributions and direct payments to pensioners payable in the year	17/32	(17,303)
11,204	Sub Total included in CIES		56,587
339,658	Balance at 31st March	32	305,198

NOTE 17: UNUSABLE RESERVES

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 Council 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.

2020/21 £000	NOTE 17: Deferred Capital Receipts Reserve	2021/22 £000
(5,406)	Balance at 1st April	(5,390)
0	Transfer of deferred sale proceeds credited as part of the (gain) / loss on disposal to the Comprehensive Income and Expenditure Statement	0
16	Transfer to the Capital Receipts Reserve upon receipt of Cash	17
(5,390)	Balance at 31st March	(5,373)

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

2020/21 £000	NOTE 17: Collection Fund Adjustment Account	2021/22 £000
(412)	Opening Balance at 1st April	16,383
(1,451)	Council Tax	1,595
1,039	NNDR	14,788
	Movement	
3,046	Council Tax	(3,543)
13,749	NNDR	(10,480)
16,795		(14,023)
	Closing Balance at 31st of March	
1,595	Council Tax	(1,948)
14,788	NNDR	4,308
16,383	Balance at 31st March	2,360

NOTE 17: UNUSABLE RESERVES

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.

2020/21 £000	NOTE 17: Accumulated Absences Account	2021/22 £000
4,815	Balance at 1st April	6,186
(4,815)	Settlement or cancellation of accrual made at the end of the preceding year	(6,186)
6,186	Amounts accrued at the end of the current year	6,002
1,371	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	(184)
6,186	Balance as at 31st March	6,002

Dedicated Schools Grant Adjustment Account

The Dedicated Schools Grant Adjustment account recognises the deficit in respect of schools budgets where the schools budget expenditure exceeds the funding provided through the DSG. This account is ring fenced and used solely for the purpose of recognising deficits in respect of the schools budget.

2020/21 £000	NOTE 17: DSG Adjustment Account	2021/22 £000
0	Balance at 1st April	24,981
12,750	Deficit accumulated at March 2020 and transferred from Usable Reserves	0
12,231	Amount by which schools budget expenditure exceeded that of the available funding provided through the DSG.	1,952
24,981	Balance at 31st March	26,933

NOTE 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 Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

NOTE 18 Adjustments between Accounting and Funding Basis	2020/21				2021/22			
	Usable Reserves			Note17	Usable Reserves			Note17
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
-								
Charges for depreciation and impairment of non-current assets	(24,211)	0	0	24,211	(24,759)			24,759
Revaluation losses on Property Plant and Equipment	(2,796)	0	0	2,796	(3,188)			3,188
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	1,017	0	0	(1,017)	2,699			(2,699)
Amortisation of intangible assets	(1,382)	0	0	1,382	(1,594)			1,594
SubTotal to agree to Note 1	(27,372)	0	0	27,372	(26,843)	0	0	26,843
Revenue expenditure funded from capital under statute	(862)	0	0	862	(1,949)			1,949
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	(2,528)	0	0	2,528	(3)			3
Subtotal of Items reversed from the CIES Involving the CAA	(30,762)	0	0	30,762	(28,794)	0	0	28,794
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment (MRP)	6,574	0	0	(6,574)	6,514			(6,514)
Capital expenditure charged against the General Fund balance	1,539	0	0	(1,539)	3,500			(3,500)
Revaluation gains charged direct to Revaluation Reserve	0	0	0	0				0
Subtotal of Items not in the CIES inserted into the CAA	8,113	0	0	(8,113)	10,014	0	0	(10,014)
Totals	(22,649)	0	0	22,649	(18,780)	0	0	18,780

NOTE 18 Adjustments between Accounting and Funding Basis	2020/21				2021/22			
	Usable Reserves			Note17	Usable Reserves			Note17
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
£000	£000	£000	£000	£000	£000	£000	£000	
Adjustments primarily involving the Capital Grant Unapplied Account:								
Capital grants and contributions unapplied credited to the CIES	15,167	0	(7,303)	(7,864)	20,815	0	(12,785)	(8,030)
Application of grants to capital financing transferred to the CAA	(712)	0	3,760	(3,048)	(380)	0	7,179	(6,799)
Totals	14,455	0	(3,543)	(10,912)	20,435	0	(5,606)	(14,829)
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	2,369	(2,369)	0	0	2,945	(2,945)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	4,028	0	(4,028)	0	3,448	0	(3,448)
Use of Capital Receipts Reserve to finance debt premium	0	0	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	0	0	0	0	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	(16)	0	16	0	(17)	0	17
Repayment of debt	0	(35)	0	35	0	(35)	0	35
Totals	2,369	1,608	0	(3,977)	2,945	451	0	(3,395)
Adjustments primarily involving the Deferred Capital Receipts Reserve:								
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0	0	0	0	0
Sub Total	0	0	0	0	0	0	0	0
Total Adjustments	16,824	1,608	(3,543)	(14,889)	23,379	451	(5,606)	(18,224)

NOTE 18c Adjustments between Accounting and Funding Basis	2020/21				2021/22			
	Usable Reserves			Note17	Usable Reserves			Note17
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
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)	(27,732)	0	0	27,732	(73,890)	0	0	73,890
Employer's pensions contributions and direct payments to pensioners payable in the year	16,528	0	0	(16,528)	17,303	0	0	(17,303)
Subtotal	(11,204)	0	0	11,204	(56,587)	0	0	56,587
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	(16,796)	0	0	16,796	14,023	0.0	0.0	(14,023)
Subtotal	(16,796)	0	0	16,796	14,023	0	0	(14,023)
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	(1,371)	0	0	1,371	184	0	0	(184)
Subtotal	(1,371)	0	0	1,371	184	0	0	(184)
Adjustment involving the DSG Adjustment Account:								
Amount by which schools budget expenditure exceeded that of the available funding provided through the DSG.	(24,981)	0	0	24,981	(1,952)	0	0	1,952
Subtotal	(24,981)	0	0	24,981	(1,952)	0	0	1,952
Total Adjustments	(54,352)	0	0	54,352	(44,332)	0	0	44,332
Total all Adjustments	(60,177)	1,608	(3,543)	62,112	(39,733)	451	(5,606)	44,889

CAPITAL

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

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 - 19 years
- Infrastructure 25 years

Amortisation

Intangible Assets are amortised over 5 years

Capital Commitments

NOTE 19: Capital Commitments at Year End	2020/21 £000	2021/22 £000
The Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in the current year and future years totalling an estimated	4,737	506

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

NOTE 19: PROPERTY, PLANT AND EQUIPMENT	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment
2021/22	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2021	699,035	23,644	172,916	3,654	31,920	1,808	932,977
Additions	7,607	2,007	4,564	2,897	0	1,922	18,997
Donations							0
Revaluation increase/(decreases) recognised in the Revaluation Reserve	119,213	0	0	0	(6,920)		112,293
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,699)	0	0	0	0	0	(3,699)
Derecognition – Disposals	0	(1,176)				0	(1,176)
Derecognition – Other	(5)	(1,698)					(1,703)
Assets reclassified (to)/from held for Sale	0				0		0
Other – reclassifications	0	0	3,730	0	0	(3,730)	0
At 31 March 2022	822,151	22,777	181,210	6,551	25,000	(0)	1,057,689

Accumulated Depreciation and Impairment							
At 1 April 2021	24,033	8,202	75,195	0	0	0	107,430
Depreciation Charge	15,183	2,660	6,917	0	0	0	24,760
Depreciation written out to the Revaluation Reserve	(3,077)	0	0	0	0	0	(3,077)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(3,245)	0	0	0	0	0	(3,245)
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment Losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services	0	0	0	0	0	0	0
Derecognition – Disposals	(5)	(1,174)	0	0	0	0	(1,179)
Derecognition – Other	0	(1,698)	0	0	0	0	(1,698)
Other- reclassifications	0	0	0	0	0	0	0
At 31 March 2022	32,889	7,990	82,112	0	0	0	122,991

Net Book Value							
At 31 March 2022	789,262	14,787	99,098	6,551	25,000	(0)	934,698

At 31 March 2021	675,002	15,442	97,721	3,654	31,920	1,808	825,547
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NOTE 19: PROPERTY, PLANT AND EQUIPMENT

Comparative Movements in 2020/21

NOTE 19: PROPERTY, PLANT AND EQUIPMENT	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment
2020/21	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2020	668,652	24,566	171,059	357	25,270	0	889,904
Additions	3,342	1,124	5,282	3,297	0	1,604	14,649
Donations							0
Revaluation increase/(decreases) recognised in the Revaluation Reserve	32,329	0	0	0	2,569		34,898
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(5,548)	0	0	0	(259)	0	(5,807)
Derecognition – Disposals	0	(604)				0	(604)
Derecognition – Other	0	(1,442)	(3,221)				(4,663)
Assets reclassified (to)/from held for Sale	260				4,340		4,600
Other – reclassifications	0	0	(204)	0	0	204	0
At 31 March 2021	699,035	23,644	172,916	3,654	31,920	1,808	932,977

Accumulated Depreciation and Impairment							
At 1 April 2020	16,810	7,459	71,582	0	0	0	95,851
Depreciation Charge	14,615	2,762	6,834	0	0	0	24,211
Depreciation written out to the Revaluation Reserve	(3,363)	0	0	0	0	0	(3,363)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(4,029)	0	0	0	0	0	(4,029)
Impairment Losses /(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment Losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services	0	0	0	0	0	0	0
Derecognition – Disposals	0	(601)	0	0	0	0	(601)
Derecognition – Other	0	(1,418)	(3,221)	0	0	0	(4,639)
Other- reclassifications	0	0	0	0	0	0	0
At 31 March 2021	24,033	8,202	75,195	0	0	0	107,430

Net Book Value

At 31 March 2021	675,002	15,442	97,721	3,654	31,920	1,808	825,547
At 31 March 2020	651,842	17,107	99,478	357	25,270	0	794,053

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

Revaluations

The Council carries out a rolling programme that ensures that all relevant Property, Plant and Equipment to be measured at fair value is revalued at least every five years. Valuations are as at 31st March in the year of valuation. In 2021/22,

- i) land value of assets deemed to be depreciated replacement costs (DRC) and assets valued at fair value were valued by District Valuer Services (DVS).
- ii) building values of assets deemed DRC assets were undertaken by our Internal Valuers; and
- iii) assets deemed to be existing use value (EUV) were carried out by Internal Valuers.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

All surplus assets and assets held for sale are valued under IFRS 13. These have been categorised by the valuers as being within level 2 of the fair value hierarchy, which are based on observable inputs such as market rents and recent sales of similar properties. Further details of fair value can be found within the accounting policies.

NOTE19: Analysis of rolling revaluation programme	Other Land & Buildings	Vehicles Plant, Furniture & Equipment	Infra-structure assets	Community assets	Surplus assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000
Valued at historical cost	-	14,790	99,096	6,531	-	0	120,418
Valued at current value in :							-
2021/22 (incl. Schools)	697,423	-	-	-	25,000	0	722,423
2020/21	87,860	-	-	-	-	0	87,860
2019/20 (Re-stated)	3,978	-	-	-	-	0	3,978
2018/19 (Re-stated)	0	-	-	21	-	0	21
	-	-	-		-	-	-
Value at 31 March 2022	789,260	14,790	99,096	6,552	25,000	0	934,698

NOTE 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 licenses and internally generated software.

All software is given a finite useful life. The useful life assigned to the major software suites used by the London Borough of Merton is 5 years.

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

NOTE 20: INTANGIBLE ASSETS	2020/21	2021/22
	£000	£000
Balance at start of year:		
Gross carrying amounts	6,548	7,608
Accumulated amortisation	(2,252)	(3,374)
Net carrying amount at start of year	4,296	4,234
Disposals:		
Gross carrying amounts	(260)	(2,078)
Accumulated amortisation	260	2,078
Additions:		
Purchases	1,320	831
Reclassified from assets under construction	0	
Amortisation for the period	(1,382)	(1,594)
Net carrying amount at end of year	4,234	3,471
Comprising:		
Gross carrying amounts	7,608	6,361
Accumulated amortisation	(3,374)	(2,890)
	4,234	3,471

NOTE 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 March 2022 by qualified external valuers, Coram James, a London based independent firm of art, antique and jewellery valuers founded in 2011. There are four items within the Art collection and eleven 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 £135,000.

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

NOTE 21: HERITAGE ASSETS	Art Collection £000	Regalia & Ceremonial £000	Total Assets £000
Cost or Valuation			
1 April 2021	191	611	802
Revaluations	33	111	143
31 March 2022	224	722	945

NOTE 22: ASSETS HELD FOR SALE

There were no assets held for sale in 2020/21 and 2021/22.

NOTE 23: IMPAIRMENT LOSSES

The Council carried out an impairment review of property, plant and equipment in 2021/22. The market review by the valuer concluded there were no impairment losses in 2021/22. In 2020/21 there were no impairment losses.

NOTE 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:

NOTE 24: CAPITAL EXPENDITURE AND CAPITAL FINANCING	2020/21 £000	2021/22 £000
Opening Capital Financing Requirement	173,583	167,461
<i>Adjustment to match CFR schedule</i>	0	0
Revised Capital Financing Requirement	173,583	167,461
Capital Investment		
Property, Plant and Equipment	14,650	18,996
Intangible Assets	1,320	831
Revenue Expenditure Funded from Capital Under Statute	861	1,949
Other Investments		
Housing Company - Shares	100	0
Sources of Finance		
Capital receipts	(4,028)	(3,448)
Government grants and other contributions	(10,912)	(14,829)
Sums set aside from revenue:		
Direct revenue contributions	(1,539)	(3,500)
Minimum Revenue Provision	(6,574)	(6,514)
Closing Capital Financing Requirement	167,461	160,946
(Decrease)/Increase in underlying need to borrowing (unsupported by government financial assistance)	(5,671)	(6,515)
Assets acquired under finance leases	(451)	0
(Decrease)/Increase in Capital Financing Requirement	(6,122)	(6,515)

NOTE 25: LEASES

Council as Lessee

Finance Leases

In the past the Council has acquired a variety of assets, including operational buildings and IT equipment, under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2021 £000	NOTE 25: LEASES -Finance Leases	31 March 2022 £000
6,965	Other Land and Buildings	6,915
451	Vehicles, Plant, Furniture and Equipment	376
7,416	Total	7,291

The Council 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 Council and finance costs that will be payable by the Council in future years while the liability remains outstanding.

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

31 March 2021 £000	Finance lease liabilities (Net present value minimum lease payments):	31 March 2022 £000
73	Current	77
1,110	Non-current	1,033
1,214	Finance costs payable in future years	1,126
2,397	Total minimum lease payments	2,236

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

31 March 2021 £000	Minimum Lease Payments	31 March 2022 £000
161	Not later than one year	162
647	Later than one year and not later than five years	573
1,589	Later than five years	1,500
2,397	Total	2,235
31 March 2021 £000	Finance Lease Payments	31 March 2022 £000
73	Not later than one year	77
334	Later than one year and not later than five years	279
775	Later than five years	754
1,182	Total	1,110

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

NOTE 25: LEASES

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 2021/22, £112k contingent rents were payable by the Authority (2020/21 £13k)

Operating Leases

The Council 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 2021 £000	NOTE 25: LEASES - Operating Leases	31 March 2022 £000
1,470	Not later than one year	1,463
5,855	Later than one year and not later than five years	4,407
816	Later than five years	347
8,141	Total	6,217

NOTE 25: LEASES

Council as Lessor

Finance Leases

The Council has leased out property at a number of sites across the Borough on a finance lease basis. The Council 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 Council in future years whilst the debtor remains outstanding.

The gross investment is made up of the following:

31 March 2021 £000	NOTE 25: LEASES - Authority as Lessor - Finance Leases Finance lease debtor (net present value of minimum lease payments):	31 March 2022 £000
17	- current	18
5,374	- non current	5,359
18,417	Unearned finance income	18,175
0	Unguaranteed residual value of property	0
23,808	Gross investment in lease	23,552

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

NOTE 25: LEASES - Authority as Lessor - Finance Leases	Gross investment in the Lease		Minimum Lease Payments	
	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000
Not later than one year	336	336	336	336
Later than one year and not later than five years	1,345	1,345	1,345	1,345
Later than five years	22,126	21,790	22,126	21,790
Total	23,808	23,471	23,808	23,471

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

31 March 2020 £000	NOTE 25: LEASES - contingent rents were receivable by the Authority	31 March 2022 £000
494	Contingent rents	514
494	Total	514

NOTE 25: LEASES

Operating Leases

The Council 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:

2020/21 £000	NOTE 25: LEASES - Operating Leases	2021/22 £000
4,408	Not later than one year	4,384
13,885	Later than one year and not later than five years	14,479
27,720	Later than five years	25,792
46,012		44,656

SCHOOLS

NOTE 26: DEDICATED SCHOOLS GRANT

The authority's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the Education Skills and Funding Agency. 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) (No 2) Regulations 2020. 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 2021/22 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	2021/22 Total £'000	2020/21 Total £'000	2019/20 Total £'000
Final DSG before Academy recoupment			193,247	183,496	173,252
Academy figure recouped			(30,775)	(28,046)	(25,262)
Safety Valve Funding			11,600	0	0
DSG Clawback (early years)			(450)	(22)	0
Total DSG figure after Academy recoupment			173,622	155,428	147,990
Plus: Brought forward from prior year			0	(12,750)	(2,909)
Less: Carry-forward to following year agreed in advance			0	12,750	0
Agreed initial budgeted distribution in year	34,367	121,083	173,622	155,428	145,081
Final budgeted distribution	34,367	121,083	173,622	155,428	145,081
Less: Actual central expenditure	(68,751)		(68,751)	(34,367)	(30,961)
Less: Actual ISB deployed to schools		(106,823)	(106,823)	(133,292)	(126,870)
Plus: Local authority contribution		0	0	0	0
Carry forward	(34,384)	14,260	(1,952)	(12,231)	(12,750)
Carry-forward to following year agreed in advance			(24,981)	(12,750)	
Cumulative carry forward to following year			(26,933)	(24,981)	(12,750)

The final DSG before academy recoupment figure includes a provision for early years block. Final DSG allocations are announced in June following the end of each financial year based on census figures at the preceding January. Any adjustment to the final DSG allocation will be treated as an in-year adjustment.

The £26.933m deficit balance is held in the Dedicated Schools Grant Adjustment Account within Unusable Reserves (see Note 17). This amount has been borrowed against future years' allocations. Further information about the DSG deficit is provided in the narrative statement.

NOTE 26: DEDICATED SCHOOLS GRANT

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

NOTE 26: DEDICATED SCHOOLS GRANT	2021/22		2020/21	
	Number of Schools	Net surplus/ (deficit) £'000	Number of Schools	Net surplus/ (deficit) £'000
Maintained Primary	27	3,490	27	3,947
Maintained Secondary	2	3,089	2	2,916
Voluntary Aided Primary	11	1,107	11	1,014
Voluntary Aided Secondary	2	1,046	2	830
Foundation	1	821	1	905
Special Schools	4	2,104	4	1,735
Total	47	11,657	47	11,347

NOTE 27: PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Property, Plant and Equipment

The Council has a Private Finance Initiative (PFI) scheme under which six secondary schools were rebuilt by a PFI operator, New Schools (Merton) 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, New Schools 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 December 2029. At the end of the arrangement, the Council 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. The change in value of land follows a recalculation of area of schools.

NOTE 27: PFI & Similar Value of Assets Held	31 March 2021 £000	31 March 2022 £000
Gross Value	96,537	122,493
Accumulated Depreciation	0	0
Net	96,537	122,493

Value of Liabilities

The Council 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:

The fair value of the liability has been estimated within a range between £26.313m and £27.329m.

NOTE 27: PFI & Similar Value of Liabilities	Capital £000	Interest £000	Services £000	Total £000
31st March 2022	1,652	2,402	6,049	10,103
Apr 2022 - Mar 2028	16,151	8,710	24,342	49,203
Apr 2028 – Mar 2030	8,221	1,049	12,680	21,950
Liability at 31st March 2022	26,024	12,161	43,071	81,256
Liability at 31st March 2021	27,625	14,701	45,945	88,271
Liability at 31st March 2020	29,285	17,390	50,827	97,502

NOTE 27: PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Partial Termination

NOTE 27: PFI & Similar Partial Termination	Capital £000	Interest £000	Services £000	Total £000
31st March 2022	970	689	0	1,659
Apr 2022 - Mar 2028	6,000	2,295	0	8,295
Apr 2028 – Mar 2030	3,045	273	0	3,318
Liability at 31st March 2022	10,015	3,257	0	13,272
Liability at 31st March 2021	10,920	4,011	0	14,931
Liability at 31st March 2020	11,764	4,826	0	16,590

Three Schools and One Academy

NOTE 27: PFI & Similar Three Schools and One Academy	Capital £000	Interest £000	Services £000	Total £000
31st March 2022	682	1,713	6,049	8,444
Apr 2022 - Mar 2028	10,151	6,415	24,342	40,908
Apr 2028 – Mar 2030	5,176	776	12,680	18,632
Liability at 31st March 2022	16,009	8,904	43,071	67,984
Liability at 31st March 2021	16,705	10,690	45,945	73,340
Liability at 31st March 2020	17,521	12,564	50,827	80,912

MEMBERS, OFFICERS AND RELATED PARTIES

NOTE 28: MEMBERS' ALLOWANCES

The cost of members' allowances to the Council is shown in the table below.

NOTE 28: MEMBERS' ALLOWANCES	2020/21 £000	2021/22 £000
Allowances	728	732
Total	728	732

Further details of Members allowances and expenses are available on our website at:

<https://www.merton.gov.uk/council-and-local-democracy/councillors/allowances-and-expenses>

NOTE 29: OFFICERS' REMUNERATION

Banding

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, exceeds £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, 93 voluntary aided and foundation school employees have been excluded from 2021/22 and 76 have been excluded from 2020/21 figures.

NOTE 29: OFFICERS' REMUNERATION	2020/21	2020/21	2021/22	2021/22
Remuneration Band £	Teaching Staff	Other Staff	Teaching Staff	Other Staff
50,000 – 54,999	93	83	82	76
55,000 – 59,999	48	60	54	67
60,000 – 64,999	37	23	47	28
65,000 – 69,999	19	13	14	13
70,000 – 74,999	15	12	15	13
75,000 – 79,999	8	15	8	18
80,000 – 84,999	6	10	10	3
85,000 – 89,999	4	3	5	6
90,000 – 94,999	3	0	3	2
95,000 – 99,999	0	3	1	0
100,000 – 104,999	2	6	1	5
105,000 – 109,999	1	0	1	1
110,000 – 114,999	1	0	0	0
115,000 – 119,999	0	0	1	0
120,000 – 124,999	0	1	0	1
125,000 – 129,999	0	0	1	0
130,000 – 134,999	0	1	0	1
135,000 – 139,999	0	0	1	1
140,000 – 144,999	1	0	0	1
145,000 – 149,999	1	2	1	1
150,000 – 154,999	0	0	0	1
155,000 – 159,999	0	0	0	0
160,000 – 164,999	0	0	0	0
165,000 – 169,999	0	1	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	0	0	1
190,000 – 194,999	0	0	0	0
195,000 – 199,999	0	0	0	0
200,000 – 204,999	0	1	0	1
Total	239	234	245	240

NOTE 29: OFFICERS' REMUNERATION

Exit Packages

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.

NOTE 29: OFFICERS' REMUNERATION - Exit Packages								
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	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21 £	2021/22 £
0 - 20,000	12	3	10	30	22	33	143,191	159,022
20,001 - 40,000	3	2	0	1	3	3	73,849	69,979
40,001 - 100,000	0	0	0	1	0	1	0	46,981
TOTAL	15	5	10	32	25	37	217,040	275,982

NOTE 29: OFFICERS' REMUNERATION

Senior Staff Remuneration

In accordance with the Accounts and Audit Regulations, there is a legal requirement to report the remuneration of certain senior employees:

- (i) Senior employees whose salary is £150,000 or more per year must be identified by name.
- (ii) 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, whose salary is below £150,000, have chosen to be named to aid transparency

The following table provides this detail for 2021/22 and 2020/21 with supporting sub-notes.

NOTE 29: OFFICERS' REMUNERATION - remuneration of certain senior employees:								
Post holder information	2020/21				2021/22			
	Sub-Note	Remuneration £	Employer's Pension contributions £	Total £	Sub-Note	Remuneration £	Employer's Pension contributions £	Total £
Chief Executive Ged Curran Hannah Doody	6	201,741	0	201,741	1 1b	55,316 141,632	0 24,162	55,316 165,794
Director of Corporate Services Caroline Holland	7	147,222	25,116	172,338	2	149,110	25,438	174,548
Director of Community and Housing Hannah Doody John Morgan	8	169,218	28,868	198,086	3a 3b	44,627 107,402	7,613 18,323	52,241 125,725
Director of Children, Schools and Families Rachael Wardell Jane McSherry	9	101,314	17,284	118,598	0 4b	0 143,820	0 24,536	0 168,356
Director of Environment & Regeneration Chris Lee	10	147,222	25,116	172,348	5	149,110	25,143	174,253

Sub Notes are on the following pages

NOTE 29: OFFICERS' REMUNERATION - remuneration of certain senior employees- Sub Notes
2021/22
<p>1a. Mr G. Curran, Chief Executive until July 2021, remuneration for 2021/22 was a salary of £55,316 No additional payments were received.</p> <p>1b. Ms H. Doody Chief Executive from July 2021, remuneration for 2021/22 was a salary of £141,632</p> <p>A separate payment of £429 was received for local election duties</p>
<p>2. Ms C. Holland, Director of Corporate Services, remuneration for 2021/22 was a salary of £149,110 A separate payment of £3000 was received for local election duties</p>
<p>3a. Ms H. Doody, Director of Community and Housing remuneration until June 2021 was £44,627 No additional payments were received.</p> <p>3b. Mr J Morgan, Director of Community and Housing remuneration from June 2021 was £107,402 No additional payments were received.</p>
<p>4. Ms Jane McSherry Director of Children, Schools and Families, remuneration for 2021/22 was a salary of £143,820 No additional payments were received.</p>
<p>5. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2021/22 was a salary of £149,110 A separate payment of £656 was received for local election duties</p>
2020/21
<p>6. Mr G. Curran, Chief Executive, remuneration for 2020/21 was a salary of £201,741 A separate payment of £66.90 was received for attendance at GLA election e-count training, prior to the postponement of the election. A further £800 payment was received for Local Authority Gold Team duties.</p>
<p>7. Ms C. Holland, Director of Corporate Services, remuneration for 2020/21 was a salary of £147,222 A separate payment of £66.90 was received for attendance at GLA election e-count training, prior to the postponement of the election. A further £800 payment was received for Local Authority Gold Team duties.</p>
<p>8. Ms H. Doody, Director of Community and Housing and interim Director of Children, Schools and Families, remuneration for 2020/21 was a salary of £169,218. As at the end of March 2020/21 annualised salary was £154,125 for the substantive post of Director Community and Housing. Annualised honorarium for covering the Director of Children, Schools and Families on an interim basis was £46,020. The post of Director of Community and Housing was held throughout the entirety of 2020/21. The post of Interim Director of Children, Schools and Families was held from 3 December 2020. No additional payments were received.</p>
<p>9. Ms R. Wardell, Director of Children, Schools and Families, remuneration for 2020/21 was a salary of £101,314 As at the leaving date of 8 December 2020 annualised salary was £147,222. No additional payments were received.</p>
<p>10. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2020/21 was a salary of £147,222. No additional payments were received.</p>

MEMBERS OFFICERS AND RELATED PARTIES

NOTE 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 Council. It provides the statutory framework within which the Council operates and the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (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 2021/22 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 58 standard letters to members and 1 letter to a former member as at 31st March 2022; 50 have responded.

During 2021/22, 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 £1,824k. The amounts disclosed below are those material to either party of the related party transaction (i.e. the Authority or the other entity).

Organisation	2021/22 £000
Evolve Housing + Support	396
AGE UK Merton	640
Merton and Morden Guild	70
North East Mitcham Community Association	41
Merton Community Transport	51
South Wimbledon Community Association	6
London Grid for Learning	620
Total	1,824

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 25 standard letters to current senior officers; there have been 25 responses.

Four senior officers are directors of CHAS 2013 Ltd and two senior officers are directors of Merantun Development Ltd (See Note 34). One senior officer is a trustee for the

London Grid For Learning which had transactions with the Council amounting to £640k in 2021/22. Otherwise, senior officers within the Authority did not hold any positions in other

NOTE 30 RELATED PARTIES

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 £1,824k (£950k in 2020/21) 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 2021/22 an administration fee of £0.678m was paid by the Fund to the Authority (£0.550m in 2020/21, see Pension Fund Accounts, Note 11).

No members of the Pension Fund committee are in receipt of pension benefits from the Merton Pension Fund. The three officers and the two staff pensioner reps of the committee are active members of the Fund.

In addition, the four local pension board members are active members of the Pension Fund.

Each member of the Pension Fund committee is required to declare their interests at each meeting. No other declarations were made during the year.

Entities Controlled by the Council

Details of the transactions between the Council and its subsidiary CHAS 2013 Ltd are disclosed in Note 34.

PENSION FUND

NOTE 31: PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council 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 Council 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 2021/22, the employer's contribution was 23.68% (20//21 was 23.68%). Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 10,000 participating employers and consequently the Council 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 2022, the Council's own contributions equate to approximately 0.25%.

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

The Council also pays an employer's contribution of 14.38% (14.38% in 2020/21) 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.

NOTE 31: PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

NOTE 31: Authority's Contribution	2020/21 £000	2021/22 £000
Authority's contribution to DfE teacher's pension scheme	13,467	11,749
Authority's contribution to NHS pension scheme	70	60

Assuming a 2% staff pay award in 2022/23, an estimate of the contributions to be paid in the next financial year would be:

NOTE 31: Estimate of the contributions to be paid in the next financial year	2021/22 £000
Authority's contribution to DfE teacher's pension scheme	11,926
Authority's contribution to NHS pension scheme	61

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Council 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 Council 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 2021/22, 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 gain of £91.047m (£44.687m loss in 2020/21).

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

NOTE 32: Local Government Pensions Scheme	2020/21	2021/22
Transactions	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service Cost	20,988	47,606
Administration	781	922
South London Waste Partnership Bulk Transfer Cost		18,555
<i>Finance and Investment Income and Expenditure</i>		
Net interest on defined liability	5,963	6,807
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	27,732	73,890
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>		
Remeasurements of the net defined benefit liability/asset	44,687	(91,047)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	72,419	(17,157)
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	(27,732)	(73,890)
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	16,528	17,303

*Transfer costs are in respect of members transferring from the Council to the London Borough of Croydon Pension Fund.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Assets and Liabilities in relation to Post-Employment Benefits

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

NOTE 32: Local Government Pensions Scheme Assets and Liabilities	2020/21 £000	2021/22 £000
Opening Defined Benefit Obligation	918,365	1,173,275
Current Service Cost	30,567	47,315
Interest Cost	21,280	23,261
Change in financial assumptions	241,200	(64,000)
Change in demographic assumptions	0	0
Experience loss/(gain) on defined benefit obligation	(12,343)	2,947
Liabilities extinguished on settlements	0	(177)
Estimated benefits paid net of transfers in	(30,588)	(25,308)
Past service costs including curtailments (i)	84	365
Contributions by Scheme participants	6,302	6,339
Unfunded pension payments	(1,592)	(1,606)
Defined Benefit Obligation at end of period	1,173,275	1,162,411

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

NOTE 32: Local Government Pensions Scheme Reconciliation of fair value of the scheme (plan) assets:	2020/21 £000	2021/22 £000
Opening fair value of Scheme assets	634,598	833,617
Interest on assets	15,317	16,454
Return on assets less interest	179,644	29,994
Other actuarial gains/(losses)	4,526	0
Administration expenses	(781)	(922)
Contributions by employer including unfunded	16,528	17,303
Contributions by Scheme participants	6,302	6,339
Estimated benefits paid plus unfunded net of transfers in	(32,180)	(45,469)
Settlement prices received/(paid)	9,663	(103)
Fair value of Scheme assets at end of period	833,617	857,213

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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:

NOTE 32: Local Government Pensions Scheme LBM asset share - bid value	2020/21		2021/22	
	£000	%	£000	%
Equities	540,131	65%	418,145	48%
Gilts	68,202	8%	90,910	11%
Property	22,368	3%	26,837	3%
Cash	31,910	4%	13,176	2%
Multi Asset Credit	69,526	8%	70,645	8%
Diversified Growth	67,624	8%	162,347	19%
Infrastructure	33,856	4%	75,153	9%
Total	833,617	100%	857,213	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.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Scheme History

NOTE 32: Scheme History	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Present value of scheme Liabilities						
The Local Government Pension Scheme (LGPS)	(937,022)	(932,840)	(981,934)	(900,477)	(1,155,307)	(1,146,069)
Unfunded Liabilities	(29,714)	(28,157)	(26,311)	(17,888)	(17,968)	(16,342)
Total Liabilities	(966,736)	(960,997)	(1,008,245)	(918,365)	(1,173,275)	(1,162,411)
Fair value of assets in the LGPS	598,628	610,910	665,567	634,598	833,617	857,213
Surplus / (Deficit) in the scheme	(368,108)	(350,087)	(342,678)	(283,767)	(339,658)	(305,198)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £305m has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, the fund was 103% funded and has no deficit as per the 2019 actuarial valuation. Subsequently the Council no longer pays additional employer's contribution to the Fund.

The funding level of the Merton LGPS fund and the Council is annually monitored and is formally calculated every three years by our Actuary. Any future 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.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Basis for Estimating Assets and Liabilities

NOTE 32: Local Government Pensions Scheme		
Basis for Estimating Assets and Liabilities	2020/21	2021/22
Long Term expected rate of return on assets in the scheme:		
Mortality Assumptions		
Longevity at 65 for current pensioners retiring today at 65:		
Men	21.5	21.6
Women	24.1	24.2
Longevity at 65 for future pensioners retiring in 20 years at 65:		
Men	22.9	23.0
Women	25.6	25.6
	%	%
Rate of Inflation	2.00	4.00
Rate of increase in salaries	3.80	4.15
Rate of increase in pensions	2.80	3.15
Rate for discounting scheme liabilities	2.00	2.60
Take up option to convert annual pension into retirement lump sum	50	50

The current estimate of the duration of the Council's liabilities is 20 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.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Sensitivity Analysis

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

NOTE 32: Local Government Pensions Scheme			
Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	0.1%	0.0%	-0.1%
Present value of total obligation	1,140,392	1,162,411	1,184,877
Projected service cost	41,090	42,478	43,908
Adjustment to long term salary increase	0.1%	0.0%	-0.1%
Present value of total obligation	1,164,040	1,162,411	1,160,794
Projected service cost	42,501	42,478	42,454
Adjustment to pension increases and deferred revaluation	0.1%	0.0%	-0.1%
Present value of total obligation	1,183,106	1,162,411	1,142,104
Projected service cost	43,897	42,478	41,100
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	1,218,267	1,162,411	1,109,275
Projected service cost	44,362	42,478	40,664

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Estimation of Contributions to be paid in 2022/23

The table below shows the estimated contributions to be paid to the plan during 2022/23, assuming a 2% staff pay award.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES Estimation of Contributions to be paid next year	2020/21 Actual £000	2021/22 Actual £000	2022/23 Estimated £000
Employers contributions - normal	14,130	14,729	15,339
Employers Additional Funding (Deficit Funding)	0	0	0
Employers Additional Funding (Pension Strain)	112	214	222
Employees contributions	6,046	6,088	6,319
Total	20,288	21,031	21,880

Associated Risks

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

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

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

OTHER DISCLOSURE NOTES

NOTE 33: 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 financial year and the date when the Statement of Accounts is authorised for issue. There are potentially two types of events:

- If they provide evidence of conditions that existed at the end of the reporting period, the Statement of Accounts is amended to reflect these events.
- If they are indicative of conditions that arose after the reporting period, the Statement of Accounts is not amended. If, however, an event would have a material effect, a disclosure is made in the notes to the accounts, outlining the event and its estimated financial effect.

Any event taking place after the accounts are authorised for issue is not reflected in the Statement of Accounts.

There are no non-adjusting events after the balance sheet date.

NOTE 34: INTEREST IN SUBSIDIARIES & JOINT VENTURES

Subsidiaries

CHAS 2013 Ltd

CHAS 2013 Ltd provides businesses with health and safety pre-qualification assessments to nationally recognised standards.

Governance Arrangements

CHAS 2013 Ltd is a wholly owned subsidiary of LB Merton, based in the Council's offices at the Civic Centre in Morden. LBM's Director of Environment & Regeneration chairs its board of directors.

Trading Arrangements with London Borough of Merton

In 2021/22, CHAS 2013 Ltd's total comprehensive income was £3.126m (£0.837m in 2020/21). Dividends received by LBM from CHAS 2013 Ltd are recognised within the Authority's comprehensive income and expenditure statement (CIES). In 2021/22, £1.983m dividend income was recognised (£1.722m in 2020/21).

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 2021/22, the licence fee was £0.240m (2020/21 £0.240m), which has been recognised within financing and investment income and expenditure in the CIES.

Group Accounting

LBM's investment in CHAS 2013 Ltd is recognised and measured at cost in the Council's balance sheet. LBM is exposed to variable returns from CHAS 2013 Ltd.

At the year end, the intercompany balance of £0.108m was owed by CHAS to LBM (2020/21 £0.396m was due from CHAS 2013 Ltd to LBM).

Company Accounts

Audited abbreviated accounts of CHAS 2013 Ltd (company number: 08466203) are filed with Companies House and available on request from:

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

LB Merton have prepared group accounts consolidating CHAS 2013 Ltd.

NOTE 34: INTEREST IN SUBSIDIARIES & JOINT VENTURES

Merantun Development Ltd (MDL)

The company was dissolved on 22 June 2022.

NOTE 34: INTEREST IN SUBSIDIARIES & JOINT VENTURES

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.

Governance Arrangements

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 31/03/2022, including cash held and loans to MSJCB, there was a net creditor balance of £611k (net creditor balance of £359k at 31/03/2021).

Group Accounting

On the grounds of materiality, MSJCB has not been consolidated in the LB Merton group accounts.

Accounts

Audited accounts of MSJCB are available on request from:
London Borough of Merton
Civic Centre London Road Morden, SM4 5DX

NOTE 35: TRADING OPERATIONS

The Council 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 Council or from other organisations. A brief description is given below:

1. Printing and Graphic Design: design and printing of official documents.
2. Translation Services: provides translation and interpreting services.
3. Transport: recharged income and expenditure for service department vehicles

NOTE 35: TRADING OPERATIONS		2020/21	2021/22
Included within Financing and Investment Income and Expenditure		£000	£000
Printing and Graphic Design	Turnover	(13)	(32)
	Expenditure	14	29
	Deficit/(surplus)	1	(3)
Translation Services	Turnover	(23)	(24)
	Expenditure	25	28
	Deficit/(surplus)	2	4
Transport	Turnover	(85)	(75)
	Expenditure	25	218
	Deficit/(surplus)	(60)	144
All trading operations		2020/21	2021/22
		£000	£000
	Turnover	(121)	(130)
	Expenditure	64	276
Total	Deficit/(surplus)	(57)	145

NOTE 36: INVENTORIES

There was no stock balance in 2021/22 for stock relating to the Partnership Agreement with the Merton Clinical Commissioning Group and Integrated Community Equipment Services (ICES).

NOTE 36: INVENTORIES	Consumable Stores	
	2020/21 £000	2021/22 £000
Balance outstanding at the start of the year	1	1
Purchases	1,559	1,498
Recognised as an expense in the year	(1,559)	(1,499)
Balance outstanding at year-end	1	0

NOTE 37: POOLED BUDGETS – Partnership – Section 75

Community Equipment Services

During 2021/22 the Council 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.

NOTE 37: POOLED BUDGETS	Total	Total
POOLED FUND FOR COMMUNITY EQUIPMENT SERVICES IN MERTON	2020/21	2021/22
MEMORANDUM ACCOUNT	£000	£000
INCOME		
PARTNERS' CONTRIBUTIONS		
Brought forward	0	0
LB Merton	353	340
Merton CCG	565	334
Additional From LB Merton (BCF Contribution)	647	831
TOTAL CONTRIBUTIONS	1,565	1,504
EXPENDITURE		
Community Equipment Services	1,559	1,498
Stock Adjustment	0	0
Management & Support Costs	6	6
TOTAL EXPENDITURE	1,565	1,504
NET (UNDER) / OVERSPEND CARRIED FORWARD	0	(0)

NOTE 37: POOLED BUDGETS – Partnership – Section 75

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.

The CCG receives the full BCF allocation from NHS England, then transfers a proportion into a pooled fund, hosted by the Council, to be spent on services. The Council makes a £1 contribution to the pool. The gross income and expenditure of the partnership is shown in the following table. As per accounting standards, the Council 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 Council's CIES.

NOTE 37: POOLED BUDGETS	Total	Total
Better Care Fund Pooled Budget - Income and Expenditure	2020/21	2021/22
	£000	£000
INCOME		
Merton CCG contribution to pool	(6,326)	(6,662)
LBM contribution to pool	0	0
Total contributions	(6,326)	(6,662)
Expenditure		
Integrated Locality Teams	831	906
Seven Day Working	528	505
Community Equipment and Adaptions	647	789
Protecting and Modernising Social Care	3,692	3,692
Investing in Integration Infrastructure	149	149
Developing Personal and Health Care Budgets	52	52
New Initiative	427	569
Total revenue expenditure	6,326	6,662
Net	0	0

OTHER DISCLOSURE NOTES

NOTE 38: EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and assurance of the Teachers Pensions End of Year Certificate, provided by the Council's external auditors:

NOTE 38: EXTERNAL AUDIT COSTS	2020/21 £000	2021/22 £000
Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year	124	225
Fees payable to the External Auditor for other services provided in year (Teachers Pensions and Housing Benefit audits)	159	110
Refund of fees from Public Sector Audit Appointments	0	(22)
Total	283	313
The 2021/22 figures include expenditure for audit services and non-audit services relating to previous years. The audits of these financial years were still open during this financial year.		

NOTE 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 2021/22 the Council made a surplus of £10.674m (£6.492m in 2020/21), which was applied notionally as a contribution to concessionary fares in the Community and Housing budget, the cost of which was £7.757m in 2021/22. The contribution was more than the full cost of concessionary fares. The excess of £2.917m was applied notionally to fund Carriageway & Footway Day-to-Day and planned maintenance of which the total expenditure was £5.208m in 2021/22.

NOTE 39: On-Street Parking Account	2020/21				2021/22			
	Parking £000	Bus Lanes £000	Moving Traffic Violations £000	Total £000	Parking £000	Bus Lanes £000	Moving Traffic Violations £000	Total £000
Income								
Penalty Charge Notices	(2,395)	(563)	(1,889)	(4,847)	(2,528)	(246)	(5,038)	(7,812)
Parking Permits	(4,144)	0	0	(4,144)	(4,549)	0	0	(4,549)
On-Street Parking Charges	(3,066)	0	0	(3,066)	(4,250)	0	0	(4,250)
Other Income				0				
Total Income	(9,605)	(563)	(1,889)	(12,057)	(11,327)	(246)	(5,038)	(16,610)
Expenditure								
On-Street Parking	1,284	302	1,013	2,598	900	87	1,793	2,781
Parking Management & Planning	128	0	0	128	154	0	0	154
Parking Enforcement	1,402	329	1,106	2,838	971	94	1,936	3,002
Contribution to Public Transport Including (Concessionary Fares)	6,790	(68)	(230)	6,492	9,301	64	1,309	10,674
Total Expenditure	9,605	563	1,889	12,057	11,327	246	5,038	16,610
NET	0	0	0	0	0	0	0	0

NOTE 39: On-Street Parking Account Memorandum Items	2020/21 £000	Surplus Applied £000	2021/22 £000	Surplus Applied £000
Total Expenditure on:				
Concessionary fares	8,982	6,492	7,757	7,757
Carriageway & Footway Day-to-Day Maintenance	2,035	0	2,083	2,083
Carriageway & Footway Planned Maintenance	2,863	0	3,125	834
Total	13,880	6,492	12,965	10,674

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

TECHNICAL ANNEX - ACCOUNTING POLICIES

NOTE 40: ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2021/22 financial year and its position at the year-end of 31st March 2022. 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 2021/22, 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.

The accounts are prepared on a going concern basis.

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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 are received.

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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.

c) Trade Waste: Income is accounted for on the basis of cash received in the year by impairing the amount receivable to reduce it to the amount received. The cost of collection is accounted for as equal to the amount received. The overall effect of this policy is to ensure that in any financial year there is no net charge to revenue for the collection of trade waste. The reason for this accounting policy is that the authority is responsible for trade waste collection and must therefore report income and expenditure associated with this activity but it has transferred completely to its contractor, Veolia, the risks relating to the collection of income and of controlling expenditure.

iii. Cash and Cash Equivalents

Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions (including Money Market Funds invested for up to 3 months). They are repayable without penalty on notice of not more than 24 hours.

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.

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

- 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.

vi. Council Tax and Non-Domestic Rates (NDR)

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 (i.e. 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 (CIES) 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 CIES 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.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments) the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows

vii. Employee Benefits

Benefits Payable During Employment

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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), were material for current employees. They are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlement (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus of Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the individual services, within the Cost of Services line in the CIES 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 Wandsworth.

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

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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 – i.e. 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 that is in accordance with actuarial guidance.

The assets of the Pension Fund attributable to the Authority are measured at fair value:

- quoted securities: current bid price
- unquoted securities: professional estimate
- unitised securities: current bid price
- property: market value

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

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of *Corporate Services segment*.
- net interest on the net defined benefit liability (asset), i.e. 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 CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (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 –

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost.
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI)

The Authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 CIES (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Authority, this means that the interest presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Authority recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price.
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line 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 CIES 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.

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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-ring-fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, 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 3 BIDS (Wimbledon, Willow Lane and South Wimbledon Business Area).

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 CIES 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 CIES. 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 CIES.

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.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

xiii. Interest in Subsidiaries and Other Entities

The authority has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

The Authority has reviewed its relationships with companies and external organisations in accordance with the Code guidelines.

The Authority has two subsidiaries (CHAS and Merantun) and one joint venture (Merton and Sutton Joint Cemetery Board - MSJCB). Details of the subsidiaries and joint ventures are disclosed in Note 34.

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

xiv. Inventories and Long-Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the [FIFO/weighted average] costing formula.

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year. 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 CIES with the expenditure it incurs and the share of income it earns from the activity of the operation. These arrangements include: -

South London Waste Partnership (SLWP): the SLWP is a joint operation with the LB Croydon, LB Sutton and RB Kingston for the collection of and disposal of waste. LB Croydon and RB Kingston recharge the Authority for its share of the cost and this is accounted for as part of the Environment and Regeneration Department 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.

The Authority has also outsourced the maintenance of its parks and open spaces to a company called Idverde (IDV) in February 2017. The contract includes LB Merton and LB Sutton, but the contract is held by LB Croydon. IDV invoice LB Croydon who then recharge LB Merton and LB Sutton for their share of costs and this is accounted for as part of the Environment and Regeneration Department in the Comprehensive Income and Expenditure Account.

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. This contribution is accounted for as part of the Corporate Services Department in the CIES; there are no balance sheet implications. A shared service board with senior representatives from each council 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. The charges

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

to Merton are accounted for in the relevant service lines of the CIES. The balance sheet reflects the amount of any debtor or creditor balances between the partners.

Pooled Budget for Community Equipment Services: this is a cost-sharing arrangement with the Merton Clinical Commissioning Group (CCG). The Authority's contribution is accounted for in the Community & Housing line in the CIES. 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 CIES.

Mental Health Service: This is a delegated Section 75 budget hosted by the South West London and St George's Mental Health NHS Trust. This is an arrangement where placement and staff costs are shared across the LB Merton and the NHS in the provision of a Mental Health Service. The share attributable to LB Merton is shown in the Community & Housing line of the CIES; there are no balance sheet implications.

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 and LB Wandsworth. Merton administers the service and recharges LB Richmond and LB Wandsworth with their share of costs. The charges for Merton are accounted for in the relevant service lines of the CIES. The balance sheet reflects the amount of any debtor or creditor balances between the partners.

The service is governed via Management Board and 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

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

xvi(a) The Authority as Lessee

Finance Leases

Property, Plant and Equipment (PPE) held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (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 CIES).

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).

Operating Leases

Rentals paid under operating leases are charged to the CIES 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).

xvi(b) 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 CIES 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 CIES 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 CIES).

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

The gain credited to the CIES 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.

Operating Leases.

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the other operating expenditure line in the CIES. Credits 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 premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvii. Overhead and Support Services

The costs of hosted overheads and support services are re-charged to service segments in accordance with the Authority's arrangements for accountability and financial performance. These are not treated 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.

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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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 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 CIES 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 CIES.

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.

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

Revaluations

The revaluations of the Authority's properties, which have been performed during the financial year, were carried out by valuers who are members 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.

An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

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 CIES.

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

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:

- vehicles, plant, furniture and equipment - straight-line 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.

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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.

An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

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 CIES. 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.

Disposals

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 CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES 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

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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:

1. **Fair value of the services received during the year** – debited to the relevant service in the CIES.
2. **Finance cost** - an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES.
3. **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 CIES.
4. **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)
5. **Lifecycle replacement costs** – 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.

Provisions are charged as an expense to the appropriate service line in the CIES when the authority has an obligation and are measured at the best estimate at the

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

2. Insurance Fund

The Insurance Fund provides an integral part of our risk management policy to meet claims excluding catastrophic losses, which are insured by an external provider. The level of the fund is based upon a statistical assessment of claims information. The Authority makes provision for its legal obligations for claims as at the 31 March each year.

Insurance Reserve: 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 liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

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

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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 (i.e. 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.

xxv. Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets at fair value at each reporting date. Fair value is 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 fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability; or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date.

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

NOTE 41: ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard which has been issued but is yet to be adopted by the 2021/22 Code.

There are no changes in accounting requirements for 2022/23 that are anticipated to have a material impact on the Council's financial performance or financial position.

NOTE 42: CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

In applying certain policies set out in Note 40, the Council 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 given below.

The Statement of Accounts has been prepared on a going concern basis reflecting the economic and statutory environment in which local authorities operate for the foreseeable future. The Council is closely monitoring the impact of the significant increase in inflation over and above the levels anticipated when the budget for 2022/23 was set in March 2022, as well as the longer-term effects on the Council's medium-term financial planning. The Council holds significant reserves and has set aside an earmarked reserve of £6.5m specifically to address any in-year inflationary pressures. Given these actions the going concern basis of reporting in the Code and the rationale behind it remains unchanged. This assumption implicitly underpins local authority accounts which are drawn up in accordance with the Code of Practice on Local Authority Accounting, published by CIPFA. These provisions confirm that as authorities cannot be created or dissolved without statutory prescription it is only appropriate for their financial statements to be prepared on a going concern basis.

The going concern assumption under the Code is therefore drawn up to assume that a local authority's services will continue to operate for the foreseeable future. The accounting concepts are supported by the fundamental qualitative characteristics of relevance, faithful representation and materiality and four enhancing qualitative characteristics of comparability, verifiability, timeliness and understandability. Where a particular accounting treatment is prescribed by legislation, then the treatment prevails even if it conflicts with one or other of the above accounting concepts. In the unlikely event of this arising, a note to that effect will be included in the accounts. This Code only requires local authority financial statements to disclose information which is material.

Going concern – Basis for preparation

The provisions in the CIPFA/LASAAC Code of Practice of Local Authority Accounting 2021/22 and the Financial Reporting Council's Practice Note 10 in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year and indeed, correspondence from Department for Levelling Up, Housing and Communities (formally MHCLG) during COVID-19 and continue to be supportive of this approach. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts

drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

The Council continues to monitor the ongoing impact of COVID-19 on its financial position and performance.

The Council has also considered known and expected government funding and determined that it has sufficient liquidity from its ability to access short term investments and sufficient general fund balances and reserves to continue to deliver services. As a result, the Council is satisfied that it can prepare its accounts on a going concern basis.

Based on the first quarter of financial year 2022/23, the Council is forecasting an unfavourable variance of £7.909m for the year. This is due in main to inflationary increases in goods and services, along with a shortfall in parking income resulting from the ongoing impact of the pandemic. Income is expected to return to pre-Covid levels later in the financial year.

Whilst some government funding for COVID-19 related expenditure and loss of income is continuing through 2021/22, it is expected that this will begin to diminish during the year as the vaccination program continues and the lockdown restrictions are lifted. In future years it is expected that the Government will start to reduce net public sector expenditure and this may be introduced in the Spending Review 2021.

The Medium Term Financial strategy was approved by Council in March 2022 and set a balanced budget for 2022/23 with a residual gap to be closed of £4.618m for 2023/24 increasing to £21.659m by 2025/26. Some budgets were included in the MTFs to address potential ongoing impacts of COVID-19 and increasing levels of inflation but it is impossible to do this with certainty given the difficulty of accurately predicting how long high inflation and utilities costs will last and the time it will take to return to the government's 2% target levels since it is largely driven by the war in Ukraine. Another issue that remains a high risk is the DSG deficit but the Council is determined to ensure that the requirements of the Safety Valve Agreement will be delivered and the DSG deficit cleared by 2026/37. In addition, the Council's budget includes c.£0.6m of savings in 2022/23 and it is important that these are achieved, or replacements found in order not to put pressure on the Council's overall finances.

Work is ongoing in all service areas to review revenue and capital budgets during 2022 to identify options for delivering efficiency savings and / or generating income, with the aim of setting a balanced budget in 2023/24 and addressing the forecast net overspend in 2022/23.

The Council had a cash balance of £23.2m at the end of March 2022 compared to the 31 March 2021 year-end figure of £31.9m. The Council also has £60m in money market funds which are instantly callable. It also has £70m in short term deposits maturing between one month and twelve months. Further, £10m is held in longer term property related investments, also available within a few weeks. As the nation is slowly coming out of covid and can see the certainty of the future the need to hold more than required cash has reduced.

From April 2021 the Council has started to place excess funds in fixed deposit to generate interest income after leaving sufficient funds in the callable / Money

market funds for immediate access. The Council has prepared a cash flow forecast out to November 2023 which demonstrates a positive cash balance each month supported by having a healthy balance in the money market funds at all times (£60m).

Whilst still there is some uncertainty on future income, the Council remains confident in its ability to maintain sufficient cash for its services throughout the medium term. The Council is of course also able to borrow short term for cash management if ever needed.

In a 'stressed' case scenario whereby income is constrained further and recovering only very slowly, the Council has sufficient levels of reserves and investments so that it would not run out of cash. Considering all of the above the Council considers it appropriate to prepare the financial statements on a going concern basis.

COVID-19

The impact of COVID-19 has had a widespread impact on the workforce of the Council and the way in which the Council delivered services in 2020 and in 2021 due to the second wave of COVID-19. The Council has utilised technology and provided required hardware and furniture to allow staff to work from home to minimise disruption to services. However, facilities such as libraries have had to close and, where appropriate, staff have been redeployed to services such as the community hubs, shielding and food distribution. We are particularly proud of the way our staff have adapted to the pandemic by working flexibly and assisting the Council in delivering critical services to those most in need since the first break out in March 2020.

Medium Term Planning

The Council's approach to financial management has meant that the General Fund Balance has been maintained at £14.0m and Earmarked Reserves of £95.9m (excluding amounts specifically restricted to schools) are held to meet known or predicted liabilities.

The Council's balance sheet as at 31st March 2022 shows a net worth of £602.4m and this is significantly reduced by the inclusion of a pension liability of £305m. There are statutory arrangements for funding the pension through contributions over the remaining working life of the employees, as assessed by the Pension Fund actuary; but, based on the most recent triennial valuation (2019) the Fund was in surplus by £20m (103% funded).

The Council's MTFs will be revised as part of the business planning process. This will include updates on the Council's finances with an assessment of the financial impact of COVID-19, which hopefully is coming to an end, progress on delivering the DSG Safety Valve Agreement to eliminate the deficit by 2026/27, and the impact of the cost of living crisis on pay and prices over the MTFs period

Governance

The Council is subject to a statutory framework governing its service provision, its duties & responsibilities, and its financial framework. This includes the statutory posts of the Head of Paid Service (Chief Executive), Section 151 Officer (Director of Corporate Services) and Monitoring Officer ((Managing Director of the South

London Legal Partnership). Despite the Council's funding gap and structural budget deficit, it has continued to meet the legal requirement of setting a balanced budget combined with the additional requirement of having regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. The Council has a well-established and robust corporate governance framework to ensure compliance with laws and regulations. This, coupled with political stability, has provided a strong control environment at the operational and strategic level in the Council, enabling sound and balanced decision-making, recognising the importance of financial prudence and sustainability.

Funding

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

Legal Claims

The potential outcomes from legal claims are not expected to be material to the Council'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 Council. Rather than produce group accounts, the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.

Accounting for schools-Balance Sheet recognition of schools.

The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority-maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Council, school or Governing Body then it is not included on the Council's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Council, school or school Governing Body.

Group Boundaries

The Council carries out a complex range of activities, often in conjunction with external organisations. Where those organisations are in partnership with or under the ultimate control of the Council a judgement is made by management as to whether they are within the Council's group boundary. This judgement is made in line with the provisions set out in the Code and relevant accounting standards. Those entities which fall within the boundary and are considered to be material are given in note 34 and included in the Council's group accounts. Profit and loss, net worth, and the value of assets and liabilities are considered individually for each organisation against a materiality limit set by the Council. The assessment of materiality also considers qualitative factors such as whether the Council depends

significantly on these entities for the continued provision of its statutory services or where there is concern about the level to which the Council is exposed to commercial risk.

NOTE 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.

Property, Plant and Equipment (PPE)	
Uncertainty:	Effect if actual result differs from assumptions:
<p>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.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. PPE of £934.7m (£825m in 2020/21) is included in the accounts. Therefore, a 1% movement in value would result in a change of £8.1m (£8.3m. in 2020/21). The depreciation charge for PPE in 2021/22 was £24.7m (£24.2m in 2020/21). A movement of 1% would result in a change in the depreciation charge of approximately £0.247m (£0.242m in 2020/21)</p>

NOTE 43: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Provisions	
Uncertainty:	Effect if actual result differs from assumptions:
<p>The authority has made provisions of £4.555m (4.728m in 2020/21) for insurance claims. The fund is used to pay claims for which the authority is self-insured. The suggested 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.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p>	<p>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 £0.055m (£0.047m in 2020/21) charge to the General Fund.</p>

NOTE 43: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Provision for NDR appeals

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.

Provision for NDR appeals	
Uncertainty:	Effect if actual result differs from assumptions:
<p>The authority has made provision of £2.747m 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.</p>	<p>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.</p>

NOTE 43: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Pension Liability

Pension Liability	
<p>Estimation of the net £305.2 (£339.7m in 2020/21) 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.</p>	<p>The assumptions interact in complex ways and changes in assumptions cannot be easily measured. Refer to Note 32 for further detail.</p>

Impairment of Bad and Doubtful debts

Impairment of Bad and Doubtful debts	
<p>As at 31 March 2022, the Council had an outstanding balance of short-term debtors totalling £75.4m Against this debtors' balance, there is an impairment allowance of £14.2m, prepared on an expected credit loss basis. It is not certain that this impairment allowance would be sufficient as the Council cannot assess with certainty which debts will be collected or not. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.</p>	<p>If collection rates were to deteriorate by 10% then the Council would have to re-assess its impairment allowance.</p>

Pensions Schemes - Employers Contributions

Pensions Schemes - Employers Contributions	
<p>Actuaries have prepared estimates of the amount of employer contributions that will need to be paid into pensions schemes during 2022/23. For these estimates they used an expected pay increase of 4%. The estimates for the Defined Contributions schemes were £11.929m for the Teachers Pensions scheme and £0.061 for the NHS scheme. The estimate for the Defined Benefit scheme was £15.339m.</p>	<p>If actual pay awards exceed the actuaries assumption by 0.50% then additional employers contributions of £0.154m would be required</p>

Collection Fund

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

Note 5 to these Collection Fund accounts provides the link between the Collection Fund and the council's core Financial Statements. The Collection Fund is a pool of income gathered from Council Tax and Non-Domestic rates and is shared between the Council, the Greater London Authority and Central Government.

The costs of administering collection are accounted for in the General Fund.

Balance Sheet:

By Statue LBM and the Preceptors are paid from the Collection Fund exactly as agreed in the January before the financial year started. This allows all parties to set their budgets in the knowledge they will receive exactly that amount. This will naturally lead to a Surplus (negative) or Deficit (positive) on the Collection Fund at the end of very year. When setting the following year's budget, the first duty is to drawdown all of any Surplus or repay all of any deficit. This Surplus / Deficit along with the other Assets and Liabilities is shared between LBM and its preceptors in the ratio of that years budgeted income.

As all the monies received into the Collection Fund are held within the bank account of the Billing Authority (LBM)

The net share of all the assets and liabilities, including the Surplus (negative) or Deficit (positive) on the Collection Fund of each preceptor is shown as a debtor or creditor from LBM.

Abbreviations used in the Collection Fund	
LBM	The Council, also known as the Billing Authority
GLA	Greater London Authority
CenGov	Central Government (the specific department name changes)
VOA	Valuation Office Agency
BRS	Business Rate Supplements

COLLECTION FUND
INCOME AND EXPENDITURE

2020/21				2021/22		
Business Rates £000	Council Tax £000	Total £000	COLLECTION FUND Income and Expenditure	Business Rates £000	Council Tax £000	Total £000
			A) INCOME			
0	(122,875)	122,875	Council Tax Receivable		(131,477)	(131,477)
(44,423)	0	44,423	Business Rates Receivable	(70,019)		(70,019)
(1,177)	0	1,177	Business Rates Supplements (BRS) Receivable	(2,006)		(2,006)
(45,600)	(122,875)	168,475	Total Income	(72,025)	(131,477)	(203,502)
			B) Charges to Collection Fund increase/ (decrease) in:			
6,124	2,140	8,264	Bad Debt provision	(2,890)	1,323	(1,567)
983	0	983	Appeals provision	(7,192)		(7,192)
310	0	310	Less: cost of collection	264		264
7,417	2,140	9,557	Total Charges	(9,818)	1,323	(8,495)
(38,183)	(120,735)	178,032	Sub Total A+B	(81,843)	(130,155)	(211,997)
			C) Precepts, Demands and Shares			
26,052	97,386	123,438	LBM: NDR & Council Tax	26,816	99,861	126,677
32,130	25,234	57,364	GLA: NDR & Council Tax	33,073	26,991	60,064
28,657	0	28,657	CenGov NDR	29,498		29,498
1,177	0	1,177	GLA: BRS	2,006		2,006
88,016	122,620	210,636	TOTAL Precepts	91,392	126,852	218,244
49,833	1,885	51,718	Surplus/(Deficit) in Year (A+B+C)	9,549	(3,303)	6,247
			D) Previous Year Estimated (Surplus)/Deficit			
(1,197)	1,523	326	LBM: NDR & Council Tax	(13,389)	(963)	(14,351)
(674)	396	(278)	GLA: NDR & Council Tax	(16,587)	(249)	(16,836)
(947)	0	(947)	CenGov NDR	(14,792)		(14,792)
(2,818)	1,919	(899)	Total re Prior Yr (Surplus)/Deficit	(44,767)	(1,212)	(45,979)
47,015	3,804	(50,819)	(Surplus)/Deficit For the year A+B+C+D	(35,218)	(4,514)	(367,273)
2,588	(1,829)	759	(Surplus)/Deficit b/fwd	49,603	1,975	51,578
49,603	1,975	51,578	(Surplus)/Deficit c/fwd	14,385	(2,539)	11,846

COLLECTION FUND
BALANCE SHEET (This year)

Collection Fund Balance Sheet	Collection Fund	Merton Share	GLA Share	Government Share
31st March 2022	£000	£000	£000	£000
Council Tax				
Arrears	10,836	8,463	2,373	
Cash	7,495	5,771	1,725	
Impairment Allowance for Doubtful Debts	(9,725)	(7,566)	(2,160)	
Receipts in Advance	(6,067)	(4,720)	(1,347)	
Net Assets	2,538	1,948	590	
Collection Fund (Surplus) / Deficit	(2,538)	(1,948)	(590)	
LBM Balance with GLA		(1,725)	1,725	
Business Rates				
Transitional Protection & Costs Adjustment	(688)	(688)		
Arrears	5,542	1,663	2,051	1,829
Cash	(1,704)	(23)	(890)	(790)
Impairment Allowance for Doubtful Debts	(3,993)	(1,198)	(1,477)	(1,318)
Impairment for Loss on Appeals	(9,158)	(2,747)	(3,388)	(3,022)
Receipts in Advance	(4,375)	(1,312)	(1,619)	(1,444)
Net Assets	(14,375)	(4,307)	(5,323)	(4,745)
Collection Fund (Surplus) / Deficit	14,375	4,307	5,323	4,745
LBM Balance with GLA		890	(890)	
LBM Balance with Government		790		(790)

COLLECTION FUND
BALANCE SHEET (Prior Year)

Collection Fund Balance Sheet	Collection Fund	Merton Share	GLA Share	Government Share
31st March 2021	£000	£000	£000	£000
Council Tax				
Arrears	10,386	8,176	2,210	
Cash	2,988	2,313	675	
Impairment Allowance for Doubtful Debts	(9,169)	(7,218)	(1,951)	
Receipts in Advance	(6,181)	(4,866)	(1,315)	
Net Assets	(1,976)	(1,595)	(381)	
Collection Fund (Surplus) / Deficit	1,976	1,595	381	
LBM Balance with GLA		(675)	675	

Business Rates				
Transitional Protection & Costs Adjustment	(446)	(446)		
Arrears	10,045	3,030	3,708	3,307
Cash	(31,142)	(9,007)	(11,703)	(10,432)
Impairment Allowance for Doubtful Debts	(8,414)	(2,524)	(3,113)	(2,777)
Impairment for Loss on Appeals	(16,349)	(4,905)	(6,049)	(5,395)
Receipts in Advance	(3,297)	(989)	(1,220)	(1,088)
Net Assets	(49,603)	(14,841)	(18,377)	(16,385)
Collection Fund (Surplus) / Deficit	49,603	14,841	18,377	16,385
LBM Balance with GLA		11,703	(11,703)	
LBM Balance with Government		10,432		(10,432)

COLLECTION FUND

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.

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	
	2020/21	2021/22	2020/21	2021/22		2020/21	2021/22
A adjust	1	1	0	0	5/9	0	0
A	1,118	1,139	690	691	6/9	460	461
B	8,471	8,500	5,834	5,736	7/9	4,538	4,461
C	23,292	23,404	18,467	18,259	8/9	16,415	16,230
D	27,844	27,921	23,766	23,615	9/9	23,766	23,615
E	13,207	13,209	11,929	11,878	11/9	14,580	14,518
F	5,571	5,612	5,161	5,181	13/9	7,455	7,483
G	4,044	4,052	3,811	3,799	15/9	6,351	6,332
H	1,747	1,774	1,691	1,705	18/9	3,382	3,411
Total						76,947	76,510
Defence properties						5	5
Council Tax Base						76,952	76,515

Estimated Income Yield: This is the Amount of Council Tax that is estimated in January to be collected in the following Financial Year. Starting in April This becomes a set figure that will be transferred to the Council and paid to the GLA.

It is calculated from the Council Tax base multiplied by the Band D tax charge; **less** estimations for changes to liabilities, exemptions, discounts, and the council tax support scheme

Income Generated: is the actual Amount.

CF Note 1 Council Tax	2020/21	2021/22
Council Tax charge for a Band D property (including the GLA)	£1,613.63	£1,709.14
	2020/21	2021/22
	£000	£000
Estimated Income Yield transferred to LBM and paid to GLA	122.6	126.9
Actual Income generated	122.9	131.5

COLLECTION FUND

2. Non-Domestic rates (NDR)

The Council 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.

The Council retains a share of NDR Income with other shares being precepted to the Greater London Authority (GLA) and Central government.

NNDR Note2 Income Apportionment	2020/21	2021/22
The Council, also known as the Billing Authority (LBM)	30%	30%
Greater London Authority (GLA)	37%	37%
Central Government	33%	33%

NNDR Note2 Income Variables	2020/21	2021/22
Non-domestic rateable value at year end	£213m	£209m
Number of Hereditaments	5,454	5,426
Uniform Business Rate (in the £)	51.2	51.2

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

CF NNDR Note2 Net Income	2020/21	2021/22
	£000	£000
Gross Rates payable (including net amounts for previous years)	(106,781)	(105,031)
Mandatory and discretionary reliefs	61,526	34,080
Transitional Protection Payments	829	932
Business Rates Supplements (BRS) Receivable	(1,177)	(2,006)
Total Business Rates Income	(45,600)	(72,025)
Allowance for Provision for bad and doubtful debts	6,124	(2,890)
Change to Provision for losses on appeals	983	(7,192)
Cost of collection	310	264
Total Charges	7,417	(9,818)
Net Income	(38,183)	(81,843)

Business Rate Supplements (BRS)

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 £70,000 pay an additional 2p in the pound.

The amounts included in the Collection Fund in respect of BRS:

CF NNDR Note2 Business Rate Supplements (BRS)	2020/21	2021/22
	£000	£000
Gross Rates payable	2,788	(2,718)
Mandatory and discretionary reliefs	(1,611)	712
Net contribution to GLA	1,177	(2,006)

COLLECTION FUND

3. Provisions

The movements in the provisions for impairments of bad debts and for losses on appeals were as below. The Council is liable for its proportionate share of successful appeals against NDR charges and alterations of rating lists. A provision based on best information available has been made for appeals that are outstanding with the Valuation Office Agency (VOA).

CF Note3 Provisions	March 2021	Allowance for Impairment	Amounts charged against Allowance	March 2022
	£000	£000	£000	£000
Council Tax: Impairment of Bad Debts	(9,169)	(1,323)	766	(9,725)
NNDR: Impairment of Bad Debts	(8,413)	2,890	1,532	(3,991)
NNDR: Losses on Appeals	(16,350)	5,391	1,801	(9,158)
TOTAL	(33,932)	6,958	4,100	(22,874)

COLLECTION FUND

4. Surpluses and Deficits

Council Tax

The accumulated Surplus / deficit on the Collection Fund relating to Council Tax, is attributable to the London Borough of Merton (LBM) and to the Greater London Authority (GLA) is based on their respective demands upon the Collection Fund. The shares of the fund are shown in the following table.

Council Tax Surplus/(Deficit), apportionment	2020/21 £000	2021/22 £000	Change in the Year £000
LBM Council Tax (Surplus) / Deficit	1,595	(1,948)	(3,543)
GLA Council Tax (Surplus) / Deficit	381	(590)	(971)
Total surplus/(deficit)	1,976	(2,538)	(4,514)

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

Year 2021-22 CTAX (surplus) / deficit Movement	GLA £000	LBM £000	Total £000
Accumulated (Surplus) / Deficit as at 1 st April	381	1,595	1,976
Paid to / (Received From) GLA in year	(249)	0	(249)
Transfer to/(from) LBM in year	0	(963)	(963)
(Surplus) / Deficit in year	(721)	(2,581)	(3,302)
Total Movement	(970)	(3,544)	(4,514)
Accumulated (Surplus) / Deficit as at 31st March	(589)	(1,949)	(2,538)

COLLECTION FUND

4. Surpluses and Deficits

NDR

The accumulated Surplus / deficit on the Collection Fund relating to NDR attributable to the London Borough of Merton (LBM) , the Greater London Authority (GLA) and Central government ; it is based on their respective demands upon the Collection Fund. The shares of the fund are shown in the following table.

NDR Balance Surplus/(Deficit), apportionment	2020/21 £000	2021/22 £000	Change in the Year £000
LBM NDR (Surplus) / Deficit	14,841	4,317	(10,524)
GLA NDR (Surplus) / Deficit	18,377	5,323	(13,054)
CenGov NDR (Surplus) / Deficit	16,385	4,745	(11,640)
Total (Surplus) / Deficit	49,603	14,385	(35,218)

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

Year 2021-22 NDR (surplus) / deficit Movement	GLA £000	CenGov £000	LBM £000	Total £000
Accumulated (Surplus) / Deficit as at 1 st April	18,376	16,385	14,842	49,603
Paid to/ (received from) preceptors (GLA/CenGov) in year	(16,587)	(14,792)	0	(31,378)
Transfer to/(from) General Fund in year	0	0	(13,389)	(13,389)
(Surplus) / Deficit in year	3,534	3,151	2,864	9,549
Total Movement	(13,053)	(11,640)	(10,525)	(35,218)
Accumulated (Surplus) / Deficit as at 31st March	5,323	4,745	4,317	14,385

COLLECTION FUND

5. Collection Fund 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.

The Council Tax and NDR income as included in the Core Statements: CIES and shown in Note 5 and Note 6, includes the Authority's share of the movement on the Collection Fund Surplus or Deficit. This is shown in the following table.

Income and Expenditure Council Tax	2020/21 £000	2021/22 £000
Demand on the Fund	97,386	(99,861)
Transfer of Surplus	1,523	963
Total included in I&E under Collection Fund Regulations	98,909	(98,898)
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	(3,047)	(3,543)
Expired Tax Credits taken to Income		(471)
Council Taxation Fund Income In Core Statements	95,862	(102,913)
Movement in Reserves Statement		
Reversal of adjustment of Collection Fund Surplus under 2011 Code	3,047	3,543
Net charge to General Fund	98,909	(99,369)

Income and Expenditure Business Rates	2020/21 £000	2021/22 £000
Demand on the Fund	26,052	(26,816)
Transfer of Deficit	(1,197)	13,389
Total included in I&E under Collection Fund Regulations	24,855	(13,427)
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	(13,752)	(10,480)
Expired Tax Credits taken to Income		(152)
Business Rates Fund Income	11,103	(24,059)
Movement in Reserves Statement		
Reversal of adjustment of Collection Fund Surplus under 2011 Code	13,752	10,480
Net charge to General Fund	24,855	(13,579)

Group Financial Statements

The Group Financial Statements consolidate the Council's single entity accounts with its fully owned subsidiaries, Contractors Health and Safety Assessment Scheme (CHAS) 2013 Limited.

1. Group Comprehensive Income and Expenditure Statement

2020/21			GROUP CIES	2021/22		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
252,371	(186,927)	65,444	Continuing Operations	276,059	(202,751)	73,309
85,575	(30,201)	55,374	Children, Schools and Families	92,214	(27,526)	64,688
110,044	(76,547)	33,497	Community and Housing	129,562	(79,044)	50,518
67,550	(41,597)	25,953	Corporate Services	62,199	(43,842)	18,357
12,154	(17,627)	(5,473)	Environment and Regeneration	17,076	(13,871)	3,204
			Public Health			
527,694	(352,899)	174,795	Cost of services	577,110	(367,034)	210,076
6,742	(10,577)	(3,835)	Other operating income and expenditure	7,619	(16,902)	(9,283)
		21,170	Financing and investment income and expenditure			18,078
		(185,515)	Taxation and non-specific grant income			(184,746)
		6,615	Group Deficit on Provision of Services			34,124
		533	Tax on Profit			793
		7,148	Group Deficit on Provision of Services			34,917
		(38,261)	(Surplus) or deficit on revaluation of non-current assets			(115,548)
		44,687	Impairment losses on non-current assets			(91,047)
			Remeasurement of the net defined benefit liability/(asset)			
		6,426	Other Comprehensive (Income) and Expenditure			(206,595)
		13,574	Total Comprehensive (Income) and Expenditure			(171,678)

2. Group Movement in Reserves Statement

	General Fund Balances £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Authority share of Subsidiary Reserves £000	Total Group Reserves £000
Balance at 1 April 2020 (Restated)	(69,087)	(2,059)	(21,900)	(93,047)	(350,387)	(3,473)	(446,907)
Total Comprehensive Income and Expenditure	5,183	0	0	5,183	6,426	1,964	13,573
<u>Adjustments between accounting basis & funding basis under regulations</u>	(60,177)	1,608	(3,543)	(62,112)	62,112	0	0
Adjustments between Group Accounts and the Authority's accounts							0
(Increase)/Decrease in Year	(54,994)	1,608	(3,543)	(56,929)	68,538	1,964	13,573
Balance at 31 March 2021 carried forward	(124,081)	(451)	(25,443)	(149,976)	(281,849)	(1,509)	(433,334)

Group MIRS	General Fund Balances £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Authority share of Subsidiary Reserves £000	Total Group Reserves £000
Balance at 1 April 2021 (Restated)	(124,081)	(451)	(25,443)	(149,976)	(281,849)	(1,509)	(433,334)
<u>Movement in reserves during 2021/22</u>							
Total Comprehensive Income and Expenditure	36,036	0	0	36,036	(206,595)	(1,119)	(171,678)
Adjustments between accounting basis & funding basis under regulations	(39,733)	451	(5,606)	(44,889)	44,889	0	0
Adjustments between Group Accounts and the Authority's accounts							0
(Increase)/Decrease in Year	(3,697)	451	(5,606)	(8,852)	(161,707)	(1,119)	(171,678)
Balance at 31 March 2022 carried forward	(127,778)	(0)	(31,049)	(158,828)	(443,556)	(2,628)	(605,012)

3. Group Balance Sheet

31 Mar 2021	Balance Sheet	31 Mar 2022
£000		£000
825,655	Property, Plant & Equipment	935,261
802	Heritage Assets	945
0	Long Term Investments	0
0	Investment in Subsidiaries	0
4,679	Intangible Assets	3,915
384	Deferred Assets	464
7,067	Long Term Debtors	6,347
838,587	Long Term Assets	946,932
55,117	Short Term Investments	70,162
1	Inventories	0
68,504	Short Term Debtors	59,966
0	Assets Held for Sale	0
96,314	Cash and Cash Equivalents	104,946
219,936	Current Assets	235,074
(3,025)	Short Term Borrowing	(1,308)
(120,894)	Short Term Creditors	(118,568)
(269)	Current Tax Liability	526
(1,180)	Current Provisions	(791)
(125,368)	Current Liabilities	(120,141)
(8,778)	Provisions	(6,511)
(109,010)	Long Term Borrowing	(108,700)
(27,133)	Other Long Term Liabilities	(25,405)
(342,687)	Pension Liability	(308,775)
(12,214)	Capital Grants Receipts in Advance	(7,463)
(499,822)	Long Term Liabilities	(456,854)
433,333	Net Assets	605,011
(151,483)	Usable Reserves	(161,453)
(281,850)	Unusable Reserves	(443,557)
(433,333)	Total Reserves	(605,010)

4. Group Cash Flow Statement

2020/21 Restated £000	Group Cash Flow Statement	2021/22 £000
7,148	Net deficit on the provision of services	34,893
(89,377)	Adjustments to net deficit on the provision of services for non-cash movements	(65,409)
16,186	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	22,215
(66,043)	Net Cash flows from Operating Activities	(8,302)
(24,257)	Investing Activities	17,608
33,147	Financing Activities	(17,936)
(57,153)	Net (increase) in cash and cash equivalents	(8,630)
39,163	Cash and cash equivalents at the beginning of the reporting period	96,316
96,316	Cash and cash equivalents at the end of the reporting period	104,946

Pension Fund Accounts

Fund Account

2020/21 £000	Fund Account	Notes	2021/22 £000
	Dealings with members, employers and others directly involved in the scheme		
(24,227)	Contributions	7	(25,381)
(2,318)	Transfers in	8	(3,264)
(26,545)	Total Income		(28,645)
26,933	Benefits	9	27,811
4,777	Payments to and on account of leavers	10	20,685
31,710	Total Expenditure		48,496
5,165	Net (additions)/withdrawals from dealings with members		19,851
2,141	Management expenses	11	3,000
7,306	Net (additions)/withdrawals including Fund management expenses		22,851
	Returns on investments		
(9,361)	Investment income	12	(16,408)
(208,776)	(Profit) and losses on disposal of investments and changes in the market value of investments	14.3	(32,924)
(218,137)	Net returns on investments		(49,332)
(210,831)	Net (increase)/decrease in the net assets available for benefits during the year		(26,481)
(689,453)	Opening net assets of the scheme		(900,284)
(900,284)	Closing net assets of the scheme		(926,765)

Net Assets Statement

2020/21 £000		Notes	2021/22 £000
896,818	Investment assets	14	924,344
896,818	Total Investments		
4,373	Current assets	20	8,782
(907)	Current liabilities	21	(6,361)
900,284	Net assets of the Fund available to Fund benefits at period end		926,765

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

Merton Pension Fund (the fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Merton.

a) General

The scheme 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 Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by London Borough of Merton to provide pensions and other benefits for pensionable employees of Merton Council, and a range of other scheduled and admitted bodies within the borough. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Merton Pension Fund Advisory Panel, which is a committee of Merton Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Merton Pension Fund include the following:

- scheduled bodies, which are automatically entitled to be members of the fund;
- admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable, and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership details are set out below:

Admitted Bodies	Scheduled Bodies
<ul style="list-style-type: none"> • Greenwich Leisure • Clarion Housing • CATCH 22 	<ul style="list-style-type: none"> • Harris Academy Merton • Harris Academy Morden • Harris Academy Primary • Harris Wimbledon • St Mark's Academy • Benedict Academy • Park Community School • CHAS (Contractors Health and Safety Assessment Scheme) • Beecholme Academy • Aragon Academy • Stanford Primary Academy • Chapel Street • Wimbledon and Putney Commons Conservators

The following table summarises the membership numbers of the scheme.

2020/21		2021/22
	Active Members	
3,871	London Borough of Merton	4,027
443	Scheduled bodies	479
45	Admitted bodies	40
4,359		4,546
	Pensioners	
3,780	London Borough of Merton	3,898
174	Scheduled bodies	178
133	Admitted bodies	138
4,087		4,214
	Deferred Pensioners	
5,421	London Borough of Merton	5,683
410	Scheduled bodies	470
118	Admitted bodies	112
5,949		6,265

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 2022. 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 2019 (came into effect in 2020/21). Currently, employer contribution rates range from 12.0% to 26.4%. Some 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,

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 updated 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 2021/22 financial year and its financial position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2020/21', 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 was 103% funded at the 31 March 2019 valuation and remained essentially the same as at 31 March 2022. The Fund cash flow is marginally negative since the new contribution rate came into place from April 2020.

The majority of the investment income is being reinvested into the respective investment for added growth. However, The Fund is in a position to draw on its investments in the most appropriate order, should short term liquidity be required.

2.1 Going Concern

The accounts have been prepared on a going concern basis. Merton Pension Fund is an open scheme with a strong covenant from the participating employers and therefore able to take a long-term outlook when considering the general funding implications of external events.

Although the Coronavirus pandemic continued, global markets rebounded and rallied in later part of 2020 and throughout 2021. Then in late February 2022 Russia invaded

the Ukraine raising risks for the global growth outlook in general, and Europe in particular.

Consistent with the general financial market, the Merton Pension Fund investments dropped in value. However, this drop was less significant than that due to the pandemic but it is expected to be a longer road to recovery.

The latest actuarial funding update showed the Fund remains 104% funded at 31 March 2022. The majority of employers in the Fund are scheduled bodies and have secure public sector funding and as a result are more able to continue to make their pension contributions.

Even though the Fund is currently operating a relatively small operating cash flow shortfall it can disinvest to ensure that it is able to remain liquid for a period of at least 12 months from the date the financial statements are authorised for issue.

The Fund remains in a position to draw on its investments in the most appropriate order should short term liquidity be required with the vast majority of investment assets held being readily convertible to cash within a period of one month.

To address the current operating cash flow shortfall and in recognition of the mature nature of the Fund, (with the increasing number of retired and deferred Fund members relative to active Fund members), the investment strategy of the Fund is now to reinvest in cash generating investment assets.

Given the above, the Fund considers it appropriate to prepare the financial statements on a going concern basis.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contribution Income

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 to and from other schemes

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 accrual's 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 if applies.

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, interest income for bond and distributions for pooled investments).

Revenue account – expense items

3.4 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.

3.5 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.

3.6 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)*.

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 managed by the Fund Managers. Custodian fees are paid via the custodian cash account.

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

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.

3.7 Administrative Expenses

All administrative expenses are accounted for on an accrual's 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

3.8 Investment Assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

3.9 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.

3.10 Foreign currency

Dividends, interest, purchases, and sales of investments are accounted for at the spot market rates at the date of transaction. End of year spot rate is used to calculate the closing cash balances held in foreign currency, overseas investments and purchases and sales outstanding at the end of the reporting period.

3.11 Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

3.12 Cash and cash equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible to cash and subject to minimum risk of changes in value.

The cash balance includes cash held by the Fund managers, custodian and within the Funds' bank account.

3.13 Financial Liabilities

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

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 Additional Voluntary Contributions

Merton Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund with Prudential. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 22.

3.16 Contingent Assets and Contingent Liabilities

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.

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.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

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.

*Please see Notes 18 and 19 for more detail.

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 2022 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 £22.0m and a -0.1% reduction would increase the obligation by £22.5m. An adjustment to the mortality age rating assumption of -1 yr would decrease the obligation by £53.1m. McCloud- the actuary has included the impact of the McCloud as part of the 2019 Triennial valuation.
Unquoted Investments	The Pension Fund contains investments in unitised pooled property and private debt funds that are classified within the financial statements as level 3 investments (as detailed in note 15). These funds are valued according to non-exchange-based market valuations.	As a result of this, the final realised value of those pooled units may differ slightly from the valuations presented in the accounts.

6. Events After The Reporting Date

There were no events to disclose.

7. Contributions Receivable

2020/21 £000	By Category	2021/22 £000
17,127	Employers	18,130
7,100	Members	7,251
24,227	Total	25,381

2020/21 £000	By Type	2021/22 £000
21,238	Administering	22,061
2,558	Scheduled	2,915
431	Admitted	405
24,227	Total	25,381

2020/21 £000	By Type	2021/22 £000
16,922	Employers normal	17,883
7,100	Employees normal	7,251
16	Deficit Funding	31
189	Employers additional	216
24,227	Total	25,381

8. Transfers In From Other Pension Funds

2020/21 £000		2021/22 £000
2,318	Individual Transfers	3,264
2,318	Total	3,264

9. Benefits Payable

2020/21 £000	By Category	2021/22 £000
23,286	Pensions	23,818
3,582	Commutations and lump sum retirement benefits	3,240
65	Lump sum death benefits	753
26,933	Total	27,811

2020/21 £000	By Authority	2021/22 £000
24,929	Administering	25,692
1,216	Scheduled	263
788	Admitted	1,856
26,933	Total	27,811

10. Payments to and on Account of Leavers

2020/21 £000		2021/22 £000
4,679	Individual transfers	4,935
0	Group transfers	15,655
100	Refunds of contribution	97
(2)	State scheme premiums	(2)
4,777	Total	20,685

11. Management Expenses

2020/21 £000		2021/22 £000
550	Administrative costs	678
1,294	Investment management expenses	2,164
297	Oversight and governance costs	158
2,141	Total	3,000

11a. Investment Management Expenses

2021/22	Total £000	Management Fees £000	Performance Costs £000	Transaction Fees £000
Bonds	60	60	0	0
Pooled Investments	0	0	0	0
Pooled Property Investments	599	599	0	0
Private Debt	325	325	0	0
Infrastructure	1,154	1,154	0	0
	2,139	2,139	0	0
Custody Fees	25	0	0	0
Pooled Fees deducted at source	2,301	2,290	11	0
Total	4,465	4,429	11	0

Note: Fees deducted at source were calculated and deducted as part of the portfolio's daily Net Asset Value calculation.

2020/21	Total £000	Management Fees £000	Performance Costs £000	Transaction Fees £000
Bonds	(4)	(4)	0	0.30
Pooled Investments	115	115	0	0
Pooled Property Investments	524	524	0	0
Private Debt	224	224	0	0
Infrastructure	448	448	0	0
	1,307	1,307	0	0.3
Custody Fees	(13)	0	0	0
Pooled Fees deducted at source	1,883	1,873	10	0
Total	3,177	3,180	10	0.3

12. Investment Income

2020/21 £000		2021/22 £000
174	Bonds	0
2,951	Pooled equity investments	3,164
3,993	Pooled investments (Other)	4,270
851	Pooled property investments	1,107
(872)	Infrastructure	1,841
1,544	Private Debt	6,015
720	Other	11
9,361	Total	16,408

13. External Audit Cost

2020/21 £000		2021/22 £000
16	Payable in respect of external audit	16
11	Payable in respect of other services	36
27	Total	52

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 2021.

Market Value 31 March 2021		Fund Manager	Market Value 31 March 2022	
£000	%		£000	%
		Investments managed by LCIV regional asset pool		
94,195	10.5	Blackrock	109,322	11.8
39,506	4.4	JPM Emerging Markets	35,466	3.8
145,056	16.2	Baillie Gifford	165,341	17.9
37,389	4.2	Ruffer	89,863	9.7
104,412	11.6	RBC	91,257	9.9
74,847	8.3	CQS	76,663	8.3
		Investments managed outside the LCIV regional asset pool		
219,363	24.5	UBS Asset Management	123,930	13.4
8,353	0.9	Macquarie	15,820	1.7
11,834	1.3	Quinbrook	48,330	5.2
17,799	2.0	JPM Infrastructure	17,570	1.9
16,353	1.8	Churchill	17,689	1.9
15,043	1.7	Permira	22,670	2.5
104,906	11.7	Wells Fargo	101,300	11.0
7,612	0.9	Blackrock property	8,973	1.0
150	0.0	LCIV Subscription	150	0.0
896,818	100.0	Total	924,344	100.0

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2022 is shown in the following table.

Market Value 31 March 2021 £000		Market Value 31 March 2022 £000
	Investment Assets	
71,973	Bonds	98,413
550,305	Pooled equity investments	418,527
147,647	Pooled investments (other)	252,337
24,080	Pooled property investments	29,040
31,396	Private Debt	40,359
37,506	Infrastructure	81,543
246	Derivatives	(4,705)
33,035	Cash held with fund managers	8,503
480	Investment income due	177
896,668	Total Investment Assets	924,194
0	Investment Liabilities	0
150	LCIV Subscription	150
896,818	Net investment assets	924,344

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 2021/2022. 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.

	Market Value 1 April 2021 £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 2022 £000
Bonds	71,973	68,310	(43,276)	1,406	98,413
Pooled Equity Investments	550,305	3,163	(159,394)	24,453	418,527
Pooled Investments Other	147,647	103,270	-	1,420	252,337
Private Debt	31,396	9,309	-	(346)	40,359
Infrastructure	37,506	36,366	-	7,671	81,543
Pooled Property	24,080	-	-	4,960	29,040
	862,907	220,418	(202,670)	39,564	920,219
Derivative Contracts					
Forward Currency Contracts	246	-	(246)	(4,705)	(4,705)
	863,153	220,418	(202,916)	34,859	915,514
Other Investment Balances					
Cash with Fund Managers	33,035	(68,310)	43,036	742	8,503
Infrastructure Adjustment *	0	-	-	(2,677)	0
Investment Income Due	480	-	-	-	177
LCIV Subscription	150	-	-	-	150
	33,665	-	-	(1,935)	8,830
Net Investment Assets	896,818	-	-	32,924	924,344

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2020/2021.

	Market Value 1 April 2020 £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 2021 £000
Bonds	69,819	103,118	(98,101)	(2,863)	71,973
Pooled Equity Investments	395,323	2,951	(16,500)	168,531	550,305
Pooled Investments Other	122,684	38,891	(34,898)	20,970	147,647
Private Debt	15,707	16,178	(4,263)	3,774	31,396
Infrastructure	37,687	3,249	-	(3,430)	37,506
Pooled Property	24,212	-	-	(132)	24,080
	665,432	164,387	(153,762)	186,850	862,907
Derivative Contracts					
Forward Currency Contracts	(6,702)	-	-	6,948	246
	658,730	164,387	(153,762)	193,798	863,153
Other Investment Balances					
Cash with Fund Managers	25,851	(103,118)	98,101	12,201	33,035
Cash income/mgt expenses	0	-	-	100	0
Infrastructure Adjustment *	0	-	-	2,677	0
Investment Income Due	399	-	-	-	480
LCIV Subscription	150	-	-	-	150
	26,400	-	-	14,978	33,665
Net Investment Assets	685,130	-	-	208,776	896,818

14.4 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2022.

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	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Market value based on current yields	Not required	Not required
Pooled investments - 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
Unquoted equities	Level 3	The development, pre-construction and construction-stage assets are held at cost	Not required	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 – Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trust.

Level 2 – Where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

Level 3 – Where at least one input that could have a significant effect on the Instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

31 March 2021				31 March 2022		
Quoted market price Level 1 £000	Quoted market price Level 2 £000	Quoted market price Level 3 £000		Quoted market price Level 1 £000	Quoted market price Level 2 £000	Quoted market price Level 3 £000
777,933	16,468	68,902	Financial assets at fair value through profit and loss	773,695	20,067	121,902
33,515	0	0	Loans and Receivables	8,680	0	0
0	0	0	Financial liabilities at fair value through profit and loss	0	0	0
811,448	16,468	68,902	Total	782,375	20,067	121,902

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 2021				31 March 2022		
Designated at fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised costs		Designated at fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial Assets			
71,973	0	0	Bonds	98,413	0	0
697,952	0	0	Pooled Investments	670,864	0	0
24,080	0	0	Pooled Property Investments	29,040	0	0
68,902	0	0	Private Debt & Infrastructure	121,902	0	0
0	150	0	LCIV Subscription	0	150	0
246	0	0	Derivatives	(4,705)	0	0
0	33,035	0	Cash With Fund Managers	0	8,503	0
480	0	0	Other Investment Balances	177	0	0
0	1,172	0	Sundry Debtors	0	1,597	0
0	1,248	0	Cash	0	4,683	0
863,633	35,605	0		915,691	14,933	0
			Financial Liabilities			
0	0	(907)	Sundry Creditors	0	0	(6,361)
863,633	35,605	(907)	Total	915,691	14,933	(6,361)

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 2021 £000	Financial Assets	31 March 2022 £000
208,776	Fair Value through profit and loss	32,924
208,776	Total	32,924

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 cash flows. 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 Panel. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. The Investment Strategy Statement 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, Mercer, who provides advice on investment issues.

17.2 Market risk

The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. Riskier assets in the Fund such as equities display greater potential price volatility than bonds and other asset classes. 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 2022 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	98,413	7.8	106,089	90,737
Equities & Emerging Markets	418,527	14.2	477,958	359,096
Diversified Growth	175,674	6.2	186,566	164,782
Multi Asset Credit	76,444	7.8	82,407	70,481
Pooled Property	29,040	4.2	30,260	27,820
Private Debt & Infrastructure	121,902	4.7	127,631	116,173
Cash	8,503	0.9	8,580	8,426
Derivatives	-4,705	0.0	-4,705	-4,705
Income Due	177	0.0	177	177
LCIV Subscription	150	0.0	150	150
Total Assets	924,344		1,015,348	833,340

Asset Type	Value at 31 March 2021 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	71,973	7.5	77,371	66,575
Equities & Emerging Markets	550,305	14.3	628,999	471,611
Diversified Growth	72,800	6.4	77,459	68,141
Multi Asset Credit	74,847	7.5	80,461	69,233
Pooled Property	24,080	2.2	24,610	23,550
Private Debt & Infrastructure	68,902	4.8	72,209	65,595
Cash	33,035	0.9	33,332	32,738
Derivatives	246	0	246	246
Income Due	480	0	480	480
LCIV Subscription	150	0	150	150
Total Assets	896,818	9.6	995,317	798,319

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

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 2022 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 (+/-) %
Bonds and Index Linked	7.8
Equities	14.2
Diversified Growth	6.2
Multi Asset Credit	7.8
Property	4.2
Private Debt and Infrastructure	4.7
Cash	0.9

17.5 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

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 2022.

Asset Type	Value at 31 March 2022 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	22,374	7.3	24,007	20,741
Private Debt & Infrastructure	99,232	7.3	106,476	91,988
Total Overseas Assets	121,606		130,483	112,729

The table below shows the currency exposure by asset type as at 31 March 2021.

Asset Type	Value at 31 March 2021 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	21,363	8.4	23,157	19,569
Private Debt & Infrastructure	53,447	8.4	57,937	48,957
Total Overseas Assets	74,810		81,094	68,526

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2022. 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.

Assets exposed to currency risk	Value at 31 March 2022 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	22,374	8.3	24,231	20,517
Private Debt & Infrastructure (US Dollar)	99,232	8.3	107,468	90,996
Total	121,606		131,699	111,513

Assets exposed to currency risk	Value at 31 March 2021 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	21,363	8.5	23,179	19,547
Private Debt & Infrastructure (US Dollar)	53,447	8.5	57,990	48,904
Total	74,810		81,169	68,451

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.

The average long-term credit rating in the bond portfolio is AA as at 31 March 2022. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

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

Value at 31 March 2021 £000		Value at 31 March 2022 £000
32,687	AAA	7,592
71,973	AA	98,413
104,660	Total	106,005

17.8 Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash balance to meet its commitments. The Fund's cash holding as at 31 March 2022 was £4.7m (31 March 2021: £1.2m).

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 2019 (effective from April 2020) and the next valuation will take place as at 31 March 2022.

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 taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 12 years 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 2019 actuarial valuation, the Fund was assessed as 103% Funded. This corresponded to a surplus of £20m at that time of the valuation.

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

	2013 Valuation	2016 Valuation	2019 Valuation
Funding Level %	89.0	94.0	103.0
Funding (Deficit)/Surplus £m	(53.2)	(32.7)	20

The assessed value of assets held by the Fund at 31 March 2019 was £718.m (2016 valuation: £526m), whilst the liabilities accrued in respect of pensionable service were £698m (2016 valuation: £558m).

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-Mar-19	31-Mar-16
Discount rate		4.8%	5.5%
Pay increase	Long Term	3.6%	3.9%
	Short Term	N/A	Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020
Consumer price inflation (CPI)		2.6%	2.4%
Pension increases		2.6%	2.4%
Pension increases on Guaranteed Minimum Pension (GMP)		Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date, we have assumed that Funds are required to pay the entire inflationary increase.	For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Demographic Assumptions			
Male	Current Pensioners Retiring in 20 yrs	21.4 22.7	24.3 26.5
Female	Current Pensioners Retiring in 20 yrs	24.0 25.4	25.9 28.2

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 2022, 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 March 2022 %
Inflation/Pension Increase Rate	3.15
Salary Rate Increase	4.15
Discount Rate	2.60

The value of the Fund's promised retirement benefits as at 31 March 2022 was:

31 March 2021 £m		31 March 2022 £m
1,266	Present value of promised retirement benefits	1,262

20. Current Assets

31 March 2021 £000	Current Assets	31 March 2022 £000
1,953	Contributions Due	2,502
1,172	Sundry Debtors	1,597
1,248	Cash	4,683
4,373	Total	8,782

Analysis of Debtors

31 March 2021 £000	Current Debtors	31 March 2022 £000
1,676	Administering Body	2,258
277	Admitted and Scheduled Bodies	243
1,172	Sundry Debtors	1,591
3,125	Total	9,290

21. Current Liabilities

31 March 2021 £000	Creditors	31 March 2022 £000
(4)	Fund Managers Fees	0
(524)	Sundry	(5,974)
(379)	Payroll	(387)
(907)	Total	(6,361)

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 2021/22 to AVC schemes outside the Authority's responsibility was £0.262m (£0.396m at 31 March 2021). The total value of accumulated AVC's at 31 March 2022 is £2.46m (£2.69m at 31 March 2021).

23. Related Parties

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.23m (2020/21 £0.36m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension Fund. All monies owing to and due from the Fund were paid in year.

No members of the pension Fund committee are in receipt of pension benefits from the Merton Pension Fund. The three officers and the two staff pensioner reps of the committee are active members of the Fund.

In addition, the four local pension board members are active members of the pension Fund.

Each member of the pension Fund committee is required to declare their interests at each meeting. No other declarations were made during the year.

Key Management Personnel

The key management personnel of the Fund are the Director of Corporate Services, the Assistant Director of Resources and the Head of Treasury and Pensions. Total remuneration payable to key management personnel is shown below:

	31 March 2021 £	31 March 2022 £
Short-term benefits	87,186	88,941
Total remuneration	87,186	88,941

24. Contingent Liabilities & Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2022 were £19.2m (31 March 2021 £29.06m).

These commitments relate to outstanding call payments due on private debt and infrastructure investments. The amounts 'called' by these investments are irregular in both size and timing over a period of between one and three years from the date of each original commitment.

The external auditor remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements.

Statements of Responsibilities

The Council's Responsibilities

The Council is required:

1. 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 Council, that officer is the Director of Corporate Services.
2. To manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
3. 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 Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Corporate Services has:

1. Selected suitable accounting policies and then applied them consistently.
2. Made judgements and estimates that were reasonable and prudent.
3. Complied with the local authority Code of Practice.

The Director of Corporate Services has also:

1. Kept proper accounting records which were up to date.
2. 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 Council at the accounting date and its income and expenditure for the year ended 31st March 2022.

Signed

R Kershaw

Interim Executive Director of Finance and Digital

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 and the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.

Signed

Mike Brunt

Chairman Standards and General Purposes Committee

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 Nemashe Sivayogan 020 8545 3461

Independent Auditor's Report

The final Auditors Report will be received from EY in March 2023

Glossary

ACCOUNTING POLICIES

Rules and practices followed in drawing up the accounts.

ACCOUNTING CODE OF PRACTICE

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

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:

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

AMORTISED COST

A way of measuring financial instruments that ignores changes in fair value. Defined as the amount at which a financial instrument is measured when it is first brought onto the Balance Sheet, adjusted for:

1. Repayments of principal (minus), and
2. Cumulative amortisation of any difference between the initial amount and the maturity amount (using the effective interest method) (plus or minus).

These differences might arise (e.g.) from transaction costs being set off against the principal amount of a loan, or interest being payable at less than market rates.

AMORTISED COSTS FINANCIAL ASSETS

Investments for which any gains and losses in fair value are not accounted for until the investment matures or is sold. Defined as financial assets:

1. Held within a business model whose objective is to hold investments in order to collect their contractual cash flows, and
2. Which have the form of a basic lending arrangement (i.e. contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding).

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.

BUSINESS MODEL

Arrangements for holding financial assets, whose objectives can involve making a return by either collecting the cash flows payable under the contracts for each investment (e.g. interest) or hoping to sell investments to gain from increases in their value.

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

Capital receipts on the disposal of non-current assets where cash settlement is deferred.

CAPITAL RECEIPTS

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

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

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

COLLECTION FUND

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

COMMUNITY ASSETS

Assets that the local Council 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 Council.

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.

CONTRACT ASSET

An asset arising from a contract for the purchase of goods and/or services from the Council, where the Council has met some of its performance obligations but is not yet entitled unconditionally to receive payment

CONTRACT LIABILITY

A liability arising from a contract for the purchase of goods and/or services from the Council, where the Council has received payment but has yet to meet the performance obligations relating to that payment.

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 Council's area and the proceeds are paid into the Collection Fund for distribution to precepting authorities and to the Council's own General Fund.

CREDIT-ADJUSTED EFFECTIVE INTEREST RATE

The effective interest rate calculated for purchased or originated credit-impaired financial assets that takes into account expected credit losses.

CREDIT-IMPAIRED FINANCIAL ASSET

A financial asset for which events have occurred that have a detrimental impact on the estimated future cash flows due to the Council (e.g. financial difficulties of the borrower, a breach of contract).

CREDIT LOSSES

A measure of how much the Council would lose if the amounts owed to it by debtors and borrowers are not repaid. Defined as the shortfall between all the cash flows that are due contractually to the Council under a financial asset and those that it actually expects to receive (discounted using the investment's effective interest rate).

CREDITORS

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

CURRENT SERVICE COST (PENSIONS)

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

CURTAILMENT COSTS

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

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

DEBTORS

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

DEFICIT FUNDING (Employers Additional Funding)

An agreed additional payment made annually by the employer to the Pension Fund to cover a past service deficiency over a fixed recovery period.

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).

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 Council'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.

EFFECTIVE INTEREST METHOD

The method that uses effective interest rates to calculate the amortised cost of a financial instrument and allocates interest revenue or expense to the particular financial years over which the instrument is held.

EFFECTIVE INTEREST RATE

The interest rate that exactly discounts future cash payments and receipts over the life of a financial instrument to the carrying amount (gross of any loss allowance) (asset) or to the amortised cost (liability). This might be different from the actual interest rate where (e.g.) transaction costs have been accrued or because of interest at less than market rates being spread over the term of the instrument.

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 Council, 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.

EXPECTED CREDIT LOSSES (ECLs)

The credit losses that the Council estimates will arise from the amounts that it is currently owed. ECLs are calculated by measuring the losses that would arise from different default scenarios and calculates a weighted average loss based on the probability of each scenario taking place.

12 MONTH EXPECTED CREDIT LOSSES

The expected credit losses for a financial asset that are projected for the possible default events that might happen only in the next financial year.

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.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS

Investments for which gains and losses in fair value are recognised on the Balance Sheet but do not impact on the Council's income as they arise but only when the investment matures or is sold. Defined as financial assets:

1. Held within a business model whose objective is achieved by both collecting contractual cash flows and selling investments; and
2. Which have the form of a basic lending arrangement (i.e., contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding).

FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS

Defined as financial assets that do not qualify for measurement at amortised cost or fair value through other comprehensive income.

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 INSTRUMENT

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

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.

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

GOVERNMENT GRANTS

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

GROSS EXPENDITURE

The total expenditure of a fund or account.

GROUP ACCOUNTS

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

HERITAGE ASSETS

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

IFRS

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

IMPAIRMENT

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

INCOME AND EXPENDITURE ACCOUNT

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

INFRASTRUCTURE ASSETS

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

INTANGIBLE ASSETS

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

INTEREST COST (PENSIONS)

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

INVESTMENTS (PENSION FUND)

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

INVESTMENTS (NON-PENSION FUND)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. 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.

LCIV (LONDON COLLECTIVE INVESTMENT VEHICLE)

LCIV is a Collective Investment Vehicle for London Local Authorities (LLA) Pension Funds which delivers broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually and overall better risk adjusted performance.

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 council or other statutory body which is paid by the Council.

LIABILITIES

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

LIFETIME EXPECTED CREDIT LOSSES

The expected credit losses that are projected to arise from all possible default events that might happen in the lifetime of a financial asset.

LOSS ALLOWANCE

An allowance made by setting funds aside to cover the expected credit losses calculated for a financial asset.

MATERIALITY

Materiality sets the threshold for determining whether an item is relevant. This is defined as:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case.

MHCLG

This is the Government department for Housing, Communities and Local Government.

NAV (NET ASSET VALUE)

Net Asset Value is the value of an entity's assets minus the value of its liabilities.

NET ASSETS

The Net Assets of the Council is the amount that the Council 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 Council shows how the net assets of the Council 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-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 council 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 Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

PAST DUE (FINANCIAL ASSETS)

A financial asset for which a payment that was due contractually to the Council has not yet been paid.

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.

PAYMENTS OF PRINCIPAL AND INTEREST

The amounts that would be paid under a basic lending arrangement. For accounting purposes, they comprise:

1. The repayment of the fair value of a financial asset when it was brought onto the Council's Balance Sheet (principal); and
2. Consideration for the time value of money, compensation for credit risk, recovery of basic lending costs and a profit margin (interest).

PENSION STRAIN (Employers Additional Funding)

Payments made to the Pension Fund to cover additional costs to the Pension Fund where a member draws their pension benefits a lot earlier than expected.

PERFORMANCE OBLIGATION

A promise in a contract with a service recipient for the Council to deliver goods and/or services.

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 EVENTS

These are events which arise after the end of the accounting period. They can be divided into

1. 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.
2. Non Adjusting Events, which are indicative of conditions that arose subsequent to period end, that are reported by way of a note to the accounts.

PRECEPTS

An amount collected by the Council as part of the Council Tax on behalf of another statutory body.

PRIVATE FINANCE INITIATIVE (PFI)

PFI contracts are agreements with private sector organisations to refurbish, maintain and operate fixed assets on behalf of public sector organisations such as local authorities.

PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are material adjustments relating to the accounts of previous years and which arise from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. Prior period adjustments do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSET

A financial asset that was credit-impaired when it was first brought onto a Council's Balance Sheet.

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.

REFCUS

Revenue expenditure allowed to be funded by capital under statute.

RESERVES

These are amounts set aside for specific purposes. The Council has discretion in whether it wishes to set aside these amounts as distinct from sums set aside in provisions.

RESIDUAL VALUE

This is the estimate, based on current prices, of the increase in market value of the buildings transferred to New Schools 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.

SERVICE RECIPIENT

A person or an organisation that has contracted with the Council (as part of the Council's normal business) to obtain goods and/or services in return for payment (or in exchange of goods/services to the Council).

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:

1. A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits.
2. The purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
3. The transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

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.

TRANSACTION PRICE

The amount the Council expects to be entitled to under contract in exchange for transferring promised goods and/or services to a service recipient.\

USEFUL LIFE

This is the period over which the local Council derives benefit from the use of a fixed asset.

VESTED RIGHTS

In relation to a defined benefit scheme, these are: -

1. for active members, benefits to which they would unconditionally be entitled on leaving the scheme.
2. for deferred pensioners, their preserved benefits.
3. for pensioners, pensions to which they are entitled.

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London Borough of Merton Draft Audit Results Report

Year ended 31 March 2022

11 November 2022

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the logo.

Building a better
working world

11 November 2022



London Borough of Merton
Standards and General Purposes Committee
Civic Centre
Morden
SM4 5DX

Dear Committee Members

2022 Audit Results Report

We are pleased to attach our draft audit results report, summarising the status of our audit of the London Borough of Merton (the Authority).

The audit is designed to express an opinion on the 2022 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Standards and General Purposes Committee, other members of the Authority and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcomed the opportunity to discuss the contents of this report with you at the Standards and General Purposes Committee meeting.

Yours faithfully

E. Jackson.

Elizabeth Jackson, Partner
For and on behalf of Ernst & Young LLP
Encl

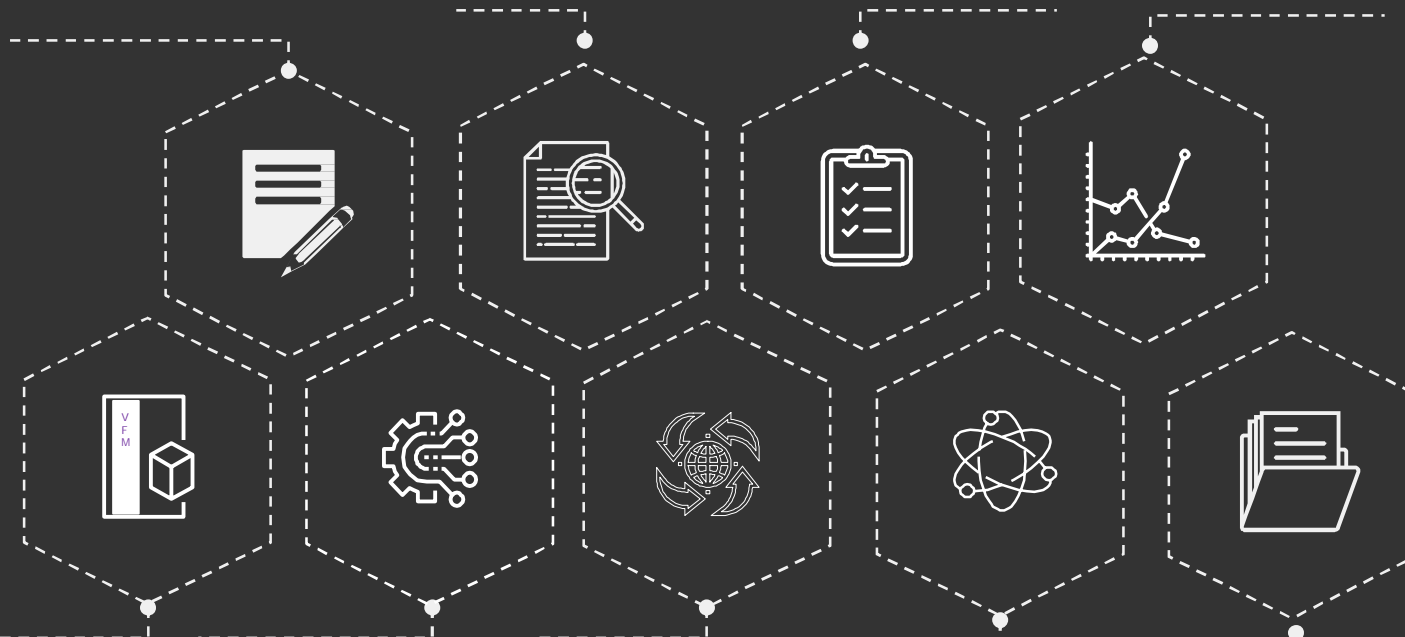
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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities 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 and further guidance (updated April 2018)” 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 and management of the London Borough of Merton in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of the London Borough of Merton 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 and management of the London Borough of Merton for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary

Executive Summary

Scope update

In our audit planning report dated 9 June 2022, presented to the Standards and General Purposes Committee on 21 July 2022, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following updates:

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment

Materiality	Group (£m)		Authority (£m)	
	Outline Audit Plan	Final	Outline Audit Plan	Final
Planning Materiality	£10.0m	£10.9m	£9.8m	£10.7m
Performance Materiality	£7.5m	£8.2m	£7.3m	£8.0m
Audit Differences	£0.5m	£0.5m	£0.5m	£0.5m

Additional Significant Risk - Infrastructure Assets

During 2022, a national technical issue was raised in respect of the accounting treatment of Infrastructure Assets. The issue was raised through the National Audit Office's Local Government Technical Group as to whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for replaced components that need to be de-recognised when the subsequent expenditure is added. It was also determined that this may in turn lead to issues related to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost. This is a national issue impacting the majority of local government bodies holding material infrastructure assets. We included this as an areas of focus in our audit plan but have subsequently reclassified this as a significant risk given its impact on the financial statements.

CIPFA published in May 2022 its 'Temporary Proposals for the Update of the Code of Local Authority Accounting in the UK' on Infrastructure Assets. Following the CIPFA consultation, it was indicated that there may be enhance guidance, or amendments to the CIPFA Code. Asset registers do not tend to record Infrastructure Assets with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation. This is the case at the Council. Given the challenges raised as a result of the level of information available, it is not possible to identify the cost and accumulated depreciation balances that need to be de-recognised. The issues in respect of the CIPFA Code of Practice affects additions to Infrastructure Assets from 2010/11 when IFRS Accounting was adopted by the CIPFA Code of Practice.

Infrastructure Assets have a net book value of £99.1 million as at 31 March 2022.

The Council have decided to wait for a potential statutory override which would need statutory approval before a revised and updated Code of Practice would be available. It is anticipated that the timetable for this legislation may now be in late December 2022 which means officers will then need some time to implement the new Code and make the necessary adjustments to the financial statements. It is therefore likely that the financial statements will not be finalised until January / February 2023.



Executive Summary

Scope update

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Status of the audit

As at 11 November our audit work in respect of the Authority's opinion remains in progress. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- Receipt of the IAS19 letter from the auditor of Merton Pension Fund;
- Property, plant and equipment valuation testing across all asset classes;
- Queries relating to short term debtors and creditors;
- Grant and covid grant testing;
- Receipt of outstanding evidence to support our work on other disclosures, including but not limited to leases and related party transactions;
- Responses to our queries raised on the Authority's going concern disclosure and supporting cashflow forecast;
- Completion of journal testing;
- Update of our subsequent events procedures to the date of our opinion;
- Final check of the updated financial statements and narrative report after completion of all outstanding procedures;
- Receipt of a signed letter of management representation; and
- Whole of Government Accounts: We have yet to receive the NAO instructions on this for 2021/22.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 03.



Executive Summary

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit – Value for Money

Page 259
In the audit planning report presented to the Standards and General Purposes Committee in July 2022, we reported that we were yet to complete our value for money (VFM) risk assessment. We subsequently completed our planning risk assessment and did not identify any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness.

As a result, we have completed our planned VFM procedures. We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report within three months of the audit report. There are no issues arising that impact on the auditor opinion report.

Audit differences

Adjusted differences

Our audit of the Authority's draft accounts has identified a number of adjustments. At the current time we await a revised version of the financial statements but anticipate that the Council will adjust for all differences that we have identified:

- Collection Fund – There were a significant number of errors in the underlying workings for the collection fund. These resulted in material changes to not only the collection fund but also the primary statements, The errors were generally clerical in nature and included the mis-posting of journals which had an impact of £5.6m on the impairment provision for national non domestic rates debtors and incorrect signage within the underlying working papers and accounts disclosures.
- Cash – Cash in the draft accounts was understated by £1.1m due to the ledger not agreeing to the underlying bank reconciliations and bank statement confirmations. We have also identified individually immaterial school balances of £1.4m which represent funds raised by the Schools themselves, we are currently investigating if these balances should be included within the financial statements.

We include specific details in Section 02 in our response to areas of audit focus and Section 04 audit differences as appropriate.

A small number of other non-material amendments were made to disclosures appearing in the financial statements as a result of our work.

As our audit is still ongoing further differences may be identified.

Unadjusted differences

As stated above we anticipate all adjustments identified to be corrected by management.



Executive Summary

Other reporting issues

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

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee on the outcome of this work. Currently, the issue of the template submission by HM Treasury has been delayed, meaning that this work cannot be performed until December at the earliest. This does not affect our ability to sign the audit opinion on your financial statements.

We have no other matters to report.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

We identified two control deficiencies that we wish to draw to your attention in relation to the Collection Fund and the preparation of the underlying working papers. More details can be found in section 07 of this report.

Independence

Please refer to Section 08 for our update on Independence. We have no independence issues to report .



02 Areas of Audit Focus



Audit risks

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

This risk applies to the Council (single entity) and group financial statements.

What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of expenditure as a potential area of manipulation.

What did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

What are our conclusions?

As a result of our procedures:

- We have not identified any evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- We have not identified any other transactions which appeared unusual or outside the Authority's normal course of business.

This conclusion is subject to completion of the outstanding items on page 6.



Significant risk

Inappropriate capitalisation of revenue expenditure

What is the risk and potential impact on the financial statements?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

This risk applies to the Council (single entity) and group financial statements.

What did we do and what judgements did we focus on?

We:

- Tested additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- Considered the need to test REFCUS to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. However, we note that expenditure capitalised as REFCUS was well below our performance materiality level so there was no requirement to undertake any detailed testing.
- Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

In testing the capitalised expenditure we focused on the following judgements:

- We sought to gain assurance the capitalised spend clearly enhanced or extended the useful life of assets rather than simply repairing or maintaining the assets on which it was incurred.
- We sought to gain comfort that any development or other related costs that were capitalised were reasonable to capitalise i.e. the costs incurred were directly attributable to bringing the asset into operational use.

We sought to utilise our data analytics capabilities to assist with our work, including journal entry testing.

What are our conclusions?

We have not identified any indication of management inappropriately capitalising revenue expenditure subject to completion of the outstanding items on page 6.



Audit risks

Significant risk

Risk of fraud in revenue and expenditure recognition (Covid-19 grants)

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have considered the income and expenditure streams of the Council and our assessment is that the risk is most prominent with regards to inappropriate recognition of Covid-related grant funding, including incorrect identification of whether the Council is acting as the principal or an agent and whether any associated terms and conditions were met prior to recognition.

This risk applies to the Council (single entity) and group financial statements.

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What judgements are we focused on?

We are focussed on testing a sample of Covid-19 related grants ensuring that the key judgments regarding their recognition had been appropriately applied.

What did we do?

- Reviewed the accounting treatment of new Covid-related grants for 2021/22 to confirm that they have been correctly accounted for as either a principal or agent arrangement.
- Tested a sample of Covid-19 related grants to ensure that any terms and conditions were met prior to recognition as income and that the grants have been correctly accounted for.

What are our conclusions?

Our work to date has highlighted a number of issues with the reconciliation of grants received as per the financial statements and the underlying working papers.

It has also identified a number of instances where the Council have incorrectly recorded if they are acting as principal or agent. We are currently working with the Council to quantify this and our work remains ongoing.

Significant risk

Valuation of Land and Buildings – PPE valued under Depreciated Replacement Cost (DRC) and Existing Use Value (EUV)/Fair Value (FV)

What is the risk and potential impact on the financial statements?

The fair value of land and buildings represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. 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.

In 2020/21 significant changes were made to the carrying value of property, plant and equipment in the financial statements in the current and comparative years as a result of our work. Our work highlighted:

- The incorrect application of amenity land value for undeveloped land in non-school assets; and
- The blanket use of discounted residential land rates to non residential assets valued at DRC.

This risk applies to the Council (single entity) and group financial statements.

What did we do and what judgements did we focus on?

We:

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used by the valuer.
- Tested accounting entries have been correctly processed in the financial statements.
- Ensured that appropriate disclosure had been made in the accounts concerning the possibility of 'material uncertainty'.
- Commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. Sampling focussed on:
 - Assets more susceptible to the market volatility brought about by C-19. We consider this relates to assets carried at either fair value or EUV
 - Asset categories where errors were noted in the prior year.
 - Other significant classes of assets, for example schools, where we have no prior year knowledge of the approach of the new external valuer and there had been significant changes in the carrying value of assets from the prior year.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Reviewed assets not subject to valuation in 2021/22 to confirm the remaining asset base was not materially misstated.

Our work in this area is currently ongoing and we will provide a verbal update to the Standards and General Purposes Committee.



Significant risk

Infrastructure assets

What is the risk?

An issue has been raised through the National Audit Office's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part / component has been replaced or decommissioned. This matter is currently under consideration by CIPFA and the Department for Levelling Up, Housing and Communities. The Council hold Infrastructure Assets, with a net book value of £99.1 million at 31 March 2022.

As a result of not writing out gross cost and accumulated depreciation where components are replaced, there is a risk that, if this is the case for elements not fully depreciated, assets in the balance sheet could be overstated. We have raised a significant risk in this area to ensure the correct accounting treatment is applied that takes into account any updated guidance from CIPFA and that the Council has appropriate evidence to support that treatment.

This risk applies to the Council (single entity) and group financial statements.

What judgements are we focused on?

In order to address this risk we carry out a range of procedures including:

- Continue to discuss the matter with the Council as guidance on accounting for Infrastructure Assets is updated.
- Understand the Council's Infrastructure Assets balance and the individual assets comprising this balance.
- Sample test expenditure additions to Infrastructure Assets to test whether they are additions to an asset or are replacements component of an asset.
- Understand the Council's process for writing out gross cost and accumulated depreciation on the Infrastructure Assets balance and any replacement additions to determine whether this is materially correct at the balance sheet date.

What are our conclusions?

Given the decision to wait for a statutory override which would need statutory approval before a revised and updated Code of Practice would be available, it is likely that audit work on this area cannot be finalised until January / February 2023.



Areas of Audit Focus

Inherent Risks

What is the risk/area of focus?

National Non-Domestic Rates (NNDR) Appeals Provision

Statistics compiled by the Department for Levelling Up, Housing and Communities (DLUHC), reveal that councils are forecasting net additions to appeal in the coming years. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.

In light of this we consider there to be a higher inherent risk of misstatement of the Authority's NNDR appeals provision.

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going concern disclosures

Covid-19, together with the political and economic turmoil in the external environment creates a number of financial pressures and risks across local government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that organisations that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

To address the requirement of the ISA, the auditor must review management's assessment of the going concern basis. The auditor's report in respect of going concern covers at least a 12-month period from the date of the report, therefore the Council's assessment also needs to cover this period.

What did we do?

We:

- Reviewed the assumptions made by the Council's NNDR appeals provision specialist Analyse Local; and
- Assessed the reasonableness of any local adjustments made by the Council on the NNDR appeals provision.

Our testing concluded that the provision was fairly stated.

We:

- Reviewed, tested and challenged supporting evidence provided by management to assess the reasonableness of financial projections.
- Tested and assessed the reasonableness of the Council's cash flow forecasts.
- Audited the levels of current and proposed borrowing against the prudential borrowing limit to confirm that the Council plans to remain within that limit.
- Reviewed management's going concern assessment in the draft financial statements. We asked management to make a number of amendments and enhancements to the disclosure.
- Read the narrative report and financial statement disclosures in relation to the financial statements being prepared on a going concern basis to ensure that they were consistent with our knowledge of the Council's financial position

Our work in this area is ongoing and we will provide a verbal update to the Standards and general Purposes Committee.



Areas of Audit Focus

Inherent Risks

What is the risk/area of focus?

Valuation of defined benefit pension scheme

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.

The Council's pension liability is a material estimated balance and is required to be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued by the Pension Fund actuary to the Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on its behalf. We are required to undertake procedures on the use of the use of the actuary as management's expert and the assumptions underlying fair value estimates.

What did we do?

We:

- Liaised with the auditors of Merton Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the London Borough of Merton.
- Assessed the work of the Pension Fund actuary including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considered any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

At the time of writing of this report, our planned work in this area is largely complete, but we are waiting on the assurance letter provided by the Pension Fund Auditor.

We have assessed the work of the pension fund actuary on the pension liability. This included the use of Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors & our EY actuary team. This showed the pension liability was fairly stated.

We reviewed and tested the accounting entries and disclosures made by the authority and confirmed they were in line with relevant account standards and The Local Authority Accounting Code of Practice.

We will provide a verbal update at the Standards and General Purposes Committee.



03 Audit Report



Audit Report

A draft audit report will be provided on completion of the outstanding procedures documented within this report.



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the 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

Adjusted differences

Our audit of the Authority’s draft accounts has identified a number of adjustments. At the current time we await a revised version of the financial statements but anticipate that the Council will adjust for all differences that we have identified:

- Collection Fund - There were a significant number of errors in the underlying workings for the collection fund. These resulted in material changes to not only the collection fund but also the primary statements, The errors were generally clerical in nature and included the mis-posting of journals which had an impact of £5.6m on the impairment provision for national non domestic rates debtors and incorrect signage within the underlying working papers and accounts disclosures.
- Cash - Cash in the draft accounts was understated by £1.1m due to the ledger not agreeing to the underlying bank reconciliations and bank statement confirmations. We have also identified individually immaterial school balances of £1.4m which represent funds raised by the Schools themselves, we are currently investigating if these balances should be included within the financial statements.

We include specific details in Section 02 in our response to areas of audit focus and Section 04 audit differences as appropriate.

A small number of other non material amendments were made to disclosures appearing in the financial statements as a result of our work.

As our audit is still ongoing further differences may be identified.

Unadjusted differences

As stated above we anticipate all adjustments identified to be corrected by management.



05

Value for Money



Value for money

The Authority's responsibilities for value for money (VFM)

The Authority is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

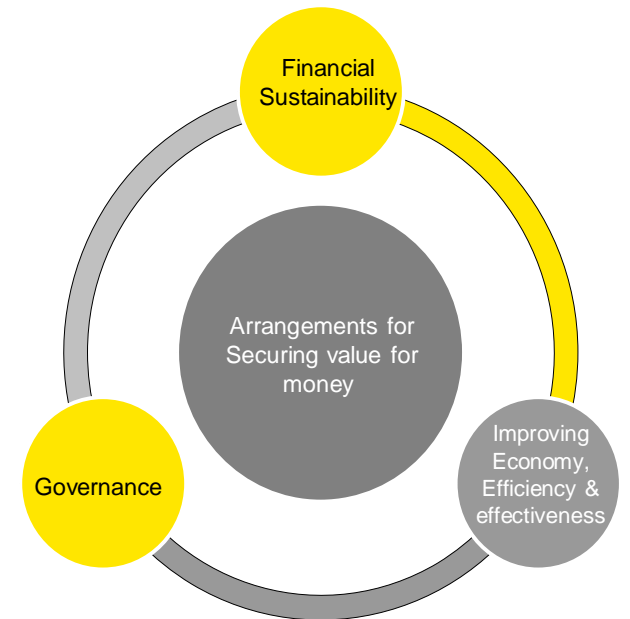
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

In the Audit Planning Report presented to the Standards and General Purposes Committee in July 2022, we reported that we were yet to complete our value for money (VFM) risk assessment. We subsequently completed our planning risk assessment and did not identify any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures.

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report within three months of issuing the audit report. There are no issues arising that impact on our audit opinion.





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 2021/22 Financial Statements document 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.

We have concluded that the financial information in the 2021/22 Draft Financial Statements document and published with the financial statements was consistent with the audited financial statements.

The Annual Governance Statement is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because the NAO are yet to release their group instructions for 2021/22. The audit certificate will be issued once this work is complete.

Other reporting issues

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.

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 Council’s financial reporting process. They include the following:

- Page 278
- 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;
 - Findings and issues around the opening balance on initial audits (if applicable);
 - Related parties;
 - External confirmations; and
 - Consideration of laws and regulations.

We have nothing further to report on these issues that is not contained within other sections of our report.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of Control Environment

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

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 and we considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely.

As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware, but wish to draw the following issue to your attention.

Collection Fund

As noted above there were a significant number of errors in the underlying workings for the collection fund. These resulted in material changes to not only the collection fund but also the primary statements, The errors were generally clerical in nature and included the mis-posting of journals which had an impact of £5.6m on the impairment provision for national non domestic rates debtors and incorrect signage within the underlying working papers and accounts disclosures.

There had been staff changes in the preparation of the collection fund in the current year, and given the nature of the errors these were clearly identifiable from a review of the draft financial statements. Management should ensure sufficient support and review is provided to ensure any detectable errors are identified before the draft accounts are issued for audit.

As our audit is still ongoing further areas for improvement may still be identified.



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8

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Authority and its members and senior management and its affiliates, including all services provided by us and our network to the Authority, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final proposed fee 2021/22	Planned fee 2021/22	Final Fee 2020/21
	£	£	£
Scale Fee - Code work	£110,493	£110,493	£110,493
Final 2020/21 scale fee variation determined by PSAA (Note 1)	-	-	£99,821
Scale fee rebasing (Note 2)	£133,276	£133,276	-
Risk based fee variations (see Note 3)	TBC	TBC	-
Total Fees	TBC	TBC	£210,314

Note 1 - The 20/21 final fee includes a scale fee variation which has been determined by PSAA of £99,821.

Note 2 - Given the number of significant risks and areas of audit focus that we highlighted in our audit plan as areas of additional work and in order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £133,276 to deliver the audit in 2020/21 which reoccurred in 2021/22 and we expect to reoccur in subsequent years. This also includes the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. PSAA has provided outline amounts to charge for the work required to address these latter areas.

Note 3 - As noted in the previous sections of this report, we have identified new and continuing risks for 2021/22 that are not within the scale fee. Additional work will be required, but we are unable to quantify the impact at this time until the audit is complete.

Other communications

EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

[EY UK 2022 Transparency Report | EY UK](#)



9

Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

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There were no significant changes to our audit approach apart from the additional work we were required to undertake to address the requirements of the new auditing standard on accounting estimates. This primarily impacted out audit procedures on:




The revaluation of land and buildings classified as Property, Plant and Equipment (PPE), Investment Property (IP) and Surplus Assets.

- Pension liability and asset valuation.





Appendix B

Required communications with the Standards and General Purposes Committee





There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Page 286	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
	Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	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, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Plan, July 2022 meeting of the Standards and General Purposes Committee
	Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report, November 2022 meeting of the Standards and General Purposes





Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> • Management; • Employees who have significant roles in internal control; or • Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Standards and General Purposes Committee responsibility. 	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of 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 about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan, July 2022 meeting of the Standards and General Purposes Committee Audit Results Report, November 2022 meeting of the Standards and General Purposes

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including: <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements 	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Misstatements Page 288	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report, November 2022 meeting of the Standards and General Purposes
External confirmations	<ul style="list-style-type: none"> • Management’s refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit Results Report, November 2022 meeting of the Standards and General Purposes

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Group Audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit Plan, July 2022 meeting of the Standards and General Purposes Committee Audit Results Report, November 2022 meeting of the Standards and General Purposes
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report, November 2022 meeting of the Standards and General Purposes

Management representation letter

A draft letter of representation will be provided on completion of the outstanding procedures documented within this report.

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ED None

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Merton Pension Fund Audit results report

Year ended 31 March 2022

10 November 2022

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world



London Borough of Merton
Standards and General Purposes Committee
Civic Centre
Morden
SM4 5DX

10 November 2022

Dear Committee Members

2022 Final Audit Results Report

We are pleased to attach our audit results report for the forthcoming meeting of the Standards and General Purposes Committee. This report summarises our audit conclusion in relation to the audit of Merton Pension Fund for 2021/22.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report.

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 and we welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 28 November 2022.

Yours faithfully

E. Jackson.

Elizabeth Jackson
Partner
For and on behalf of Ernst & Young LLP
Encl

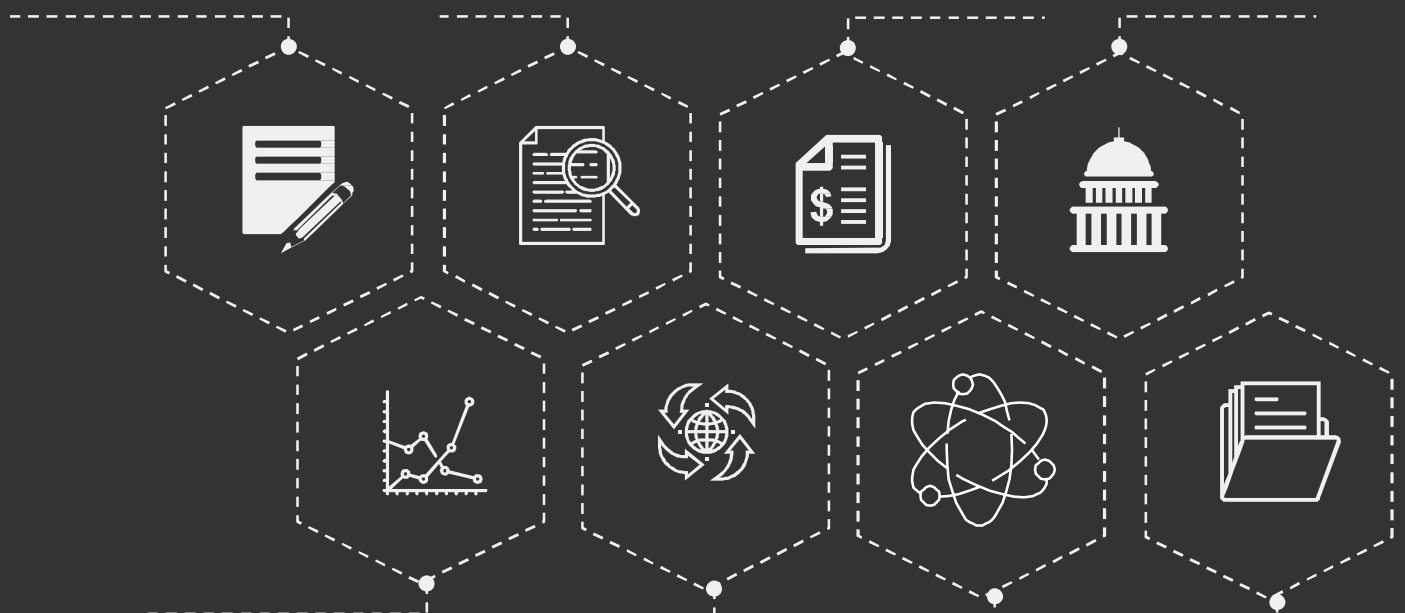
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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities 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 and further guidance (updated April 2018)” 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 and management of the London Borough 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, and management of the London Borough 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 and management of the London Borough of Merton Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary



Executive Summary

Scope update

In our audit planning report dated 26 May 2022, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan with the following updates:

Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements. Materiality determines the locations at which we conduct audit procedures to support the opinion given on the financial statements; and the level of work performed on individual account balances and financial statement disclosures.

There were no changes required to the materiality that was included within in our audit plan as this was based on the draft financial statements. Planning materiality was set at £9.2m, performance materiality at £6.9m and an audit differences threshold of £0.46m

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but resulted in the following impact on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots

Audit differences

At the date of this report there are no unadjusted audit differences. The Fund has agreed to adjust for a small number of differences arising from our audit, largely relating to updated valuation of investment assets as final year end figures were notified to the Fund after the draft accounts were prepared. We include further details in Section 4.



Executive Summary

Status of the audit

Our audit work in respect of the Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- EY review of updated disclosures
 - Final review of fund accounts, including benefits paid, and change in market value of investments
 - Asset valuations, including L3 investment testing
 - Cash testing
 - Agreement of all final amendments to the financial statements and annual report
 - Review of the Fund's cashflow in support of the going concern assumption
 - Update of our subsequent events procedures to the date of our opinion
- Receipt of a signed letter of management representation.

Subject to the satisfactory completion of these procedures and receipt of authorised financial statements we are proposing an unqualified opinion - see Section 3.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatement due to Fraud or Error – Posting of investment journals	We have completed our testing and found no indications of management override of controls. We linked this risk to the manipulation of Investment income and valuation through posting of investment journals.
Valuation of Level 3 investments	<p>We undertook additional procedures, as described more fully in Section 2 of this report, to gain material assurance over the year-end valuation of the Fund's Level 3 investments which are disclosed as level 3 in the fair value hierarchy and therefore inherently more difficult to value.</p> <p>There was a late adjustment to the valuations of Level 3 investment assets resulting in a £4.4m understatement of the fund. Management have subsequently amended this.</p> <p>Our work in this area is ongoing.</p>
Other area of audit focus	Findings & conclusions
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits (Inherent risk)	<p>We carried out procedures as set out in our Audit Plan to gain assurance over the IAS 26 actuarial statement and the associated disclosure of the actuarial present value of promised retirement benefits as a note to the accounts.</p> <p>We have completed our work in this area and have no other matters to bring to your attention.</p>
Going concern (Area of focus)	We are in the process of reviewing the cashflow to support the Fund's disclosure.

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" 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; and
- You agree with the resolution of the issues; and 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 your attention.



Executive Summary

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.

Other reporting issues

We have no other matters to report.

Independence

Please refer to Section 7 for our update on Independence.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

We have considered where this risk manifests and we consider this to be in the manipulation of Investment income and valuation of assets (see slide 11).

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What did we do?

To address this risk we confirm that we have performed the following procedures:

- We inquired of management about risks of fraud and the controls put in place to address those risks;
- We obtained an understanding the oversight given by those charged with governance of management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We performed mandatory procedures regardless of specifically identified fraud risks, including:
 - testing of journal entries and other adjustments in the preparation of the financial statements;
 - reviewing accounting estimates for evidence of management bias; and
 - evaluating the business rationale for significant unusual transactions.
- We utilised our data analytics capabilities to assist with our work, including journal entry testing; and
- We assessed journal entries for evidence of management bias and evaluate for business rationale.

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.



Areas of Audit Focus

Significant risk

Risk of manipulation of Investment income and valuation (Misstatements due to fraud and error)

What is the risk?

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

What judgements are we focused on?

We assessed that the risk of manipulation of investment income and valuation through management override of controls was most likely to affect investment income and assets in the year, specifically through journal postings.

What did we do?

- Tested journals at year-end to ensure there are no unexpected or unusual postings;
 - Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
 - Re-performed the detailed investment note using the reports we have acquired directly from the custodians or fund managers, including the agreement of investment additions and disposals in the year;
 - Sought to obtain further independent support for the valuation of pooled year-end investments where this can be obtained;
 - Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
 - Reviewed accounting estimates for evidence of management bias.
- We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

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 Pension Fund's normal course of business.

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Areas of Audit Focus

Significant risk

Valuation of Level 3 investments

What is the risk?

We consider the valuation of Level 3 investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations. Valuation of these assets involves a high degree of estimation from the fund manager as audited accounts supporting the valuation are only produced up to Quarter 3 of the financial year and may also be made more difficult because of current market volatility.

What judgements are we focused?

The Fund's level 3 investments include investments that require the fund to make judgements, often using the work of a fund manager or custodian, to value those investments whose prices are not publicly available. The material nature of investments means that any error in judgement and estimate could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the Fund year end. Such variations could have a material impact on the financial statements.

What are our conclusions?

We have noted that management made a late adjustment to the financial statements to increase the value of Level 3 investments by £4.4m.

This was to ensure the financial statements agreed to updated information received from Private market investments.

Our work in this area is ongoing and we will verbally update the Committee.



Areas of Audit Focus

Significant risk



Valuation of level 3 investments - further details on procedures/work performed

We:

- Triangulated the valuation reports from the fund managers and custodians to the entries in the financial statements
- Obtained audited financial statements supporting the investments, controls assurance reports and bridging letters for the controls reports to year end
- Considered the work performed by the fund managers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work
- Challenged the key assumptions used by the fund managers in valuations and considered further whether specialist support is needed to support our work in this area. We concluded no such further support was necessary
- Tested accounting entries had been correctly processed in the financial statements.

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Audited financial statements supporting valuations were only available to 30 June 2021 and 31 December 2021. We evaluated those financial statements to gain assurance that:

- The audit report was not qualified or otherwise modified
- The audit report did not contain material uncertainties in respect of going concern and that there were no other matters emphasised that would impact valuation
- The audit report was issued by a reputable auditor.

We also evaluated controls assurance reports to gain assurance they were not qualified and there were no specific control failures that could impact the valuation of investments.

To gain assurance over the valuation of level 3 investments at the Net Asset Statement date of 31 March 2022, we:

- Agreed the net asset value of private debt and infrastructure investments to underpinning audited financial statements as at 31 December. We then adjusted the 31 December 2021 valuation for known calls and puts in the final quarter of the year assuming they occurred at the start of the quarter
- Used available quarter 3 to 4 indices relevant to the type of investment to create a high/low range of movements for quarter 4 and applied that to the valuation derived for each investment. We confirmed that the range established was not greater than our performance materiality
- We compared the valuation in the financial statements to the range established to gain assurance investments values in the financial statements were not materially outside the expected range.

Inherent risks and other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report on.

What is the risk/area of focus?

IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits (Inherent risk)

We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to its nature.

Going Concern Disclosure (Area of focus)

There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Fund to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Fund is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

What did we do?

We have:

- Agreed the disclosure to the IAS 26 actuarial statement and reporting requirements
- Engaged auditor's specialists to review the IAS 26 calculation approach and comment on the underlying assumption
- Reviewed the work of the management specialist (Barnett Waddingham, the actuary) and auditor's specialist
- Considered the controls used by Barnett Waddingham in undertaking the calculation
- Performed IAS 19 procedures, which give us assurance over the data input into the calculation

We have completed our work in this area and have no matters to bring to your attention.

We are currently in the process of reviewing the Fund's cashflow forecast in support of the going concern assumption.

We will provide the Committee with a verbal update with our progress in this area.



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03 Audit Report



Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2022 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 24. 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 2021/22.

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 2022 and the amount and disposition of the fund's assets and liabilities as at 31 March 2022, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Acting Executive Director of Finance and Digital use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Acting Executive Director of Finance and Digital with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

- The other information comprises the information included in the London Borough of Merton Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Acting Executive Director of Finance and Digital is responsible for the other information contained within the Statement of Accounts 2021/22.
- Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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.

Responsibility of the Acting Executive Director of Finance and Digital
As explained more fully in the Statement of the Acting Executive Director of Finance and Digital' Responsibilities set out on page 188, the Acting Executive Director of Finance and Digital 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 2021/22, and for being satisfied that they give a true and fair view. The Acting Executive Director of Finance and Digital is also responsible for such internal control as the Acting Executive Director of Finance and Digital determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Acting Executive Director of Finance and Digital is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administering Authority either intends to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with Acting Executive Director of Finance and Digital. Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

We understood how the Fund is complying with those frameworks by making enquiries of management. We corroborated this through [our reading of the Pension Board minutes, through enquiry of employees to confirm Pension policies, and through the inspection of employee handbooks and other information.

Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes.

We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

To address our fraud risk of manipulation of investment income and valuation we:

- Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- Reviewed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation to the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team including the use of specialists where appropriate, to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the 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 and uncorrected differences

There were no audit differences greater than £6.9m which have been corrected by management or other specific misstatements identified during the course of our audit which we wish to draw to your attention.

There were no uncorrected audit differences.



05 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 London Borough of Merton Pension Fund Annual report and the audited Financial Statements 2021/22 included within the London Borough of Merton Financial Statements 2021/22.

We are satisfied that the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of the London Borough of Merton for the year ended 31 March 2022.

Our work in this area is ongoing.

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 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 have had no reason to exercise these duties.

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. We have no matters to report.



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Fund 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 Fund 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. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

We have not identified any significant deficiencies in internal control.



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07

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Fund, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Planned Fee 2021/22	Final Fee 2020/21
	£	£
Scale Fee – Code work (1)	16,170	16,170
Final 2020/21 scale fee variation determined by PSAA (see Note 1)	-	16,078
Increased fee for carrying out the 2021/22 audit (see Note 2)	35,397	-
2021/22 Risk based scale fee variation not yet quantified (see Note 3)	TBC	-
Additional fee for IAS19 assurance work on behalf of admitted bodies	8,500	8,000
Total	TBC	40,248

All fees exclude VAT

Note 1 - The 2020/21 additional fees have been determined by PSAA at £16,078.

Note 2 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our bid to PSAA for this contract, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £35,397. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to complete.

Note 3 - We have yet to quantify our proposed risk based scale fee variation for 2021/22. We will report our proposed 2021/22 scale fee variation to management and the Standards and General Purposes Committee in due course.

Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)



08 Appendices

Audit approach update

We summarise below our approach to the audit of the net asset statement and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:




- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded

Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

There were no significant changes to our audit approach, but we did undertake more granular procedures to gain assurance over the valuation of both level 3 investments and the IAS 26 disclosure of the actuarial present value of promised retirement benefits disclosed as a note to the accounts.

Appendix B

Summary of communications




Date 	Nature 	Summary 
March 2022	Meeting	Agreement of the significant risks, planned scope, timing of the audit and indicative audit plan with the Director of Corporate Services.
November 2022	Meeting	Discussion regarding the key findings from our audit of the financial statements and agreement of the audit results report with the Assistant Director of Resources.
Throughout the year	Meetings, calls and emails.	The Partner and Senior Manager has been in regular contact with the Director of Corporate Services and the Assistant Director of Resources in respect of the Fund's risks, accounts closedown and the audit approach.
Throughout the year	Meetings, calls and emails.	The Partner has met the Director of Corporate Services on an ad hoc basis throughout the year to discuss key audit findings and reporting up to the date of issue of this report.
All Standards and General Purposes Committee meetings held in the year	Committee attendance	<p>The Partner and/or Senior Manager have attended those meetings of the Standards and General Purposes Committee held throughout the financial year and to the date of issue of this report.</p> <p>Specific reports issued and communications with the Committee are detailed in Appendix C.</p>

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Appendix C

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 detailed these here together with a reference of when and where they were covered:

		 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
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan – dated May 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – dated May 2022
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report – dated November 2022



Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
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 	No conditions or events were identified, either individually or together to raise any doubt about Merton Pension Fund’s ability to continue for the 12 months from the date of our report
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 • Material misstatements corrected by management 	Audit Results Report – November 2022
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Standards and General Purposes Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial 	Audit Results Report – November 2022 and up to date of our report.
Audit	<ul style="list-style-type: none"> • Enquiries of the Standards and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Fund, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Standards and General Purposes Committee responsibility. 	Audit Results Report – November 2022





Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Fund’s related parties including, when 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 regulations • Difficulty in identifying the party that ultimately controls the Pension Fund 	Audit Results Report – November 2022
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors’ objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	Audit Plan – dated May 2022 and Audit Results Report – November 2022

Appendix C

Required communications	 What is reported?	 When and where
	<ul style="list-style-type: none"> • Details of any inconsistencies between the Ethical Standard and the Fund's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked 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. 	Audit Results Report - November 2022

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Results Report – November 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report – November 2022
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor’s report 	Audit Results Report – November 2022
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Plan – dated May 2022 and Audit Results Report – November 2022

Draft management representation letter

Management Rep Letter

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Merton Pension Fund (“the Fund”) for the year ended 31 March 2022. 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 period from 1 April 2021 to 31 March 2022 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2022, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

We understand that the purpose of your audit of the Fund’s financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), 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 2021/22.
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 the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. 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 2021/22 that are free from material misstatement, whether due to fraud or error.

6. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

7. We have disclosed to us any significant changes in our processes, controls, policies and procedures that you have made to address the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on your system of internal controls. That you do not believe that there are any significant changes.

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

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund’s activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

Draft management representation letter

Management Rep Letter

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3. 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.

4. 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.

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.

6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund’s financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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.
- Unrestricted access to persons within the entity from whom you determined

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund held throughout 2021/22 to the most recent meeting.

5. 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.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. 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.

8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

9. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Draft management representation letter

Management Rep Letter

10. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. 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 to litigation and claims, both actual and contingent, and have disclosed in Note 24 to the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 2.1 to the financial statements discloses all the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, or related to the conflict and related sanctions in Ukraine, Russia and/or Belarus 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 London Borough of Merton Pension Fund Annual Report 2021/22.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.
2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

Draft management representation letter

Management Rep Letter

J. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

K. Actuarial valuation

1. The latest report of the actuary Barnett Waddingham as at 31 March 2019 and dated 27 March 2020 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.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the fund 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.

M. Estimates

1. We confirm that the significant judgments made in making the IAS26 disclosure and fair value hierarchy level 3 investment asset valuations have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimate.

3. We confirm that the significant assumptions used in making the accounting estimate appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, or related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, are complete and are reasonable in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimate.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic, or related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

(Acting Executive Director of Finance & Digital)

(Chair of the Standards and General Purposes Committee)

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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Committee: Standards and General Purposes Committee

Date: 28 November 2022

Wards:

Subject: Progress Report on Risk Management

Lead officer: Roger Kershaw, Interim Director of Corporate Services

Lead member: Billy Christie, **Cabinet Member for Finance and Corporate Services**

Contact officer: Zoe Church, Head of Business Planning, 020 8545 3451

Recommendations:

- A. That the Standards and General Purposes Committee reviews the adequacy of the risk management framework and the associated control environment
 - B. To consider the Key Strategic Risks and Issues faced by the council, and determine whether these are being actively managed
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide a progress report on risk management within Merton, including details of the Key Strategic Risks (KSRs) faced by the council.
- 1.2 The risk management strategy was approved by Cabinet on 7th February 2022 and approved by Council on 2nd March 2022 as part of the 2022/26 Business Plan.

The current Risk Management Strategy is at Appendix I.
- 1.3 All departments review their risks each quarter at their respective DMTs, followed by a review of all risks by the Corporate Risk Management Group (CRMG). The final report in the quarterly cycle is presented to CMT to review the risks that are on the Key Strategic Risk Register (KSRR); these are significant risks, which may have a strategic impact on the council as a whole.
- 1.4 The report also summarises the Zurich risk training of CMT to drive a review of risks throughout the authority.
- 1.5 Strategic oversight is provided annually by Cabinet, and assessment of governance arrangements are considered as part of the annual report to the Standards and General Purposes Committee.

2 DETAILS

Our risk management strategy emphasises the benefits and importance of having effective risk management and provides a concise and structured approach for managing our risks.

It includes clear guidance for defining the likelihood and impact of risks, in order to ensure a consistency in risk scores across the council. Our risks are scored using a Red, Amber or Green status, with scores ranging from one (Green) to a maximum of 24 (Red)

The strategy also includes the process for identifying and raising new risks, the removing of risks from our registers and for escalating any risks, which might affect the Council as a whole, onto the Key Strategic Risk Register (KSRR).

Guidance in relation to financial risk management, particularly in the context of budget setting and monitoring, is detailed in the strategy.

2.1. Departments are continuing to monitor their risks following the Zurich training. Risks are reviewed quarterly by the relevant risk champions and DMTs, to ensure that they have been assessed accurately and in a manner consistent with risk assessment across the organisation and that effective Control Actions to mitigate the risk are in place and updated.

2.2. Corporate Risk Management Group (CRMG) meets quarterly, within two weeks of the DMT risk review meetings, and subjects the departmental risk registers, the KSRR and risk registers for Pensions, Merton & Sutton Joint Cemetery Board and CHAS, to a thorough scrutiny and challenge.

This includes reducing or increasing risk scores, where applicable and ensuring that Control Actions are effective and current. CRMG also agrees the removal of any existing risks once they are no longer deemed to be a risk and the introduction of any new risks.

2.3. After each CRMG meeting details of all our Key Strategic Risks, including proposed amendments such as increased or reduced scores and the addition of new or deletion of risks, are reported to CMT. Any urgent decisions regarding KSRs outside of this quarterly cycle can be escalated to CMT via the monthly finance and performance report.

2.4. In accordance with the risk reporting cycle, the most recent quarterly review of departmental risks was undertaken by DMTs during September 2022, following which all risks were scrutinised at CRMG on 5th October 2022.

2.5. There are currently 13 Key Strategic Risks and 2 Key Strategic Issues on the KSRR.

- A Risk is defined as an event which might occur in the future
- An Issue is something which is happening now or has already happened.

Of these Risks and Issues, seven are scored as red:

5 Strategic Risks and 2 Strategic Issues are red.

One red risk and one red issue are scored at 18 (Likelihood: 6 Very High/ Impact: 3 Serious)

- RE02/ KSR49 Corporate Business Plan & Balanced Budget (Risk)
- RE16/ KSR61 Annual Savings Programme (Issue)

Three red risks and one red issue is scored at 16 (Likelihood: 4 Significant/ Impact: 4 Very Serious)

- ASC39/ KSR89 Charging Reform including Fair Cost of Care – Care Act Reforms (Risk)
- CSF24/ KSR85 Supporting Children with Additional Needs (Issue)
- ER153/ KSR84 Implementation of the Climate Action Plan (Risk)
- IT30/ KSR83 Risk of Cyber Attack on the Council's Infrastructure and Systems (Risk)

One red risk is scored at 15 (Likelihood: 5 High/ Impact: 3 Serious)

- ASC37/ KSR87 Fulfilling Statutory ASC Duties within Budget (Risk)

- 2.6. The KSRR Q2, containing full details of all strategic risks and issues together with their associated Control Actions, can be found at Appendix II.
- 2.7. CRMG also reviews the level of insurance claims against the council on a quarterly basis. Cross-departmental efforts are discussed to try to resolve any identified issues.
- 2.8. The last report to Standards and General Purposes Committee was on 4th November 2021. Since this report officers have reviewed the Covid-19 risk log and migrated long-term Covid-19 related risks on to the risk register.
- 2.9. Our insurance provider Zurich provided training on risk management to Merton Council directors. Following this, each department underwent a thorough review of their risk registers ensuring the risks and issues capture the current conditions. An internal risk management training programme is currently being created to provide training to risk leads/ teams allowing greater understanding of how we manage our risks and issues at Merton Council.
- 2.10. The quarterly review of the departmental risk registers was undertaken throughout September 2022, and the results scrutinised by CRMG in early October 2022 will be included in the 2023/27 Draft Business Plan. The proposed final Business Plan will be updated with January 2023 review information before being approved by February Cabinet and March Council.
- 2.11. Cabinet is responsible for agreeing the risk management strategy on an annual basis. The Standards and General Purposes Committee provides an annual independent oversight of the adequacy of the risk management framework and the associated control environment; and must be satisfied that the council's strategic risks are being actively managed.

- 2.12. The risk management strategy is included within the dedicated risk management pages on the Merton Hub, and informs and underpins all risk management processes. This includes a wide range of areas, including project management, procurement and savings delivery. The risk management pages on the intranet have been reviewed and all information is up to date. All departmental risk registers and the KSRR are published on the Merton Hub intranet, along with guidance and information to assist officers who are responsible for managing and monitoring risks.
- 2.13. All internal audit report recommendations are reviewed by the departmental risk champions to ensure all relevant risk issues are addressed, supporting the internal control process.

3 ALTERNATIVE OPTIONS

- 3.1. Not applicable.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. CRMG contributed to consultations for the revision of the Risk Management Strategy which is attached at Appendix I.

5 TIMETABLE

- 5.1. Not applicable.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. Merton, along with all other local authorities are facing continued financial pressure as a result of inflation, the increased cost of living pressures, reductions in central government funding and increased demand from vulnerable people and children. The harsh reality of this situation is that more and more local authorities are now showing signs of financial stress such as overspending on services coupled with depleting reserves.
- 6.2. Merton closely monitors its financial position providing regular updates to CMT, Cabinet, Scrutiny and Council.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. Risk management is a requirement of regulation 4(a) (iii) of the Accounts and Audit Regulations 2015.
- 7.2. With regards to responses to requests made under the Freedom of Information Act 2000 (FOIA) and other statutory enquiries relating to Council's risk these are based upon the published Key Strategic Risk Register within the Council's annual Business Plan. Requests in relation to disclosure of departmental risk registers under FOI (or under other legislation) will be responded to by the provision of the departmental registers but redacted as and where appropriate.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. There is one specific Key Strategic risk around equalities that is contained within the body of the report.

9 CRIME AND DISORDER IMPLICATIONS

9.1. There are no Key Strategic Risks which focus on specific crime and disorder implications.

10 HEALTH AND SAFETY IMPLICATIONS

10.1. There is one Key Strategic Risk with Health and Safety implications that is contained within the body of the report.

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

- Appendix I – Risk Management Strategy (January 2022)
- Appendix II - Key Strategic Risk Register
- Appendix III – Key Strategic Issue Register

12 BACKGROUND PAPERS

12.1. Relevant papers held within the Resources Division

Committee: Standards and General Purposes Committee

Date: 28 November 2022

Wards:

Subject: Progress Report on Risk Management

Lead officer: Roger Kershaw, Interim Director of Corporate Services

Lead member: Billy Christie, **Cabinet Member for Finance and Corporate Services**

Contact officer: Zoe Church, Head of Business Planning, 020 8545 3451

Recommendations:

- A. That the Standards and General Purposes Committee reviews the adequacy of the risk management framework and the associated control environment
 - B. To consider the Key Strategic Risks and Issues faced by the council, and determine whether these are being actively managed
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide a progress report on risk management within Merton, including details of the Key Strategic Risks (KSRs) faced by the council.
- 1.2 The risk management strategy was approved by Cabinet on 7th February 2022 and approved by Council on 2nd March 2022 as part of the 2022/26 Business Plan.

The current Risk Management Strategy is at Appendix I.
- 1.3 All departments review their risks each quarter at their respective DMTs, followed by a review of all risks by the Corporate Risk Management Group (CRMG). The final report in the quarterly cycle is presented to CMT to review the risks that are on the Key Strategic Risk Register (KSRR); these are significant risks, which may have a strategic impact on the council as a whole.
- 1.4 The report also summarises the Zurich risk training of CMT to drive a review of risks throughout the authority.
- 1.5 Strategic oversight is provided annually by Cabinet, and assessment of governance arrangements are considered as part of the annual report to the Standards and General Purposes Committee.

2 DETAILS

- 2.1. Our risk management strategy emphasises the benefits and importance of having effective risk management and provides a concise and structured approach for managing our risks.

It includes clear guidance for defining the likelihood and impact of risks, in order to ensure a consistency in risk scores across the council. Our risks are scored using a Red, Amber or Green status, with scores ranging from one (Green) to a maximum of 24 (Red)

The strategy also includes the process for identifying and raising new risks, the removing of risks from our registers and for escalating any risks, which might affect the Council as a whole, onto the Key Strategic Risk Register (KSRR).

Guidance in relation to financial risk management, particularly in the context of budget setting and monitoring, is detailed in the strategy.

- 2.2. Departmental risks are reviewed quarterly by the relevant risk champions and DMTs, to ensure that they have been assessed accurately and in a manner consistent with risk assessment across the organisation and that effective Control Actions to mitigate the risk are in place and updated.
- 2.3. Corporate Risk Management Group (CRMG) meets quarterly, within two weeks of the DMT risk review meetings, and subjects the departmental risk registers, the KSRR and risk registers for Pensions, Merton & Sutton Joint Cemetery Board and CHAS, to a thorough scrutiny and challenge.

This includes reducing or increasing risk scores, where applicable and ensuring that Control Actions are effective and current. CRMG also agrees the removal of any existing risks once they are no longer deemed to be a risk and the introduction of any new risks.

- 2.4. After each CRMG meeting details of all our Key Strategic Risks, including proposed amendments such as increased or reduced scores and the addition of new or deletion of risks, are reported to CMT. Any urgent decisions regarding KSRs outside of this quarterly cycle can be escalated to CMT via the monthly finance and performance report.
- 2.5. In accordance with the risk reporting cycle, the most recent quarterly review of departmental risks was undertaken by DMTs during September 2022, following which all risks were scrutinised at CRMG on 5th October 2022.
- 2.6. There are currently 13 Key Strategic Risks and 2 Key Strategic Issues on the KSRR.
 - A Risk is defined as an event which might occur in the future
 - An Issue is something which is happening now or has already happened.

Of these Risks and Issues, seven are scored as red:

5 Strategic Risks and 2 Strategic Issues are red.

One red risk and one red issue are scored at 18 (Likelihood: 6 Very High/ Impact: 3 Serious)

- RE02/ KSR49 Corporate Business Plan & Balanced Budget (Risk)
- RE16/ KSR61 Annual Savings Programme (Issue)

Three red risks and one red issue is scored at 16 (Likelihood: 4 Significant/ Impact: 4 Very Serious)

- ASC39/ KSR89 Charging Reform including Fair Cost of Care – Care Act Reforms (Risk)
- CSF24/ KSR85 Supporting Children with Additional Needs (Issue)
- ER153/ KSR84 Implementation of the Climate Action Plan (Risk)
- IT30/ KSR83 Risk of Cyber Attack on the Council's Infrastructure and Systems (Risk)

One red risk is scored at 15 (Likelihood: 5 High/ Impact: 3 Serious)

- ASC37/ KSR87 Fulfilling Statutory ASC Duties within Budget (Risk)

- 2.7. The KSRR Q2, containing full details of all strategic risks and issues together with their associated Control Actions, can be found at Appendix II.
- 2.8. CRMG also reviews the level of insurance claims against the council on a quarterly basis. Cross-departmental efforts are discussed to try to resolve any identified issues.
- 2.9. The last report to Standards and General Purposes Committee was on 4th November 2021. Since this report officers have reviewed the Covid-19 risk log and migrated long-term Covid-19 related risks on to the risk register.
- 2.10. Our insurance provider Zurich provided training on risk management to Merton Council directors. Following this, each department underwent a thorough review of their risk registers ensuring the risks and issues capture the current conditions. An internal risk management training programme is currently being created to provide training to risk leads/ teams allowing greater understanding of how we manage our risks and issues at Merton Council.
- 2.11. The quarterly review of the departmental risk registers was undertaken throughout September 2022, and the results scrutinised by CRMG in early October 2022 will be included in the 2023/27 Draft Business Plan. The proposed final Business Plan will be updated with January 2023 review information before being approved by February Cabinet and March Council.
- 2.12. Cabinet is responsible for agreeing the risk management strategy on an annual basis. The Standards and General Purposes Committee provides an annual independent oversight of the adequacy of the risk management framework and the associated control environment; and must be satisfied that the council's strategic risks are being actively managed.

- 2.13. The risk management strategy is included within the dedicated risk management pages on the Merton Hub, and informs and underpins all risk management processes. This includes a wide range of areas, including project management, procurement and savings delivery. The risk management pages on the intranet have been reviewed and all information is up to date. All departmental risk registers and the KSRR are published on the Merton Hub intranet, along with guidance and information to assist officers who are responsible for managing and monitoring risks.
- 2.14. All internal audit report recommendations are reviewed by the departmental risk champions to ensure all relevant risk issues are addressed, supporting the internal control process.

3 ALTERNATIVE OPTIONS

- 3.1. Not applicable.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. CRMG contributed to consultations for the revision of the Risk Management Strategy which is attached at Appendix I.

5 TIMETABLE

- 5.1. Not applicable.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. Merton, along with all other local authorities are facing continued financial pressure as a result of inflation, the increased cost of living pressures, reductions in central government funding and increased demand from vulnerable people and children. The harsh reality of this situation is that more and more local authorities are now showing signs of financial stress such as overspending on services coupled with depleting reserves.
- 6.2. Merton closely monitors its financial position providing regular updates to CMT, Cabinet, Scrutiny and Council.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. Risk management is a requirement of regulation 4(a) (iii) of the Accounts and Audit Regulations 2015.
- 7.2. With regards to responses to requests made under the Freedom of Information Act 2000 (FOIA) and other statutory enquiries relating to Council's risk these are based upon the published Key Strategic Risk Register within the Council's annual Business Plan. Requests in relation to disclosure of departmental risk registers under FOI (or under other legislation) will be responded to by the provision of the departmental registers but redacted as and where appropriate.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. There is one specific Key Strategic risk around equalities that is contained within the body of the report.

9 CRIME AND DISORDER IMPLICATIONS

9.1. There are no Key Strategic Risks which focus on specific crime and disorder implications.

10 HEALTH AND SAFETY IMPLICATIONS

10.1. There is one Key Strategic Risk with Health and Safety implications that is contained within the body of the report.

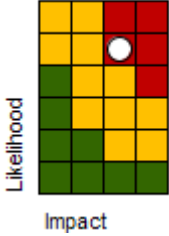


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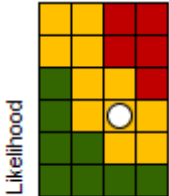


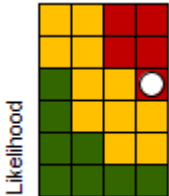


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12 BACKGROUND PAPERS

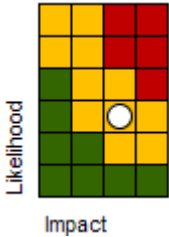




12.1. Relevant papers held within the Resources Division

Risk Register ~ Key Strategic Risks

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Phil Howell	ASC37/ KSR87 NEW Fulfilling Statutory ASC Duties within Budget	Key Strategic Risk	Rising demand and cost creates financial pressures that cannot be contained within agreed budget control totals.	<p>We are expecting high fee uplift demands as a result of increases in NWL, increases in NIC, heating and other costs. Current estimate £1.34m pa for Home Care and other community based services. Residential and nursing care is likely to be at least another £1m</p> <p>The complexity of care packages often means 'usual' rates do not effectively cover all individual needs.</p> <p>Demand for services continues to increase.</p>	<p>Providers deciding to leave the market -increased costs of placements.</p> <p>Unfunded in-year budget pressures</p> <p>Additional legal costs</p> <p>Damage to reputation</p> <p>Increase in complaints-</p>			15  30-Sep-2022	<p>Close liaison with provider market locally to get early warning of any financial distress.</p> <p>Continued robust operation of Outcomes Forum.</p> <p>Case File Audit programme to include review of decision making in respect of care packages.</p> <p>Using additional short term resource to undertake scheduled annual reviews in order to give confidence that packages continue to be 'right-sized'.</p> <p>Continuing investment in prevention activities.</p>	30 Sep 2022
								15  02-Aug-2022		

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Keith Burns; Phil Howell	ASC38/ KSR88 NEW Integration of Health and Social Care at Place	Key Strategic Risk	Integration of Health and Social Care at Place is ineffective, reducing the quality of service to our residents and increasing the risk of cost shifting from health to the LA	<p>Integrated Care Systems (ICS) are newly constituted NHS bodies under the Health & Social Care Act.</p> <p>The ICS is responsible for delegation of NHS funding to Place Based Boards and there is an expectation the LA delegates ASC budgets to place to support better integration.</p> <p>There is risk that the place based delegation of budgets, financially constrains integration at a local level. There is also relational risk between LA and local health partners</p>	<p>Break down in relationship between LA and health with the consequence that integration is ineffective, stalls or breaks down.</p> <p>Delegation of ICS budgets to Merton a place are negatively disproportionate in comparison to the rest of SWL and therefore having a negative impact on the ability to integrate effectively</p>			9  28-Sep-2022	<p>Continued proactive engagement with senior leadership team at ICS.</p> <p>Strengthening relationships with place based senior leaders.</p> <p>Robust presentation of LBM position (financial and quality) in all relevant conversations with ICS colleagues.</p> <p>SWL DASS working to influence ICS for the broader good of Adult Social Care across the boroughs.</p>	02 Aug 2022
								9  02-Aug-2022		
Keith Burns	ASC39/ KSR89 NEW Charging Reform, including Fair Cost of Care - Care Act Reforms	Key Strategic Risk	Charging Reform, including the development of a Fair Cost of Care, for implementation from October 2023 leads to a shortfall between the additional funding provided by Government and the actual additional cost generated as a result of the revised capital thresholds and other adjustments.	<p>This element of national charging reforms does not lead to 'cost neutralisation' between the cost of care to the local authority and the equivalent cost to self funding residents. Leaving a significant gap in costs faced versus what counts towards the lifetime cap.</p> <p>Insufficient central government funding of the reforms to effectively 'close the</p>	<p>De-stabilising the market and leading to providers leaving the market or remaining but exclusive to self funders or the Local Authority</p> <p>Challenges to LA decision making/process when an individual reaches the lifetime cap and transitions to LA funded support Significant budget pressures.</p>			16  28-Sep-2022	<p>Analysis of potential costs / risks commissioned from specialist 3rd party organisation.</p> <p>Continued lobbying of Government via ADASS / LGA / Society of London Treasurers regarding funding.</p>	02 Aug 2022
								16  02-Aug-2022		

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
				gap' Leading to unsustainable funding situation either for providers or for the local authority						
Page 347 Lisa Hewitt; Claire Migale; Gill Moore	ASC41/ KSR90 NEW Adult Safeguarding	Key Strategic Risk	Serious safeguarding incident leading to serious injury or loss of life creates significant legal / reputational consequences for the Council.	Serious failing in safeguarding duties resulting in harm to vulnerable people and/or a notable, high profile or systemic safeguarding incident or Serious Case Review that draws significant reputational harm to the borough Resulting from system failings in safeguarding duties under the Care Act and associated legislation e.g. Mental Capacity, Mental Health Act or Deprivation of Liberty Safeguards (and subsequently Liberty Protection safeguards)	Serious incidents of harm/abuse of vulnerable adults, including deaths or multiple deaths. Reputational damage to LBM and it's ASC department. SoS intervention in department CQC intervention			9 28-Sep-2022	Ongoing training and development for social care staff, including new and interim staff. Continued robust implementation of, and compliance with, London Multi-Agency Safeguarding Policy and Procedures Case File Audit programme to review current practice and areas for improvement. Robust SAB Chairing and support arrangements.	08 Aug 2022
								9 02-Aug-2022		
Louise Round	CG05 / KSR79 Data Protection Compliance	Key Strategic Risk	We may fail to comply with the requirements of Data Protection legislation	- inappropriate processing, use, retention, access or inaccuracy of data - staff insufficiently aware of requirements of Act and other legislation	Harm to service users, through breach of privacy (could result in physical harm); loss of services; damage to reputation; financial impact on council through ICO fines; key stakeholders lose confidence & may not share data with the	FI & R		12 28-Jun-2022	The council is in the process of reviewing all data protection policies to ensure they are fully compliant with the relevant legislation; The DPIA template has been reviewed to ensure that privacy risks are more effectively captured and managed in the	28 Jun 2022
								12 28-Mar-2022		
								12 13-Dec-2021		
								12 16-Sep-2021		

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided	
					council				procurement and project management process.. Robust security incident policy & reporting with quarterly security breach report submitted to IG Board & learning from incidents cascaded through weekly data security tip in the staff bulletin; Information Asset Register template has been reviewed and updated and DMTs to review quarterly to ensure compliance & identify gaps; Updates made to Privacy Notice;. New IG / Cyber security training has been commissioned and will be rolled out in July 22. Audit been asked to review SharePoint permissions. New email retention policy agreed. IG board agreed resource for wider retention schedule project. together.		
John Dimmer; Jane McSherry	CPI41 / KSR53 Equalities duties	Key Strategic Risk	We may be in breach of Equalities legislation regarding new policy development, designing services and decision making (formerly RE11)	- insufficient evidence to demonstrate how equalities implications have been considered	<ul style="list-style-type: none"> - reputational impact for council - risk of judicial review & litigation - negative impact on service users - loss of savings. 	R		9	 16-Sep-2022	The key concerns still relate to service changes as a result of budget reductions. We continue to need to reduce or reconfigure services which could impact on vulnerable people.	16 Sep 2022
								12	 24-Jun-2022		
								12	 16-Mar-2022		
								12	 20-Dec-2021		

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
									<p>The BAME Voice research into the lived experience of COVID-19 on BAME communities has produced a final report.</p> <p>A detailed action plan responding to each recommendation has been developed. The council's response to the recommendations was presented to the Joint Consultative Committee (JCC) with Ethnic Minorities on 14 June.</p> <p>The findings of all the impact research have contributed to developing the Equality Objectives for the refreshed Equality Diversity and Inclusion strategy going to Cabinet in October.</p> <p>Black Lives Matter is a project within the Recovery and Modernisation Programme. The monthly highlight report to the board has shown good progress being made to implement measures that address the issues raised and the council's commitment to promote Equality Diversity and</p>	

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided												
									<p>Inclusion.</p> <p>A suite of L&D EDI training resources is being procured to improve managers and staff knowledge and understanding of EDI considerations.</p> <p>The Workforce Race Equality Standard (WRES) in Social Care pilot started in April 2021. The first data submission to the Dept. Health and Social Care was made on 8 October 2021 and an action plan has been developed. The final data submission is April 2023.</p> <p>With the above mitigations in place we have reduced the overall score down to 3 (Likelihood 3, impact 3)</p>													
Jane McSherry	CSF01 / KSR35 Safeguarding children	Key Strategic Risk	We fail to assess risk, recognise need and to deliver effective interventions	Because of: - Rise in demand - Lack of capacity at front door at meet rising demand - Recruitment issues to attract new social workers - Partners not referring into MASH	Resulting in: - Child protection & safeguarding consequences including possible child death or serious harm. - increasing costs due to "high cost" interventions - undermining of the Merton Model	R		<table border="0"> <tr> <td>8</td> <td></td> <td>28-Sep-2022</td> </tr> <tr> <td>8</td> <td></td> <td>24-Jun-2022</td> </tr> <tr> <td>8</td> <td></td> <td>01-Apr-2022</td> </tr> <tr> <td>8</td> <td></td> <td>18-Jan-2022</td> </tr> </table>	8		28-Sep-2022	8		24-Jun-2022	8		01-Apr-2022	8		18-Jan-2022	Robust supervision, regular review of performance information and audit processes in place to ensure effective safeguarding practice. Recruitment of additional resource at times of acute demand increases	28 Sep 2022
8		28-Sep-2022																				
8		24-Jun-2022																				
8		01-Apr-2022																				
8		18-Jan-2022																				

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Charles Baker; John Bosley	ER112 / KSR73 Waste disposal budget (Viridor)	Key Strategic Risk	We may be unable to meet financial budget for waste disposal	<ul style="list-style-type: none"> - Waste may not be adequately disposed of - Delays in moving over to ERF - Increase in waste forecasted - Reduction in recycling - Insufficient budget to cover disposal costs COVID19/Brexit - recycling and RDF facilities may become harder to access in Europe 	<ul style="list-style-type: none"> - increased costs for waste disposal - operational difficulties - performance may be affected (more landfill, less recycling and more missed bins) - political and reputational impact 	FI/R/O		6 29-Sep-2022	New procurement completed for the processing and disposal of garden and food waste . this will see reduced gate fees for each of these waste streams. These two contracts went live in sept 2022 and no operational issues reported. Note in excess of £600k has been taken in savings over the last 5 years in regard to reduced disposal cost.	29 Sep 2022
								6 27-Jun-2022		
								6 23-Mar-2022		
								6 14-Dec-2021		
Page 351 Charles Baker; John Bosley	ER132 / KSR 81 Waste services contractor	Key Strategic Risk	Veolia may fail to deliver the street cleaning and/or waste collection services to the standard required by their contract	<ul style="list-style-type: none"> - insufficient capacity (Veolia) - disputed areas of responsibility - financial impact of recycling market changes which adversely affect Veolia - lack of ICT integration and real time information - poor management by Veolia 	<ul style="list-style-type: none"> - reputational damage to the Council - negative environmental impacts - negative public health impacts 	R		9 29-Sep-2022	A Service Improvement Notice has been served on the contractor especially regarding street cleansing standards. Governance structure in place with Fortnightly Board meeting chaired by the CEO NEW EMERGING RISK confirmation issued to Veolia that we will not be seeking an extension to the contract.	29 Sep 2022
								9 27-Jun-2022		
								9 23-Mar-2022		
								9 14-Dec-2021		

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Paul McGarry	ER153/ KSR84 Implementation of the Climate Action Plan	Key Strategic Risk	May be unable to implement a fit for purpose action plan	Due to the complexities and uncertainties of achieving decarbonisation, there are a number of potential causes: (a) National policy framework is uncondusive to local action (either through an ineffective policy framework of through lack of finance) (b) Lack of robust evidence/ expertise to assess greenhouse gas emissions and track progress (c) The estimated costs of implementing the actions are very high or very uncertain (d) Lack of control over the majority of emissions and therefore a reliance on behaviour change of Merton's residence and businesses (e) Lack of commitment/ resources of key Officers in all departments who would need to commit to actions and subsequently implement them	Failure to get an action plan which was fit for purpose may result in Merton not playing its part in mitigating the dangerous effects of climate change – as set out in the declaration of a climate emergency that was unanimously passed at Council. It would also mean not delivering against commitments set out in the (revised) Climate Change Act and the Mayor's 1.5 degree compatible climate action plan. This may result in a loss of public confidence and reputation damage for Merton council.	FI/ R		16 17-Oct-2022	<p>Recruitment severely affecting capacity to deliver climate strategy and action plan. Despite full funding and posts and attempts via permanent and agency recruitment all through 2022, the following posts remain vacant:</p> <ul style="list-style-type: none"> • 3 out of 5 posts in Future Merton climate change team, including those for resident and business retrofit support • Facilities Management buildings surveyor post. • Fleet management carbon reduction post 	17 Oct 2022
								16 27-Jun-2022		
								16 23-Mar-2022		
								16 14-Dec-2021		

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Caroline Holland; Mark Humphries	IT24 / KSR21 Public Contract Regulations/Contract Standing Orders	Key Strategic Risk	We might breach Public Contract Regulations 2015 and Contract Standing Orders (previously risk RE03)	<ul style="list-style-type: none"> - incorrect procurement (despite this being a tightly regulated area of council activity) - Lack of staff awareness - insufficient training and guidance 	<ul style="list-style-type: none"> - procurement exercises impacting on strategy and time - adverse budget and service implications if not carried out correctly - legal challenges - slower identification, capture and delivery of savings - reputational risk. 	R		12 11-Oct-2022	This risk was peer reviewed by CS DMT on 14th September 2022 and agreed that the current risk rating is still appropriate.	11 Oct 2022
								12 28-Jun-2022		
								12 17-Mar-2022		
								12 07-Dec-2021		
Mark Humphries; Richard Warren	IT30/ KSR83 Risk of Cyber attack on the Council's IT Infrastructure and Systems	Key Strategic Risk		Cyber attack	Financial, Reputational, Loss of Service – All of these areas would potentially be very severely impacted and affected.	R		16 11-Oct-2022	This risk was peer reviewed by CS DMT on 14th September 2022 and agreed that the current risk rating was still appropriate.	11 Oct 2022
								16 11-Oct-2022		
								16 17-Mar-2022		
								16 07-Dec-2021		
Caroline Holland; Roger Kershaw	RE02 / KSR49 Corporate Business Plan & Balanced Budget	Key Strategic Risk	We may fail to develop a corporate Business Plan & set a balanced budget for 23/24 & beyond	<ul style="list-style-type: none"> - Reduction in Government Grant - possible ongoing effect of COVID; - high level of inflation and utilities costs - ensuring DSG deficit is cleared 	<ul style="list-style-type: none"> - negative impact on service provision - damage to council reputation - negative impact on staff morale - dissatisfaction of internal & external customers 	FI		18 16-Sep-2022	An overall balanced budget forecast in 2022/23 was reported to Cabinet in December 2021 but the gap in the MTFS in 2025/26 is still in excess of £16m.	16 Sep 2022
								18 24-Jun-2022		
								18 08-Mar-2022		
								18 04-Jan-2022		
Whilst the impact of the pandemic is slowly coming under control the possibility of new variants remains. There										

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Page 354									<p>has been progress towards resolving the DSG deficit but there are increasing concerns about the increasing level of inflation and the impact this may have on service cost, income collection and bad debt levels. Therefore, it is considered that the risk remains at a high level</p> <p>Current indications are that the DSG deficit at outturn 21/22 had increased and inflation projections continue to be of concern. Risk levels remain high.</p> <p>Current inflation levels remain high and there is uncertainty about how the government's support for the cost of living crisis and utilities costs will be implemented. An initial report on the Business Plan 2023-27 will go to Cabinet in October. Risk levels remain high.</p>	

Issues Register ~ Key Strategic Issues

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Elizabeth Fitzpatrick	CSF24/ KSR85 Supporting Children with additional needs	Key Strategic Issue	Lack of places for children & young people with EHC Plans leading to an over reliance on non-maintained and independent schools and settings.	-Increase in demand for our services across Children's Social Care and Education (SEND) Insufficient funding from central government leading to a cumulative deficit of circa. £25m.	DSG deficit of £25m is preventing investment in other council services. The budget deficit is growing as the council continues to provide statutory services.	R		16 28-Sep-2022	Focussed cross-council activity to develop suite of proposals to re-balance budget and create a sustainable high-needs system. We have opened new special school places in borough in Sept 2022 with 40 places filled and a further 40 for future need. We have in principle agreement from DfE to fund a new special school in borough.	28 Sep 2022
								16 24-Jun-2022		
								16 01-Apr-2022		
								16 18-Jan-2022		
Caroline Holland; Ellis Kelly	RE16 / KSR61 Annual Savings Programme	Key Strategic Issue	Failure to deliver savings of £6.903m which have been agreed for the financial year 2021/22	We are unable to achieve planned savings due to the impact of Covid-19 and various service specific issues	- adverse impact on the authority's ability to balance its budget in the medium to long term - gap is larger than the contingency - we are required to reinstate reserves	FI		18 30-Aug-2022	No change to risk score	14 Sep 2022
								18 15-Jun-2022		
								18 08-Mar-2022		
								18 13-Dec-2021		



London Borough of Merton

Risk Management Strategy

Revised January 2022

Policy Statement

Merton's policy is to manage our risks by identifying, assessing and controlling them, with the aim of eliminating or reducing them to acceptable levels whilst being mindful that some risks will always exist and will never be eliminated.

The council recognises its responsibility to risk management by supporting a structured, systematic and focussed approach to risk management through the approval of our risk management strategy.

The effective management of risk is at the core of our approach to delivering cost effective and efficient services as well as sound corporate governance and is a continuous and evolving process, running through our strategies and service delivery arrangements. As risk is very much concerned with our objectives, the management of it will be closely linked to the creation of our strategic, service, project and partnership objectives and plans.

Our risk management process will be continuous and will support internal and external change. The risk management process will be fully integrated with the normal business management processes across the authority.

Merton's aims and objectives in relation to risk management are to:

- Establish and maintain a robust framework and procedures for the identification, analysis, assessment and management of risk, including reporting and recording.
- Minimise the council's exposure to unacceptable levels of risk, minimise injury, damage, loss and inconvenience to staff, residents and service users.
- Integrate risk management into the day to day activities of staff and the culture of the organisation, raising awareness of the importance and need for risk management.
- Assign clear roles and responsibilities for councillors and officers responsible for risk management
- Ensure consistent application of our methodology across all of our activities, including partnerships and projects.
- Effectively manage the total cost of risk.

We will achieve this by:

- Having a clear and concise risk management strategy which underpins our approach and responsibilities to risk
- Incorporating risk management into business planning, project management and service delivery
- Monitoring risk on a regular basis through the Corporate Risk Management Group (CRMG)
- Reporting on risk on a regular basis to the Corporate Management Team (CMT), Cabinet and General Purposes Committee

Risk Management Strategy

The process of identifying and evaluating risks is known as risk assessment. By understanding the risks we face, we are better able to actively recognise where uncertainty surrounding events or outcomes exists, and identify measures which can be taken to protect the council, its staff, residents, customers and assets from these risks.

This strategy provides a structured approach to identifying emerging risks as well as assessing and managing current risks. It also incorporates a process for regularly reviewing and updating identified risks.

This strategy will be reviewed on an annual basis, and updated where required.

What is risk?

Risk is the threat that an event or action may adversely affect an organisation's ability to achieve its objectives and successfully execute its strategies. A risk can be a threat, obstacle, barrier, concern, problem or event that may prevent us fulfilling our objectives.

Our risk management processes also include the assessment of Issues. Issues are current problems, questions, outstanding items, tasks or a request that exists in the immediate present. There is a strong element of fact surrounding it. An issue becomes a risk when the issue cannot be addressed and could continue or get worse.

Definition of Risk Management

Organisations exist to achieve their ambitions, aims and objectives. Risk Management is the process by which organisations methodically address and identify the risks that may prevent them from achieving these ambitions, aims and objectives. The intention is to achieve sustained benefit within each of their activities, and across the portfolio of all their activities.

Ultimately, risk management is about creating a better understanding of the most important problems facing organisations.

Risk is also implicit in the decisions all organisations take; how those decisions are taken will affect how successful they are in achieving their objectives. Decision making is, in turn, an integral part of the day to day existence and is particularly significant in times of change. Risk management therefore is a key component in the management of change and helps to support effective decision making.

We endeavour to identify all risks facing the council and to monitor, manage and mitigate (where possible) all those risks which are deemed to be high (scored Amber or Red). Risks are monitored via Departmental Risk Registers, and key crosscutting risks to the council are also placed on the Key Strategic Risk Register (KSRR).

The benefits of risk management

In addition to the business and service benefits of our approach, we are required to undertake risk management because it forms part of the Annual Governance Statement. We must, therefore, demonstrate that we have a systematic strategy, framework and process for managing risk.

However, the council recognises that the benefits of risk management far outweigh the requirement to undertake the activity and such benefits include:

- Stronger ability to achieve our ambitions, aims and objectives as key risks are managed.
- Better decision making as we are more aware of risk.
- Ability to take advantage of opportunities because we understand the risks attached to them.
- Better governance and the ability to demonstrate it to our stakeholders.
- Reduction in failure, loss, damage and injury caused by risk
- Improvement in our ability to adapt to change
- Improvement in our corporate governance
- Compliance with statutory and regulatory requirements

Organisational awareness of risk and risk management

Ensuring that there is a strong organisational awareness of risk management will be achieved through training sessions, reviews, departmental meetings, briefings and staff bulletins which will take place on a regular basis. Each department has an assigned Risk Champion who will offer guidance to staff where required. The [risk management intranet page](#) will be regularly reviewed and staff will be signposted to the information they need to pro-actively identify and manage risk ie the Risk Management Toolkit and other guidance.

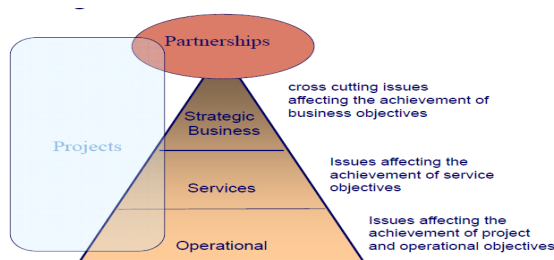
Risk Appetite

The council recognises that its risk appetite to achieve the corporate priorities identified within its business plan could be described in general as an “informed and cautious” approach. Where significant risk arises, we will take effective control action to reduce these risks to an acceptable level.

It is also recognised that a higher level of risk may need to be accepted, for example to support innovation in service delivery. To offset this there are areas where the council will maintain a very cautious approach for example in matters of compliance with the law, and public confidence in the council, supporting the overall “informed and cautious” position on risk.

How does risk management integrate with other policies?

Risk management links closely with Health and Safety, Business Continuity, Emergency Planning and Insurance; by ensuring close links we can enhance our resilience. Generally, a single issue or risk will fall into only one of these categories; however some may fall into two or more. As Business Continuity is a way of mitigating risk, its link with risk management is key to ensuring the continuous delivery of services which are important to the community.



Risk management in projects

Risk management is a key part of the ongoing management of projects and partnerships and is clearly defined in [Merton's Approach to Projects \(MAP\)](#).

Risk management in partnerships

The council is involved in a wide range of partnerships to achieve our ambitions, aims and objectives. It is vital we assess the risks to achievement within our key partnerships, and ensure that they are monitored regularly.

Our methodology for assessing and monitoring risks has been adopted by our key partnerships in order to ensure consistent scoring, and effective integration into our risk management system.

Financial Risk Management

Local government has faced unprecedented financial challenges in recent years that are likely to remain well into the next decade. The harsh financial economy faced by local authorities has led Central Government and the public sector accounting body CIPFA to start to consider how best to minimise the chance of further Section 114 notices being released and providing early warnings of authorities being unable to balance their budgets. Within Merton the following activity is already undertaken:

Budget Setting

- Financial pressures caused by demographic pressures in Special Educational Needs, Placements and Adult Social Care have been monitored closely –ongoing demands have received some additional funding
- Financial modelling within the Medium Term Financial Strategy and Capital has been developed
- Horizon spotting is used to improve response times to changes in Central Government funding.
- Financial Risk thresholds have been reviewed and reduced appropriately
- Impact of Brexit and Covid

Budget Monitoring:

- All budgets are monitored monthly, and reviewed with outturn, current spend and commitments
- Monthly review of progress on delivery of savings with management action
- Monitoring resources are targeted at high risk areas

Year End Accounting

- Reviewing closing issues to minimise the chance of the issues occurring again
- A greater emphasis on quality control of working papers
- More emphasis on reconciliation work within the financial year.

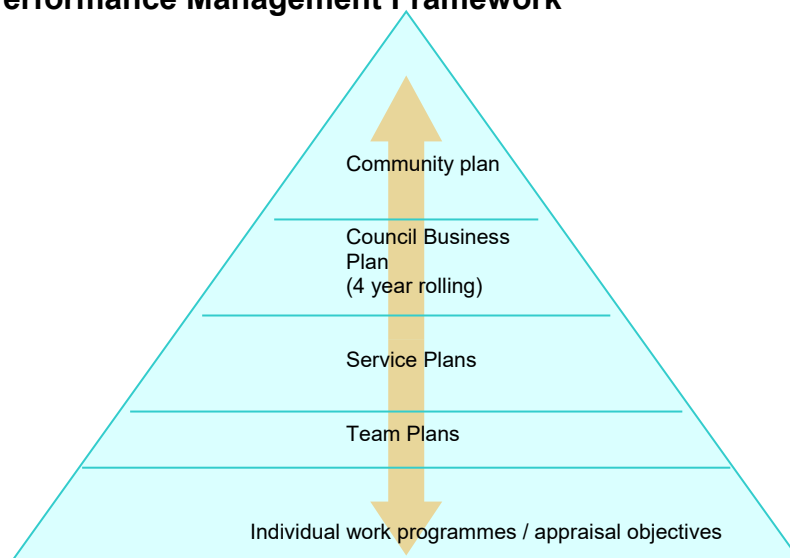
There is also a financial impact element to the authorities risk matrix which has been reviewed and simplified. Officers will continue to review activity and adopt best practice etc. where appropriate.

Corporate approach to risk management

In order to formalise and structure risk management, it is recognised there is an obvious and clear link with the business planning process and therefore risk management sits within the Financial Strategy and Capital team.

The overall council Business Plan, incorporating the individual service plans, sets out what a team, division, department, or the council as a whole, want to achieve within a specific time frame, as shown below.

Merton Performance Management Framework



- CMT is ultimately accountable for delivering the council’s Business Plan therefore they are responsible for monitoring and reviewing the KSRR.
- DMTs are responsible for their own services’ risk registers.
- Divisions or teams are responsible for their own risk registers, if applicable.

It is important that risks identified and assessed at an operational level can be escalated to a departmental or corporate level. However, because a risk may have a great impact on a team it does not necessarily follow that it may have the same impact on the department, or the organisation as a whole.

Ultimately, it is the respective management team which decides if a risk is an appropriate inclusion on its risk register.

Scoring Risk

When determining a score for service level risks, definitions of likelihood and impact of risk should be used in conjunction with the matrix below. Therefore, if the likelihood of a risk is 4, significant, (occurs or likely to occur more than 25%, and up to 50% of the time) and the impact is 3, serious, (service provision - service suspended short term) – then the risk rating will be 12 (4x3) which is amber.

Definition of the Likelihood of Risk

Classification	Definition
6 - Very High	Occurs or likely to occur more than 90% of the time
5 - High	Occurs or likely to occur over 50% of the time
4 - Significant	Occurs or likely to occur over a 25% of the time
3 - Possible	Occurs or likely to occur less than a 25% of the time
2 - Low	Occurs or likely to occur less than 5% of the time
1 - Almost Impossible	Occurs or likely to occur less than 1% of the time

Definition of the Impact of Risk

Categories	1 - Marginal	2 – Moderate	3 - Serious	4 - Very serious
Financial Impact – FI	£100k - £500k per annum	£500k - £1m per annum	£1m - £5m per annum	Over £5m per annum
Service Provision - SP	Reduced service	Significant reduction	Service suspended short term	Service suspended long term / statutory duties not delivered
Health and Safety - HS	Broken bones / illness	Major illness / threat not life threatening	Loss of life / major illness	Major loss of life / large scale illness (pandemic)
Objectives - O	Objectives of one service area not met	Departmental objectives not met	Corporate objectives not met	Statutory objectives not met
Reputation - R	Adverse local media lead story short term	Adverse local media story long term. Adverse national publicity short term.	Adverse national publicity longer term	Remembered for years

Risk Matrix

Likelihood	6	6	12	18	24	Likelihood 6. Very high 5. High 4. Significant 3. Possible 2. Low 1. Almost impossible	Impact 4. Very Serious 3. Serious 2. Moderate 1. Marginal
	5	5	10	15	20		
	4	4	8	12	16		
	3	3	6	9	12		
	2	2	4	6	8		
	1	1	2	3	4		
	1	2	3	4			

Reporting and escalating risks

All risks on individual service risk registers are reviewed at Departmental Managers Team (DMT) meetings with particular attention given to red or increasing amber risks.

Risks are also checked for any cross cutting implications. If the risk is high scoring and/or could have an impact across the organisation, then it must be included in Key Strategic Risk Register, which contains risks which could have a detrimental impact across the whole organisation should they occur.

Monitoring and Managing

During the year, new risks will arise that have not previously been considered and there may be changes to existing risks. Therefore the risk registers need to be regularly managed, with risk owners re-assessing their risks, re-scoring them if appropriate, and providing sufficient narrative in respect of the Control Measures they have in place (ie the actions which they are taking to mitigate against the risk). The reviews of risk registers should be managed by exception. The reporting cycle as detailed below, takes place during April, July, October and January.

1 st week	2 nd week	4 th week
DMT – review operational service risks and propose KSRs as per the definitions of likelihood and impact for crosscutting risks	Corporate Risk Management Group (CRMG) – review service risks and proposed KSRs	CMT – identify and review KSRs

All risks are reviewed according to the quarterly cycle shown above, with a particular focus upon red risks, and also upon amber risks which have increased their risk score since the previous quarterly review.

Removal of any risks from the registers must be approved by DMTs and CRMG prior to being presented to CMT. CRMG will only approve removal of a risk if it is scored green for a minimum of two consecutive reporting cycles (i.e. two quarters). There are otherwise no rigid guidelines for dropping risks from the registers because clear parameters are not always possible. A decision is sometimes taken to keep a low-scoring risk in view on the basis that its status might change over a short period, or so those with an assurance role can be confident mitigation against a risk can be sustained.

A flowchart showing how service, departmental, corporate and partnership risks are escalated and reported is shown on the final page of this Strategy.

Roles, Responsibilities and Governance

Councillors

Elected councillors are responsible for governing the delivery of services to the local community. Councillors have a responsibility to understand the key risks the council faces and will be made aware of how these risks are being managed through the annual business planning process. All Councillors will have a responsibility to consider the risks associated with the decisions they undertake and will be informed of these risks in the plans and reports submitted to them.

Chief Executive and CMT

The Chief Executive and CMT are ultimately accountable in ensuring that risk management is fully embedded in the council's business planning and monitoring processes as well as having overall accountability and responsibility for leading the delivery of the council's Risk Management Strategy and Framework. CMT will take a leading role in the risk management process, ensuring that risk management is communicated, understood and implemented by Councillors, managers and staff. CMT will also play an important role in establishing a supportive culture.

CMT will submit an annual report on risk to the Standards and General Purposes Committee and Cabinet.

Directors

Each Director is accountable for proper monitoring of their departmental risk register, action plans and the embedding of risk management into the business planning process of their directorate. They will need to be actively involved in the risk management process within their department and CMT, including nominating an appropriate Risk Champion for their department. Directors are also accountable and responsible for leading the delivery of the council's Risk Management Framework in their respective Directorate.

Section 151 Officer / Internal Audit

The Section 151 officer and Internal Audit will be responsible for carrying out independent reviews of the risk management strategy and processes. They will provide assurance and give an independent and objective opinion to the council on the adequacy of its risk management strategy, control procedures and governance.

An annual Audit Plan, based on a reasonable evaluation of risk, will be carried out and an annual assurance statement will be provided to the council based upon work undertaken in the previous year. The section 151 officer will chair the CRMG group.

Risk Champions

Risk champions will work with their Director, Heads of Service, Managers and Team Leaders to ensure the RM Strategy and Framework is embedded in the Directorate and departmental planning, performance, project and partnership management, offering support and challenge. They will also represent their directorate at CRMG meetings.

Risk Champions will ensure that risks are identified, assessed and scored correctly by the Risk Owners, offering advice and guidance where appropriate. They will also challenge risk scores where they do not appear to be reasonable, or where they contradict the Control Measures narrative or the corporate Risk Scoring Guidance.

All Risk Champions will receive appropriate training to ensure that they can perform their role effectively. Training needs will be regularly evaluated.

Service Managers

Managers have a responsibility not only for the risks for which they are the risk owner, but are also accountable for those risks, within their service, which are owned / managed by others.

They are required to maintain an awareness of risk and ensure that any risks they identify are captured by the risk management process, understanding and responding to the key risks which could significantly impact on the achievement of their service and/or team objectives. Managers should encourage staff to be open about risk so that appropriate mitigation actions and control measures can be agreed.

Risk Owners

Risk owners are responsible for identifying and implementing appropriate actions which will mitigate against risks they own and reduce these risks to an level acceptable to the organisation. They are required to regularly review the effectiveness of their control measures and provide a formal update to DMTs and CRMG on a quarterly basis as part of the risk review cycle.

Individual Employees

Individual employees need to have an understanding of risks and consider risk management as part of their everyday activities, identifying risks deriving from their everyday work, processes and environment. Risks which could impact on service delivery, the achievement of objectives, or their own or others' wellbeing must be identified and actively managed, with mitigating actions in place where appropriate.

Financial Strategy and Capital team

The financial strategy and capital team is responsible for ensuring that risk management is embedded throughout the council, as well facilitating and supporting the risk management process and supporting risk owners.

The team will ensure risk management documentation and intranet pages remain up to date and relevant, as well as updating the KSRR with emerging risks, new risks and updating existing risks.

In addition, the Business Planning team will ensure risk is part of the annual service planning process, facilitate the CRMG meetings, and submit strategic updates and reports on risk management to CMT, Cabinet, Audit and Assurance Committee etc. as required.

Corporate Risk Management Group

The Corporate Risk Management Group will provide strategic direction and leadership to ensure our risk strategy is maintained and updated and that risks are appropriately identified and managed within the organisation. It will provide a forum for the detailed discussion and monitoring of organisational risks for the benefit of the council, its staff and the wider community.

CRMG will strive to ensure that the risk management framework is embedded within the council's overall strategic and operational policies, practices and processes in a consistent and standardised manner.

In addition it will provide assurance that all risk systems and processes are operating effectively to minimise the Council's overall exposure to risk. The headline departmental risks and planned mitigation activity reported by each department will be discussed by CRMG on a quarterly basis. CRMG will then report its conclusions and recommendations for discussion at CMT.

Cabinet

Cabinet will receive reports on the risk management strategy to determine whether corporate risks are being actively managed. They are responsible for agreeing the strategy on an annual basis, or when significant changes are made, and to report to full Council on the adequacy of the risk management framework.

Standards and General Purposes Committee

To provide an independent oversight of the adequacy of the risk management framework and the associated control environment. The committee will receive an annual review of internal controls and be satisfied it properly reflects the risk environment and any actions required to improve it. Reports will also be provided regarding the KSRR in order that the committee can determine whether strategic risks are being actively managed.

On an annual basis, the committee will review and recommend the adoption of the risk management strategy to cabinet, or if significant changes are identified, to request a revision.

Risk management in committee reports

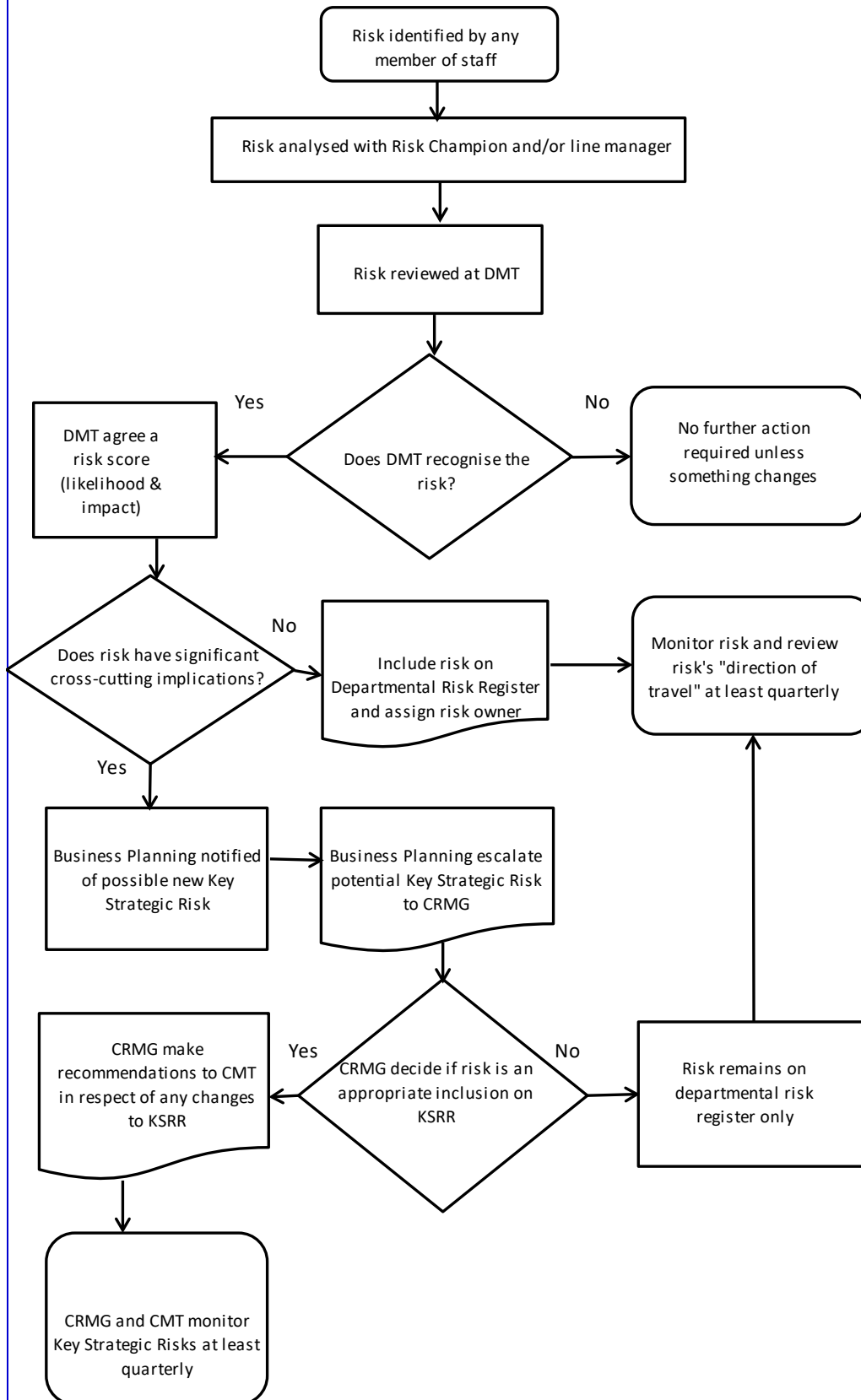
When a report is submitted to a committee the author is required to complete a section on Risk Management and Health and Safety Implications. The committee should be informed of any significant risks involved in taking a recommended course of action, or if it decides not to follow the recommended course of action. The risk assessment should follow the corporate risk management procedures and be scored using the risk matrix. The report should also give details of any control measures (either proposed or existing) to manage any significant risks identified. Where appropriate, reference should be made to any existing risk(s).

Report authors are advised to consult with the Financial Strategy and Capital team or their departmental Risk Champion, for further advice and to propose any risks to be considered for inclusion in the departmental or KSRR.

Risk Management Practice during Extraordinary Events

It is envisaged that the velocity of change during such an occurrence (i.e. Covid) will require the authority to maintain a separate risks and issues register to ensure an adaptable, flexible and frequent review to accurately track the movement of items. During these periods an additional risk log will be established, where by managers submit and update their risks directly via a secured, interactive shared portal (currently SharePoint). This information will then be reviewed and amended appropriately by senior management, DMTs, CMT and Members.

London Borough of Merton Risk Management Process



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Committee: Standards and General Purposes Committee

Date: 28 November 22

Subject: Gifts and Hospitality – Councillors

Cabinet Member: Councillor Mike Brunt, Chair, Standards and General Purposes Committee

Lead officer: Louise Round, Interim Executive Director for Innovation and Change and Monitoring Officer

Contact officer: Amy Dumitrescu, Democracy Services Manager

Recommendations:

- A. That the Committee notes the report
- B. That members are reminded of their responsibility to complete declarations of gifts and hospitality including reasons for acceptance
- C. That members discuss and approve the amended Gifts and Hospitality Protocol contained at Appendix 2 of the report

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report is the yearly update on the registration by Councillors of gifts and hospitality.
- 1.2 A copy of the register accompanies this report at Appendix 1.
- 1.3 Although updated last November, the protocol on gifts and hospitality which does not form part of the constitution, but which provides further guidance in this area, would benefit from a further update to clarify requirements and processes, which have been improved since the last update. A copy of the proposed updated protocol accompanies this report at Appendix 2.

2. DETAILS

- 2.1 The Code of Conduct for Councillors requires that:
 - Councillors do not accept gifts or hospitality, irrespective of estimated value, which could give rise to real or substantive personal gain or a reasonable suspicion of influence on my part to show favour from persons seeking to acquire, develop or do business with the local authority or from persons who may apply to the local authority for any permission, licence or other significant advantage.
 - Councillors register with the Monitoring Officer any gift or hospitality with an estimated value of at least £25 within 28 days of its receipt.

- Councillors register with the Monitoring Officer any significant gift or hospitality that they have been offered but have declined to accept.

2.2 The protocol requires that

- Councillors declare the value and details of the gift or hospitality received, as well as whether the donor of the gift has or has had in the past or likely to have in the future, dealings with the Council and also if the gift or hospitality has been accepted the reason for that acceptance.
- Even if all members, or a large number of them, received the same gift or were invited to the same event, they must each make individual notifications.

2.3 Councillors are not required to declare hospitality where the Council is the host, or attendance at events where the Council is the organiser.

2.4 At its meeting on 4 November 21, the Committee agreed that there was no requirement for members to register the annual offer of tickets for the pantomime at Wimbledon Theatre (although they should continue to register the acceptance of such an offer) or where they were afforded an opportunity to participate in a ballot for paid for tickets for the Wimbledon Tennis Championships. A central record of these offers will be kept internally by officers and members. An amended version of the protocol which reflects this decision can be found at Appendix 2 of this report.

2.5 Failure to comply with these rules may amount to a breach of the Members' Code of Conduct.

2.6 Breaches of the Code may expose members to a risk of a complaint being reported to the Monitoring Officer, who can decide whether there should be an investigation into the allegation.

2.7 The press and public have the right to inspect gift and hospitality declaration forms. The Register is also public via the Council's web site at www.merton.gov.uk. Councillors and officers may also gain access through the council's intranet.

2.8 The inspection by the Monitoring Officer of the register shows that:

- 26 Councillors made declarations on 59 occasions.
- The review of the registers indicates that members are aware of their responsibilities.
- In the previous year's review, declarations were received from 15 members on 32 occasions. This indicates that group offices and councillors understand their obligations.
- The nature of the gifts and hospitality referred to is consistent with what may be expected for a Council and there do not appear to be any entries which are outside of what could be considered in the normal course of Council business and the various roles councillors have.
- It is proposed that following this review a reminder of their obligations is cascaded to members and group officers to ensure the system continues to operate in a satisfactory way.

3. ALTERNATIVE OPTIONS

3.1 Committee could decide not to have this information reported to it, though this would not be compatible with its role as the proactive promoter and monitor of ethical standards.

3.2 The Committee could decide not to update the protocol, though the current version does not address some common areas of enquiry.

4. CONSULTATION UNDERTAKEN OR PROPOSED

4.1 None save referred to within the report.

5. TIMETABLE

5.1 The next annual report will be presented to Standards and General Purposes in November 2023

6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1 None.

7. LEGAL AND STATUTORY IMPLICATIONS

- 7.1 The receipt or gift of any reward or advantage for an act or omission that suggests favour to any person in their official capacity may constitute a criminal offence under the Bribery Act 2010.

8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION

- 8.1 None.

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 None.

10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1 Failure by Councillors to address their responsibilities under the Code of Conduct could result in disciplinary action by the Council. Failure of the Council to monitor and promote the observance of the Code could result in an unnoticed lack of compliance by Councillors which might result in complaints, damage to the reputation of the Council, possible adverse impacts upon the quality of the Council's decision making processes and legal challenges to Council actions.

11. APPENDIX – THE FOLLOWING DOCUMENT FORMS PART OF THE REPORT

Appendix 1: Details of the Register for the period 01.11.21-30.09.22
Appendix 2: Draft amended Gifts and Hospitality Protocol 2022

12. BACKGROUND PAPERS

Current Gifts and Hospitality Protocol.

Stephen Alambritis MBE	13/09/2022 - Honouring the life of Her Majesty Queen Elizabeth II and her 70 years of service as head of state and and an invitation to all Merton councillors. offered by AFC Wimbledon; To honour Her Majesty The Queen Elizabeth II ; Value £25
Stephen Alambritis MBE	14/05/2022 - One ticket to the Fundraiser Dinner for St Georges Hospital Charity with venue at AFC Wimbledon's brand new stadium back in Plough Lane, in Wimbledon, in Merton. Offered by Mr Ivor Heller, Commercial Director to AFC Wimbledon. Value of ticket unknown but over £25
Stephen Alambritis MBE	01/03/2022 - One ticket to the Annual Kebab Awards at the Park Plaza Westminster Hotel, 200 Westminster Bridge Rd, London SE1 7UT with proceedings beginning with a Reception at 6pm and Dinner served at 7pm. Offered by Peter John OBE Chair of the Terrapin Group. Value of ticket unknown but over £25
Stephen Alambritis MBE	30/01/2022 - Presented by Mr Ivor Heller from AFC Wimbledon one club football shirt signed by the players with ALAMBRITIS on the back of it in recognition of the return of the club back to its natural home in Plough Lane SW19 and support given when Merton Council Leader 2010-2020. This took place at a Merton Labour Party Gala Awards Evening. Offered by AFC Wimbledon. Value unknown but over £25.
Stephen Alambritis MBE	30/01/2022 - Presented by Mr Steve Adkins from Tooting & Mitcham FC a framed painting in recognition of the club's development and growth at their Imperial Fields Hub Ground and support given as a councillor in Ravensbury ward since 2003 and as Merton Council Leader 2010-2020. This took place at a Merton Labour Party Gala Awards Evening. Offered by Tooting & Mitcham FC. Value unknown but over £25.
Stephen Alambritis MBE	22/12/2021 - A Christmas gift of one bottle of Champagne offered by Mr Andrew Pavli of Wimbledon Wine Cellar. Value unknown but over £25.
Stephen Alambritis MBE	14/12/2021 - A Christmas gift of one bottle of Champagne delivered to the Link Reception. Offered by Mr Anthony Ferguson of P & H Limited. Value unknown but over £25.
Stephen Alambritis MBE	06/12/2021 - one ticket to the Annual Awards Evening of London Sport at The Guildhall in the City of London including Dinner offered by London Sport where I am a Trustee. Value of ticket unknown but over £25
Laxmi Attawar	07/07/2022 - The opportunity to participate in AELTC ballot, not open to the general public and purchase a pair of tickets for 7 July to ladies semi-final day. Value of tickets £420.00
Max Austin	13/07/2022 - Wimbledon Bookfest offered by Wimbledon Bookfest; Community Engagement ; Value £25
Max Austin	07/06/2022 - A dinner held by the Ambassador of Thailand to the UK at the Thai Embassy marking my election as a Councillor. offered by His Excellency Mr Pisanu Suvanajata, Royal Thai Embassy, 29-30 Queen's Gate, SW7 5JB; This dinner is being arranged at the invitation of the Ambassador and I hope to learn more about our local Thai community and the role of the Buddhapadipa Temple in Village Ward.
Thomas Barlow	10/07/2022 - The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets. Through the ballot I received two tickets for which I paid £480. offered by The All England Lawn Tennis and Croquet Club, Church Road, Wimbledon; Received through Councillors' ballot.
John Braithwaite	13/09/2022 - Tickets to an AFC Wimbledon Football match offered by AFC Wimbledon; Invite for the pre match commemoration of Her Majesty Queen Elizabeth II ; Value £25
Michael Butcher	06/07/2022 - 1 Pair of tickets to Wimbledon Tennis Championships purchased via the Councillor Tennis Draw for Quarter Finals day. Value £320 paid in full.
Caroline Charles	13/09/2022 - Ticket to attend commemoration for Queen Elizabeth II and the football match afterwards. offered by AFC Wimbledon; Received the ticket but was unable to use it due to a prior commitment that overran. ; Value £25
Caroline Cooper-Marbiah	13/09/2022 - Invitation to attend AFC Wimbledon and watch the match preceded by a short memorial event to mark the death of the Queen. Value unknown but over £25

Caroline Cooper-Marbiah	03/07/2022 - Received 1 Pair of tickets as guest of All England Lawn Tennis Championships for middle Sunday.. Value unknown but in excess of £25
Caroline Cooper-Marbiah	02/07/2022 - The opportunity to participate in a ballot which is not open to the general public for Wimbledon Tennis Championship tickets and purchased 1 Pair of tickets. Value £240
Caroline Cooper-Marbiah	28/06/2022 - Opportunity to accept 1 Pair of tickets to All England Tennis Championships from the Leaders Office. Value unknown but over £25
Caroline Cooper-Marbiah	24/06/2022 - 1 Pair of complimentary tickets to the Polka Theatre to see The Pirate, The Princess and the Platypus and purchased 3 extra tickets at a cost of £50. Value of complimentary tickets unknown.
Anthony Fairclough	31/05/2022 - Two tickets to The Pirate, the Princess and the Platypus offered by Lynette Shanbury, The Polka Theatre, 240 The Broadway, London SW19 1SB; Newly refurbished children's theatre in my ward, which I wish to support and advertise. As well as making better contacts with a local stakeholder ; Value £30
Edward Foley	13/09/2022 - Ticket to AFC Wimbledon to watch game after a short memorial service for Queen Elizabeth II. offered by AFC Wimbledon; All councillors were invited ; Value £25
Brenda Fraser	10/12/2021 - Pair of complimentary tickets to Cinderella at the Polka Theatre offered by The Polka Theatre , 240 Broadway, Wimbledon, SW19 15B ; Value £25
Brenda Fraser	07/12/2021 - to Mayor's Charity Press and Gala Night of Dick Whittington at Wimbledon New Theatre. offered by New Wimbledon Theatre, The Broadway, Wimbledon, SW19 1QG ; Value £37
Ross Garrod	28/09/2022 - Complimentary ticket to attend Merton Best Business Award Night at the AELTC with dinner. Value unknown but over £25.
Ross Garrod	13/09/2022 - "Guest of AFC Wimbledon to attend the HM Queen Elizabeth II tribute match (AFC Wimbledon vs Northampton Town FC) " offered by AFC Wimbledon; Represented Merton Council in tribute to the Queen before the game. ; Value £25
Ross Garrod	07/07/2022 - Guest of AELTC at Wimbledon Tennis Championships in Royal Box x2 tickets. offered by AELTC
Gil Hall	13/09/2022 - ticket to a match at AFC Wimbledon offered by AFC Wimbledon; I attended for the commemoration of the Queen. I did not stay for the match or take any refreshment. I left at 7.45 (kick off) ; Value £25
Joan Henry	13/09/2022 - Queen Elizabeth 11 Memorial Event at AFC Wimbledon , Plough Lane. offered by AFC Wimbledon; Was invited as a representative of London Borough of Merton in the capacity of Mayor of Merton. ; Value £25
Joan Henry	10/12/2021 - A complimentary ticket to see Cindarella at The Polka Theatre.Value unknown but over £25
Daniel Holden	13/09/2022 - AFC Wimbledon offered a ticket to their match against Northampton for the evening of Tuesday 13th September, to commemorate and mark the passing of Her Majesty Queen Elizabeth II. No hospitality was provided. offered by AFC Wimbledon; The club was keen for councillors to attend the match as this was during the national mourning period for the late Her Majesty Queen Elizabeth II. ; Value £25
Daniel Holden	27/08/2022 - Three tickets to see AFC Wimbledon V Barrow offered by Rhys Torrington & Amanda Bynon, AFC Wimbledon Museum trustees; To see AFC Wimbledon at the new stadium because we've not been before, in support of the club and to learn about the work of the club trustees in setting up a club museum. ; Value £96
Daniel Holden	13/07/2022 - Wimbledon Bookfest offered by Wimbledon Bookfest; Community Engagement ; Value £25
Daniel Holden	10/05/2022 - Receipt of a ticket from New Wimbledon Theatre for performance of Dreamgirls and drinks reception. offered by New Wimbledon Theatre; Accepted to show support for our local theatre ; Value £25
Daniel Holden	18/12/2021 - Receipt of a ticket to attend a local choral concert at Kings College, Wimbledon offered by Founder & Director of the Platinum Choir, Scott Inglis-Kidger; Supporting a local choir and music in the borough, which encourages local children to get into music (choir singing in this case). ; Value £25

Daniel Holden	22/11/2021 - Receipt of a complimentary ticket from New Wimbledon Theatre for Gala Night of 'Dick Whittington' on 7 December 2021 - Gala Night to show support to our local theatre and in support of Mayor's Charity. offered by New Wimbledon Theatre ; Value £37
Andrew Howard	19/11/2021 - Receipt of a complimentary ticket from New Wimbledon Theatre for Gala Night of 'Dick Whittington' on 7 December 2021 - Gala Night to show support to our local theatre and in support of Mayor's Charity. offered by New Wimbledon Theatre ; Value £37
Natasha Irons	04/07/2022 - Wimbledon middle Sunday tickets offered by The All England Lawn Tennis Club; Centenary of Centre Court ; Value £145
Sally Kenny	13/09/2022 - One ticket for the match where the minutes silence was held for the Queen offered by AFC Wimbledon; To attend the minutes silence in memory of her Majesty Queen Elizabeth II ; Value £25
Sally Kenny	09/07/2022 - 1 Pair of tickets for Wimbledon Tennis Championships purchased via Councillor Tennis Draw Ladies Singles Finals and Gentlemen's doubles final. Value £480 paid in full.
Linda Kirby MBE	30/07/2022 - Opportunity to purchase 1 pair of tickets to the AELTC in the Wimbledon tennis councillors' draw for 30 June 2022 for which I have paid £190.
Paul Kohler	10/05/2022 - 2 tickets to Wimbledon Theatre to see Dream Girls offered by Wimbledon Theatre; Gala event to which local politicians invited ; Value £80
Edith Macauley MBE	13/09/2022 - Complimentary ticket to AFC Wimbledon and watch the match preceded by a short memorial event to mark the death of hte Queen. Value of ticket unknown but over £25.
Edith Macauley MBE	02/07/2022 - Opportunity to purchase 1 Pair of tickets as per the invitation of the Chairman of the AELTC. Value £240. ; Value £240
Edith Macauley MBE	07/12/2021 - One complimentary ticket to Mayor's Charity, Press and Gala Night of 'Dick Whittington' at New Wimbledon Theatre. Value over £25.
Gill Manly	13/09/2022 - 1 Ticket to AFC Wimbledon Football match offered by AFC Wimbledon, Plough Lane, SW17 0NR; To mark the passing of Her Majesty the Queen ; Value £25
Nick McLean	13/09/2022 - Ticket to AFC Wimbledon offered by AFC Wimbledon; Attend the game for the HM Queen's Tribute ; Value £25
Nick McLean	30/11/2021 - Receipt of a complimentary ticket from New Wimbledon Theatre for Gala Night of 'Dick Whittington' on 7 December 2021 offered by New Wimbledon Theatre, 93 Broadway, SW19 1QG; Gala Night to show support of our local theatre and in support of Mayor's Charity. ; Value £37
John Oliver	13/09/2022 - "Offered opportunity to watch football match at Plough Lane I accepted the offer but did not attend the event" offered by AFC Wimbledon; In conjunction with a memorial event for Queen Elisabeth II ; Value £25
Eleanor Stringer	28/09/2022 - Complimentary ticket including dinner to Merton Best Business Awards night held at the AELTC. Value unknown but over £25.
Eleanor Stringer	13/09/2022 - Invitation to attend AFC Wimbledon and watch the match preceded by a short memorial event to mark the death of hte Queen. Value of ticket unknown but over £25.
Eleanor Stringer	06/07/2022 - Opportunity to participate in Councillor Wimbledon Championships Tennis Draw not open to the public and purchase 1 Pair tickets. Value £320
Eleanor Stringer	24/06/2022 - Complimentary ticket for 1 adult and 1 child to the Polka Theatre to see The Pirate, the Princess and the Platypus. Value of tickets unknown.
Eleanor Stringer	09/06/2022 - Invitation to attend Wimbledon BookFest's childrens Sunrise Festival opening event for local schools. Value of tickets £12.50 including copy of Lenny Henry's book 'The Boy with Wings'.
Eleanor Stringer	10/12/2021 - Complimentary tickets for 1 adult plus 2 children to see 'Cinderella' at Polka Theatre, Wimbledon. Value unknown but over £25.
Eleanor Stringer	05/11/2021 - Pair of complimentary tickets received for myself and daughter to the Borough Fireworks Display . Value over £25.

Martin Whelton 13/09/2022 - Guest of AFC Wimbledon including match ticket and hospitality at Northampton match which included the commemoration of the life of Queen Elizabeth II before the match with tributes from the Mayor of Merton and both Members of Parliament offered by AFC Wimbledon; Honouring the life of Her Majesty Queen Elizabeth II and her 70 years of service as head of state and an invitation to all Merton councillors. ; Value £25

Martin Whelton 24/05/2022 - Attended a local authority Direct Delivery Awards on Tuesday 24 May organised by 3 Fox. 3 course lunch provided. Value of ticket unknown but over £25

Martin Whelton 01/03/2022 - One ticket to the Annual Kebab Awards at the Park Plaza Westminster Hotel, SE1 7UT offered by the Terrapin Group. Value of ticket unknown but over £25

Councillors without a declaration

Agatha Mary Akyigyina OBE
Sheri-Ann Bhim
Hina Bokhari
Mike Brunt
Billy Christie
Eleanor Cox
Helena Dollimore
Klaar Dresselaers
Chessie Flack
Kirsten Galea
Jenifer Gould
Billy Hayes
Susie Hicks
Dan Johnston
Andrew Judge
Usaama Kaweesa
Samantha MacArthur
Peter McCabe
Simon McGrath
Stephen Mercer
Aidan Mundy
Stuart Neaverson
Robert Page
Michael Paterson
Dennis Pearce
Tony Reiss
Marsie Skeete
Slawek Szczepanski
Matthew Willis
James Williscroft

Victoria Wilson

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Protocol on the offer, acceptance and declaration of the receipt of gifts and hospitality by elected and co-opted members

Introduction

This protocol has been approved by the Standards Committee of the London Borough of Merton and sets out members' obligations to declare gifts and hospitality received in their capacity as members of the Council and to provide guidance on those obligations.

A breach of this protocol amounts to a breach of the Council's Code of Conduct and a complaint can be reported to the Monitoring Officer and dealt with in accordance with the Members' Complaints Procedure.

What are the rules?

- You must register every individual gift or item of hospitality received that is over £25 in value.
- Your registration must be made within 28 days of the date you received it, by completing and sending the attached form to the Council's Monitoring Officer (Louise Round, Managing Director, South London Legal Partnership).
- You must declare the value and details of the gift or hospitality received on the form, as well as whether the donor of the gift has or has had in the past or likely to have in the future, dealings with the Council and also if the gift or hospitality has been accepted the reason for that acceptance. The form must be signed by you personally; they should not be signed by support staff for you. Forms will be checked and returned if not completed properly.
- Even if all members, or a large number of them, received the same gift or were invited to the same event, they must each make individual notifications.
- Failure to comply with these rules is a breach of the Members' Code of Conduct.
- Breaches of the Code render members liable to a complaint being reported to the Monitoring Officer, who can decide whether there should be an investigation into the allegation.
- The press and public have the right to inspect your gift and hospitality declaration forms. The Register is also public via the Council's web site at www.merton.gov.uk. (follow link to 'Councillors' page). Councillors and officers may also gain access through the council's intranet. (You should have this in mind when completing declaration forms, as we cannot edit your comments.)

Should I accept gifts and hospitality?

Registering gifts or hospitality received under the Code does not automatically mean it is appropriate or sensible to accept them in the first place.

Particular care should be taken in relation to gifts and hospitality offered by current or potential contractors for the Council. In certain cases the acceptance of a gift or hospitality from these sources could constitute a criminal offence, even if declared. If there is any suspicion that any offer is intended as an inducement then the matter should be reported in accordance with established procedures.

The Bribery Act 2010, which came into force on 1 July 2011, creates offences of “bribing another person” (active bribery) and of “being bribed” (passive bribery). The offences consist of “promising, offering or giving” or “requesting, agreeing to receive or accepting an advantage (financial or otherwise)” in circumstances involving the improper performance of a relevant function or activity. In the context of the council the relevant function or activity means a public activity which a reasonable person would expect to be performed in good faith, impartially or in a particular way by a person performing it in a position of trust. There is a maximum penalty of 10 years imprisonment or an unlimited fine for these offences.

In considering whether to accept gifts or hospitality Members should have regard to the following general principles:

- Never accept a gift or hospitality as an inducement or reward for anything which you do as a Member;
- Only accept a gift if there is a commensurate benefit to the Council;
- Never accept a gift or hospitality which might be open to misinterpretation;
- Never accept a gift or hospitality which puts you under an improper obligation; and
- Never solicit a gift or hospitality.

Must I register all gifts and hospitality which I receive or am offered?

- You must register any gifts or hospitality worth over £25 that you receive in connection with your official duties as a Member.
- Where the value of any gift or hospitality is under £25 you may wish to declare receiving it.
- You should register any offer of gift and/or hospitality over £25 which you have declined, since this protects both your position and that of the Council.

Only gifts and hospitality offered to you in your official capacity must be registered. Gifts and hospitality offered to you in your private capacity, of whatever value, should not be registered at all. You do not need to register gifts and hospitality which are not related to your role as a Member.

However, you should always consider whether any gifts or hospitality could be seen as being connected with your public role as a Member.

What is the value of the gift/ hospitality?

You may have to estimate how much a gift or some hospitality is worth. The form requires you to give an estimate of the value. It is suggested that you take a common sense approach, and consider how much you reasonably think it would cost a member of the public to buy the gift, or provide the hospitality in question. If as a result you estimate that the value is greater than £25, then you should declare receipt.

Where hospitality is concerned, you can disregard catering on-costs and other overheads, e.g. staff and room hire. If the sandwiches or your meal, including drinks and alcohol, would cost £25 in a comparable establishment providing food of comparable quality, register it.

If you are not certain whether the value is under £25, the safest course is to register it and give an approximate value.

What about gifts of low value?

There is no requirement to declare gifts of a value of less than £25. However, in order to be transparent, if you receive a series of related gifts in connection with your role as a Member which are all under £25, but together total above £25, then you should register them if they are from the same person. If the small gifts received from different persons are connected in some way, it is good practice to register them.

How do I register gifts and hospitality I receive?

You must give the Group Office Managers (working on behalf of the Monitoring Officer) written details about the gifts and hospitality you are offered. The Standards Committee endorses the use of a standard form for this purpose, which is available on the Council's website.

The best advice is to get into the habit of registering things as soon as possible, and if in doubt, register receipt. The appropriate form is available on the Council's website.

Which organisation do I make declarations to?

As mentioned, anything received in your private capacity is not declarable. However, what is your "*official capacity*"? So far as the Council is concerned it is when you do any of the following:

- You conduct the Council's business; or
- You conduct the business of the office of Councillor; or
- You act as a formal representative of the Council on another body.

To deal with the issue of when things are received in different capacities or where there are overlapping roles:

- Only use the Council's gifts and hospitality registration declaration form for things received in your capacity as a Merton councillor, and send it to the Council's Monitoring Officer.
- If you receive things in another capacity, i.e. arising from holding another public office, register in accordance with whatever code is in place for that other body. If a particular body does not actually require you to register anything (e.g. a community association), then you do not need to do anything in respect of the receipt of a gift or hospitality directly attributed to your role within that organisation.
- If you cannot decide what capacity you received something in, e.g. you were invited as both a Councillor and a health trust member, provided you declare the gift/ hospitality at least once with the body that appears to be the most appropriate, you will have fulfilled your duties. The overriding purpose is public transparency.

What happens if I do not register a gift or hospitality?

Failure to notify the Monitoring Officer of the receipt of a gift or hospitality is a breach of this protocol and consequently also a breach of the Code of Conduct. An alleged breach of the Code can be the subject of a complaint to the Monitoring Officer which could result in the matter becoming the subject of the investigation.

Gifts which are more likely to be considered acceptable by the Standards Committee

Decisions on declarations must be made by individual members. The Standards Committee has however agreed that in appropriate circumstances members may choose to accept gifts and hospitality in the following circumstances:

- Civic hospitality provided by another authority;
- modest refreshments received in the ordinary course of duties as a member e.g. at formal meetings or when in contact with constituents;
- Tickets for sporting, cultural events which are sponsored or supported by the Council;
- Small gifts of low intrinsic value i.e. below £25 which are branded with the name of the company or organisation making the gift (e.g. diaries, calendars etc);

- Modest souvenir gifts with a value below £25 from another public body given on the occasion of a visit by or to that body;
- Hospitality received in the course of an external visit or meeting which has been authorised by the Council. In such cases the arrangements should be made by officers rather than the members who will be benefiting and hospitality should be commensurate with the nature of the visit; and
- Other unsolicited gifts where it is impracticable to return them or where refusal would in the circumstances cause offence. In such cases you may wish to pass the gift to the Mayor's charitable fund.

Receipt of gifts and hospitality of this type is still subject to the requirements of the protocol regarding the notification to the Monitoring Officer of gifts and hospitality of greater than £25 in value. The appropriateness of acceptance should always be considered beforehand. It should also be noted that the mere fact that a gift or hospitality does not have to be notified under the protocol does not necessarily mean that it is appropriate to accept it.

Guidance on particular gifts and hospitality

Tickets to events

The evidence of the Register indicates that the most common benefits accepted by Merton Councillors from time to time, are tickets to functions, notably theatrical performances in the Borough. If a Member considers it appropriate to accept such tickets, then the value must be assessed and if greater than £25 they should be declared as gifts.

All England Lawn Tennis Championships

Where, as in the case of the All England Lawn Tennis Championships, tickets are allocated by lottery and then purchased, the mere fact of payment should not necessarily mean that a notification should not be made under the Code. If participation in a lottery enables a member as a result of his or her office, the opportunity to purchase tickets which would not be available to the public at large then a benefit has been enjoyed by the member. The Standards Committee considers that even though the value of this benefit is difficult to quantify the interests of probity and transparency require the notification of such tickets whether purchased or not.

Civic Ceremonial

The Standards Committee does not consider that the attendance of the Mayor, the Deputy Mayor or any other Councillor as an accredited representative of the Council

needs to be notified to the Monitoring Officer under the Protocol. However should any personal gift be offered in such circumstances the approach to be adopted in relation to acceptance must be considered in accordance with this protocol and this guidance.

Ceremonial Gifts

Ceremonial gifts greater than £25 in value offered by visiting delegations from British or overseas public authorities may be accepted on the basis that the gift is made to the Council rather than the individual Councillor. Arrangements should be made for any such gifts which are received to be displayed or kept corporately.

Will the register be open to the public?

Yes, the register is available to the public in the same way as the register of disclosable pecuniary interests. It is open for inspection and also available on the internet and the Council's intranet.

The Monitoring Officer produces regular updates of declarations, which are reported to the Standards Committee once a year, and available for public inspection.

Further assistance

It is each Member's own individual responsibility to observe this protocol, but the Monitoring Officer and his staff will help where possible. If you have any questions at all please contact the Group Officer Managers, the Monitoring Officer or Deputy Monitoring Officer for advice and assistance.

Louise Round
Monitoring Officer
London Borough of Merton

Document Updated November 2021

Committee: Standards and General Purposes Committee

Date: 08 November 22

Subject: Gifts and Hospitality – Officers

Cabinet Member: Councillor Mike Brunt, Chair, Standard and General Purposes Committee

Lead officer: Louise Round, Interim Executive Director for Innovation and Change and Monitoring Officer

Contact officer: Fabiola Hickson, Head of Law, Procurement and Information SLLP

Recommendations:

- A. That Committee notes the report
-

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report is the yearly update on the registration by officers of gifts and hospitality.
- 1.2 A copy of the register accompanies this report at Appendix 1.

2. DETAILS

- 2.1 The Code of Conduct for Employees requires that:

- All offers of gifts must be reported to managers;
- Significant gifts (over £25) must be registered on the departmental register.
- Acceptance of gifts should only occur in very limited circumstances and approved in advance by the manager;
- All offers of hospitality must be reported to managers;
- The hospitality (no minimum value) must be registered on the departmental register;
- There are limited circumstances where acceptance of hospitality may be acceptable
- Hospitality received in the course of business meetings and at free training does not need to be registered, but managerial approval is required.

- 2.2 The inspection by the Monitoring Officer of the register shows that:

- The departmental registers continue to be maintained electronically in the adopted corporate manner in all departments.
- Notifications and registrations have taken place in the departments as follows:

Registrations

Chief Executive's	2
Children Schools and Families	0
Community and Housing	1
Corporate Services	0
Environment & Regeneration	1

- The entries no longer include tennis tickets from the AELTC managed under the staff ballot. This is because the staff ballot is a centrally managed process and a record is kept of staff who have been successful so it was not considered necessary for individual staff to make declarations. The same approach will be taken to other offers which have Council wide application – for instance to the offer of tickets to the AFC Wimbledon event to mark the passing of her Majesty Queen Elizabeth II earlier this year. A similar approach was adopted by this Committee in relation to members at its meeting in November 2021.
- The declarations are in accordance with requirements made up of entries where the gifts and hospitality accepted were for officers networking or representing the Council. The entries for the past year do not show that any low value gifts were received, from the public.
- These continuing low figures and the nature of gifts and hospitality may be a result of a genuine decline in gifts and hospitality being offered or it may be due to officers failing to enter these onto the register. In order to ensure that it is not the latter, managers should ensure that officers are aware of their responsibilities under the Code of Conduct for Employees to complete declarations and to give reasons, if gifts and hospitality are being recorded as having been accepted. Managers have been reminded of the need to ensure officers are aware that where the offeror is a contractor, prospective contractor or an applicant for planning permission extra care should be exercised in deciding whether to accept the gift or hospitality and the default position normally would be to decline the offer. Finally, it should be noted that 2 of the entries have failed to provide reasons for accepting the gift and managers should ensure that all officers are aware of the necessity for doing so.
- The impact of covid may also have played a part in the low numbers declared in the past year, especially in relation to low value gifts from members of the public. As life returns to a new normal, managers should ensure that officers are reminded of officers' responsibilities with regards this type of gift.

3 ALTERNATIVE OPTIONS

- 3.1 Committee could decide not to have this information reported to it, though this would not be compatible with its role as the proactive promoter and monitor of ethical standards.

4. CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1 None save referred to within the report.

5. TIMETABLE

The next annual report will be presented to CMT in October 2023

6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1 None.

7. LEGAL AND STATUTORY IMPLICATIONS

- 7.1 The receipt or gift of any reward or advantage for an act or omission that suggests favour to any person in their official capacity may constitute a criminal offence under the Bribery Act 2010.

8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION

- 8.1 None.

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 None.

10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1 Failure by officers to address their responsibilities under the Code of Conduct could result in disciplinary action by the Council. Failure of the Council to monitor and promote the observance of the Code could result in an unnoticed lack of compliance by managers which might result in complaints, damage to the reputation of the Council, possible adverse impacts upon the quality of the Council's decision making processes and legal challenges to Council actions.

11. APPENDIX – THE FOLLOWING DOCUMENT FORMS PART OF THE REPORT

Appendix 1: Details of the Registers held by Directors for the period 01.11.21-30.09.22

12. BACKGROUND PAPERS

None.

London Borough of Merton
Gifts and Hospitality Register (Staff)

01.11.21.- 30.09.22

4 Entries

Chief Executives Department = 2

Date	Name and Post	Donor & Details	Accept	if Yes reason
27.11.21	Senior Officer	AFC Wimbledon 2 tickets to football and lunch	Yes	Partnership working
10.12.21	Officer	3 tickets to Cinderella	Yes	No reason supplied

Community and Housing = 1

Date	Name and Post	Donor & Details	Accept	if Yes reason
30.11.21	Senior Officer	AELTC Lunch	Yes	Lunch is to say thank you for our support around the Championships earlier this year

Environment and Regeneration = 1

Date	Name and Post	Donor & Details	Accept	if Yes reason
30.11.21	Senior Officer	AELTC Lunch	Yes	No reason supplied

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Committee: Standards and General Purposes Committee

Date: 28 November 2022

Wards: All

Subject: Appointing the Hearings Sub-Committee for Member Complaints

Lead officer: Louise Round, Monitoring Officer

Lead member: Councillor Mike Brunt, Chair, Standards and General Purposes Committee

Contact officer: Louise Round, Monitoring Officer

Recommendations:

- A. To agree that the Standards and General Purposes Committee appoint a sub-committee to undertake hearings as and when required to consider complaints against members under the members complaints process, part 5A of the Council's Constitution (Appendix A).
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1.1 At its meeting on 22 July 2021, Standards and General Purposes Committee agreed a revised process for dealing with complaints that members had breached the code of conduct which would apply to all complaints received after 8 July 2021.
- 1.1.2 As part of this process, where relevant, the Monitoring Officer will review the investigating officer's report and in consultation with the Independent Persons, will either (a) refer the matter to the Hearings Subcommittee which is a sub-committee of the Standards and General Purposes Committee or (b) seek local resolution. A Hearing sub-committee of the Standards and General Purposes Committee is therefore required to be appointed.

2 DETAILS

- 2.1.1 The process requires that, following a complaint, if an investigation is undertaken and the outcome of that investigation is that there is no breach of the code of conduct, then there is no requirement for a hearing and the matter is simply reported to the Standards and General Purposes Committee for information. However, if the conclusion of the investigating officer is that there has been a breach then, on receipt of a report concluding that there had been a breach, the matter would proceed straight to a hearing by the sub-committee.
- 2.1.2 The default position should be a hearing by a hearings sub-committee. Whilst there is still the power for the full committee to conduct hearings this would be by exception.

- 2.1.3 It is considered sensible to appoint a hearings sub-committee on a standing basis, given that matters may be referred straight to hearing as describe above, rather than have to convene a full meeting of the committee to appoint a subcommittee on a case by case basis.
- 2.1.4 The sub-committee will be subject to the proportionality requirements contained in the Local Government and Housing Act 1989, however the subcommittee does not have to be drawn from among the membership of its parent committee. It was decided by the Standards and General Purposes Committee on 22 July 21 that seven members should be on the sub-committee and groups should provide nominations to Democratic Services.
- 2.1.5 Under proportionality requirements, the table below sets out the proportionality for varying sizes of sub-committee

NO OF MEMBERS	LABOUR	LIBERAL DEMOCRATS	CONSERVATIVE	MERTON PARK INDEPENDENTS
7	4	2	1	0

- 2.1.6 The procedure for dealing with hearings is set out in the schedule to the complaints process (Appendix A).
- 2.1.7 The meeting of the Hearings Sub-committee will be open to the press and public unless it is considering confidential or exempt information under Part VA Local Government Act 1972 and the Subcommittee resolves to go into private session having considered whether it is appropriate to do so, taking into account the public interest in the meeting.
- 2.1.8 Changes to the membership of the sub-committee can be agreed by the Standards and General Purposes Committee and there would be provision for substitutions particularly in the event that there was a conflict of interest for a member on the sub-committee who was therefore unable to be part of that particular hearing.

3 ALTERNATIVE OPTIONS

- 3.1.1 The Committee could choose reconsider the process for appointing a Hearing Sub-Committee, options could be presented at a future meeting, however this process has previously been agreed by both this Committee and Council.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1.1 The recommendations of this report are the result of a previous consultation with this Committee.

5 TIMETABLE

5.1.1 If the Committee agrees the proposals set out in this report, the Monitoring Officer will request nominations for membership of the Hearings Sub-Committee from Groups.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1.1 There are no financial implications arising from this report.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1.1 The statutory framework governing member conduct is set out in the Localism Act 2011 and the proposals contained in this report are compliant with it.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1.1 None

9 CRIME AND DISORDER IMPLICATIONS

9.1.1 None

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

None

11. APPENDICES

Appendix A – Members Complaints Process as agreed at Full Council 7 July 2021

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Part 5A Addendum

PROCEDURE FOR DEALING WITH COMPLAINTS MADE AGAINST ELECTED OF CO- OPTED MEMBERS FOR BREACH OF THE MEMBERS CODE OF CONDUCT

1. Background

This procedure sets out the arrangements adopted by the Council pursuant to s,28(6) Localism Act 2011 as to how a complaint that an elected or co-opted member of this authority has failed to comply with the authority's Code of Conduct can be made and how the authority will deal with allegations of a failure to comply with the authority's Code of Conduct.

Under the Localism Act 2011 the authority must appoint at least one Independent Person, whose views must be sought by the authority before it takes a decision on an allegation which it has decided shall be investigated and whose views can be sought by the authority at any other stage or by a member against whom an allegation has been made.

2. The Code of Conduct

The Council has adopted a Code of Conduct for members.

3. Making a Complaint

- 3.1 A complaint must be made in writing, preferably using the Complaint Form on the authority's website and emailed or sent to:

The Monitoring Officer
London Borough of Merton
London Road
Morden
Surrey
SM4 5DX

Or emailed to: louise.round@merton.gov.uk

- 3.2 The Monitoring Officer has statutory responsibility for maintaining the register of members' interests and is responsible for administering the system in respect of complaints of member misconduct. In the Monitoring Officer's absence, the Deputy Monitoring Officer will undertake this role.
- 3.3 The authority will not normally investigate anonymous complaints unless there is a clear public interest in doing so.
- 3.4 The Monitoring Officer will acknowledge receipt of the complaint within 5 working days of receiving it and will keep the complainant informed about the progress of the complaint.

3.5 The Monitoring Officer will inform the member against whom a complaint has been made that a complaint has been made and will give details of the complaint to them. The Monitoring Officer has the discretion, which will only be exercised in exceptional circumstances, not to inform the member of the complaint at this stage if the Monitoring Officer is of the view that there is a risk that an investigation could be frustrated or a case prejudiced by the member knowing the details.

4. Will the complaint be investigated?

4.1 The Monitoring Officer will review every complaint received.

4.2 The complaint must be:

- against a person who was a member of the authority at the time of the conduct complained of; and
- in respect of conduct of that member while acting, claiming to act or giving the impression to a reasonable member of the public that they are acting in their official capacity as a member; and
- in relation to an alleged breach of the Code of Conduct in force at the relevant time.

4.3. If in the view of the Monitoring Officer the complaint does not fall within 4.2 above the matter will not be considered and the complainant will be informed that there will be no further action.

4.4 Where the complaint meets the above criteria, and in order to establish a preliminary view of the circumstances of the complaint and to decide whether it should be investigated and/ or whether there may be a course of action which could be taken to resolve the issues promptly without the need for formal action, the Monitoring Officer may consult or meet with any other relevant persons, which may include the Leader of the Council or Group Leaders, the Chief Executive or any other officers, the complainant and the member against whom the complaint has been made.

4.5 This decision will normally be taken within 14 days of receipt of the complaint. The complainant and the member against whom the complaint is made will be informed of the Monitoring Officer's decision and the reasons for that decision.

4.5 The Monitoring Officer may consult the Council's Independent Person at any point during her consideration of a complaint and must so consult where she considers a matter should be referred for formal investigation

4.6 In assessing whether a complaint should be investigated the following factors will be taken into consideration:

- *Public interest* – the decision whether to investigate will be a proportionate response to the issues raised and expected outcomes will take into account the wider public interest and the costs of undertaking an investigation. Complaints will only be investigated where the allegations are reasonably considered to be serious matters which justify the time and resources of an investigation;
- *Alternative course of action* – a complaint will only be investigated where there is no other action which could be taken which would achieve an appropriate outcome in the circumstances of the case (see paragraph 4.8 below);
- *Member’s democratic role* – where a complaint relates to a matter more appropriately judged by the electorate at the local elections, the Monitoring Officer will not normally refer these matters for investigation;
- *Previous action* - if the complaint or a substantially similar complaint has already been subject to a previous investigation or some other action relating to the code of conduct or other related process, the matter will ordinarily not be referred for further action. Complaints which are already the subject of other internal or external processes will not be investigated;
- *Vexatious/repeated complaints* – the Monitoring Officer will not refer for investigation a complaint that is the same or substantially the same as one previously made by the complainant or which is considered to be vexatious or frivolous or designed to harass or insult individuals;
- *Timing of the alleged conduct* – if there are significant delays between the incident complained of and the complaint the matter will not ordinarily be considered further unless there are very good reasons for the delay. Complaints should normally be made within three months of the date upon which the alleged misconduct occurred;
- *Ulterior motive* – no further action is likely to be taken if the complaint is considered to be motivated by malice, political motivation or retaliation, or can be characterised as being ‘tit-for tat’;
- *Subject-matter* – complaints which are really about Council services, its policies or performance will be referred to the relevant service area in accordance with the Council’s complaints procedure;
- *Member complaints* – Complaints by Members against another Member will not usually be investigated if the Monitoring Officer considers that the complaint is of a kind

which could be more appropriately addressed through political group processes, political party complaints procedures or informal mediation.

4.8 Where the Monitoring Officer considers that a complaint can be resolved without the need for a formal investigation she may take one or more of the following actions:

- asking the member to acknowledge that his/her conduct was unacceptable and to offer an apology or other remedial action by the authority.
- referring the matter to group leaders or officers
- asking the member to be attending training

4.9 Matters which might appropriately be dealt with as described in 4.8 above may include:

- Misunderstanding of procedures or protocols
- Misleading, unclear or misunderstood advice from officers
- Lack of experience or training
- A general deterioration of relationships, including those between members and officers, as evidenced by a pattern of allegations of minor disrespect.
- Allegations and retaliatory allegations from the same individuals

4.10 If such action does not resolve the complaint, the Monitoring Officer will reconsider whether the complaint merits formal investigation.

4.11. The Monitoring Officer may in exceptional circumstances, refer a complaint to the Standards and General Purposes Committee to determine if an investigation is the appropriate course of action.

4.11 If the complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer has the power to refer the matter to the police and other regulatory agencies.

5. How is the investigation conducted?

5.1 If the Monitoring Officer in consultation with the Independent Person decides that a complaint merits formal investigation, she will appoint an investigating officer and agree a timescale in which to undertake

the investigation. This will normally take no more than 12 weeks from the appointment.

- 5.2 The investigating officer will contact the complainant and the member against whom a complaint has been made and undertake such investigation as is appropriate in all the circumstances.
- 5.3 At the end of the investigation, the investigating officer will produce a draft report and will seek comments and views on the draft report from the complainant and the member against whom the complaint has been made.
- 5.4 Having received and taken account of any comments which have been made, the Investigating Officer will send a copy of the final report to the Monitoring Officer.
- 5.5 If at any time the investigation is frustrated, for example, if significant witnesses are not available for interview, the Monitoring Officer shall decide what action to take, including, in consultation with the Independent Person, terminating the investigation. Such a decision will be reported to the Standards and General Purposes Committee.

6. What happens if the Investigating Officer concludes that there is no evidence of a failure to comply with the Code of Conduct?

- 6.1 The Monitoring Officer will review the Investigating Officer's report and if she is satisfied in consultation with the Independent Person that the report is sufficient, the Monitoring Officer will inform the complainant and the member concerned that she is satisfied that no further action is required. A copy of the investigating officer's final report will be given to the complainant and the member concerned. The report will be referred to the Standards and General Purposes Committee without question or debate, unless the member concerned requests that it not be reported.
- 6.2 If the Monitoring Officer is not satisfied that the investigation has been conducted properly, she may ask the investigating officer to reconsider his/her report.

7 What happens if the investigating officer concludes that there is evidence of a failure to comply with the Code of Conduct?

- 7.1 The Monitoring Officer will review the investigating officer's report and in consultation with the Independent Person, will either (a) refer the matter to the Hearings Subcommittee which is a sub-committee of the Standards and General Purposes Committee or (b) seek local resolution.
- 7.2 *Local resolution*

The Monitoring Officer may consider that the matter can

reasonably be resolved without the need for a hearing. In such a case, she will consult with the Independent Person and the complainant and seek to agree a fair resolution which helps to ensure higher standards of conduct for the future. Such resolution may include the member accepting that his/her conduct was unacceptable and offering an apology and/or other remedial action by the authority. If the member complies with the suggested resolution, the Monitoring Officer will report the matter to the Standards and General Purposes Committee for information but will take no further action.

7.3 *Monitoring Officer consideration of whether a matter proceeds to Local hearing*

If the Monitoring Officer considers, in consultation with the Independent Person, that the matter should be referred directly to a hearing or if, in accordance with paragraph 7.2 above, the member has failed to comply with the suggested informal resolution, she shall refer the matter to the Hearings Subcommittee which shall proceed to conduct a hearing in accordance with paragraphs 8-11 of this procedure and the hearings procedure attached as the schedule to this procedure.

7.4 Where the Monitoring Officer considers it appropriate, she may refer a complaint falling within paragraph 7.3 above to the full Standards and General Purposes Committee for hearing instead of to the Hearings Subcommittee and in such cases the provisions of paragraphs 8-11 below and the schedule shall apply.

8. Pre Hearing Process

8.1 Prior to a hearing, an officer from the Council's Democracy Services team will write to the member subject to the complaint ("the member") proposing a date for the hearing before the Hearings Subcommittee.

8.2 Democracy Services will outline the hearing procedure to the member and request a written response within a set time in relation to whether the member:

- Wants to attend the hearing
- Wants to be represented at the hearing by a solicitor, barrister or any other person
- Disagrees with any of the findings of fact in the investigation report in which case the member should be asked to set out those facts which are in dispute
- Wants to give evidence to the Hearings Subcommittee either verbally or in writing

- Wants to call relevant witnesses to give evidence to the hearing and to provide details of the witnesses
- Wants any part of the hearing to be held in private and reasons for the request
- Wants any part of the investigation report or other relevant documents to be withheld from the public and reasons for the request

8.3 Democracy Services will refer the member's response to the Monitoring Officer to comment in order to ensure that all parties are clear about the remaining factual disputes and can deal with these issues at the hearing. The Monitoring Officer will also ascertain from the investigating officer whether the complainant will be giving evidence at the hearing and whether the investigating officer will be calling any witnesses to give evidence.

8.4 The Monitoring Officer will prepare a report for the hearing which will:

- Summarise the allegation
- Outline the main facts of the case which are agreed
- Outline the main facts which are not agreed
- Indicate whether the member and the investigating officer will be present at the hearing
- Indicate the witnesses, if any, who will be asked to give evidence
- Outline the proposed procedure for the hearing
- Include the Investigating Officer's report
- Include the views of the Independent Person

9 The Hearing

9.1 The hearing is before the Hearings Subcommittee and the Independent Person will be in attendance to provide his/her views before a decision is made.

9.2 The procedure for local hearings is set out in the schedule. The Chair of the Hearings Subcommittee shall have discretion to vary that procedure if s/he considers it is reasonably necessary to do so in order to ensure a fair and efficient hearing.

9.3 The meeting of the Hearings Subcommittee will be open to the press and public unless confidential or exempt information under Part VA Local Government Act 1972 and the Subcommittee resolves to go into

private session having considered whether it is appropriate to do so, taking into account the public interest in the meeting being

- 9.4 The Hearings Subcommittee can determine the number of witnesses and the way in which witnesses can be questioned.
 - 9.5 If the member fails to attend the hearing, the Hearings Sub Committee can decide whether to proceed in the member's absence and make a determination or whether to adjourn the hearing to a later date.
 - 9.6 The Hearings Subcommittee will decide on the balance of probabilities whether it is more likely than not that the member is in breach of the Code of Conduct. The Hearings Subcommittee must seek the views of the independent person before making a decision on the allegation.
 - 9.7 If the Hearings Subcommittee concludes that the member did not fail to comply with the Code of Conduct, it will dismiss the complaint.
 - 9.8 If the Hearings Subcommittee concludes that the member did fail to comply with the Code of Conduct, the Subcommittee will then consider what action, if any, it should take. In doing this, the Hearings Subcommittee will give the member the opportunity to make representations to the Committee and will consult the Independent Person.
- 10. What action can the Hearings Subcommittee take where a member has failed to comply with the Code of Conduct?**
- 10.1 The Hearings Subcommittee may:
 - Issue a public censure or reprimand the member
 - Ask the member to apologise
 - Publish its findings in respect of the member's conduct
 - Report its findings to Council for information including a recommendation that the member be removed from any committee of the Council
 - Recommend to the member's Group Leader (or in the case of un- grouped members recommend to Council or to committees) that the member be removed from any or all committees of the council
 - Recommend to the Leader of the Council that the member be removed from the Cabinet or removed from particular portfolio responsibilities
 - Recommend to Council that the member be replaced in any Council appointed roles

- Instruct the Monitoring Officer to arrange training for the member
- Recommend to Council removal from all outside appointments to which the member has been appointed or nominated by the authority
- Withdraw facilities provided to the member by the Council, such as computer, website and/or internet access
- Exclude the member from the Council's offices or other premises with the exception of meeting rooms as necessary for attending council and committee meetings
- The Hearings Subcommittee has no power to suspend or disqualify the member or to withdraw members' allowances.

11. What happens at the end of the hearing?

- 11.1 At the end of the hearing the Chair of the Hearings Subcommittee will state the decision of the committee
- 11.2 As soon as practicable thereafter, the Monitoring Officer will prepare a formal decision notice in consultation with the Chair and send a copy to the complainant, the member, and make the decision notice available for public inspection unless, in a case where the Subcommittee's conclusion is that the member is not in breach of the code of conduct, the member requests that the notice of decision is not published

12. Revision of these arrangements

With the exception of paragraph 10 above, the Council has delegated the authority to amend these arrangements to the Standards and General Purposes Committee

13. Appeals

There is no right of appeal for the complainant or the member against a decision of the Monitoring Officer or the Hearings Subcommittee.

If the complainant believes that the authority has failed to deal with the complaint properly, they may wish to make a complaint to the Local Government Ombudsman.

Schedule to Part 5 A

PROCEDURE FOR HEARINGS BEFORE THE HEARINGS SUBCOMITTEE

1. Introductions
2. The Committee will consider whether to resolve to exclude the press and public from the hearing if one of the grounds set out in schedule 12A to the Local Government Act 1972 applies, taking into account the public interest in the hearing being open to the public.
3. The Chair of the Subcommittee will outline the hearing procedure. The Chair can depart from the procedure outlined below where he/she considers it expedient to do so in order to secure the fair consideration of the matter. This may include combining the stages of making findings of fact and considering whether such facts amount to a breach of the Code of Conduct.

Findings of Fact

4. The Subcommittee should consider whether there are any significant disagreements about the facts contained in the investigating officer's report. If there is no disagreement about the facts the committee can move on to the next stage of the hearing (go to paragraph 11)
4. Where there is a disagreement the investigating officer will be invited to make representations to support the findings of fact and with the Committee's permission, call witnesses to give evidence.
5. The member against whom the complaint has been made will be given the opportunity to challenge the evidence put forward by any witness called by the investigating officer by asking the witness questions.
6. The member will then be given the opportunity to make representations and with the Committee's permission, call any witnesses to give evidence.
7. The investigating officer will be given the opportunity to challenge the evidence put forward by any witness called by the member by asking the witness questions.
7. At any time, the Committee and independent person may question any of the people involved or any witnesses.
8. The Committee may take legal advice, in private if necessary, from its legal adviser at any time during the hearing or while they are considering the outcome. The substance of any legal advice given to the committee in private will be shared with the meeting as a whole.

- 9 The committee may retire to consider its decision on a finding of facts in private.
- 10 Once the Committee has made its decision, the Chair will announce the Committee's finding of fact to the meeting.

Did the member fail to comply with the Code of Conduct?

11. The committee should then consider whether, based on the facts it has found, the member has failed to comply with the Code.
12. The member will be invited to make representations on the matter.
13. The investigating officer will be invited to make representations.
14. The independent person will be invited to express his or her views
15. The committee may, at any time, question the member, investigating officer or independent person on any point raised in the representations.
16. The member will be invited to make any final relevant points.
17. The committee may retire to consider its decision in private
18. Once the committee has made its decision, the Chair will announce the committee's decision to the meeting as to whether the member has failed to comply with the Code.

If there is a finding that the member has not failed to comply with the Code of Conduct

19. Where the committee decides that the member has not failed to comply with the Code, the committee can consider whether it wishes to make any recommendations to the authority.

If there is a finding that the member has failed to comply with the Code of Conduct

20. If the committee decide that the member has failed to comply with the Code, it will consider representations from the member, investigating officer and independent person as to:
 - Whether the committee should apply a sanction
 - What form any sanction should take.
21. The committee may question the investigating officer, member and independent person and take legal advice, to make sure they have the information they need in order to make an informed decision.

22. The committee may consider in private whether to impose a sanction and if, so what sanction it should be.
23. The Chair will announce the decision to the meeting.
24. The committee will also consider whether it should make any recommendations to the authority with a view to promoting high standards of conduct.

The written decision

25. As soon as practicable the Monitoring Officer will prepare a formal decision notice in consultation with the Chair and send a copy to the complainant, the member and make the decision available for public inspection unless, in a case where the Subcommittee's conclusion is that the member is not in breach of the code of conduct, the member requests that the notice of decision is not published.

Standards and General Purposes Committee Forward work plan

March

- External Audit Certification of Claims report
- External Audit progress report
- External Audit Plans for Council and Pension Fund accounts
- Internal Audit Plan
- Internal Audit progress report
- Update on RIPA authorisations
- Process Review – Nominating Honorary Aldermen
- Temporary and Contract Staff update
- 21/22 Annual Complaints Report
- Work programme

June

- Annual Governance Statement
- Internal Audit Annual Report
- External Audit – Fee Letters for the Council and Pension Fund Accounts
- External Audit of the Council and Pension Fund Accounts
- Complaints against Members
- 22/23 Annual Complaints Report
- Work Programme

September

- Internal Audit progress report on annual audit plan
- Final Accounts
- Update on RIPA authorisations
- Work programme

November

- External Audit Annual Letter
- Internal Audit progress report on annual audit plan
- Final Accounts

- Fraud Update Report
- Annual Gifts and Hospitality report (members)
- Annual Gifts and Hospitality report (officers)
- Risk management
- Temporary and Contract Staff update
- Work programme

Add as required:

- Polling Places
- Constitutional amendments
- Review of members' interests
- Independent / co-opted members (September '24)
- Reports on dispensations issued by Monitoring Officer
- Report on payment exceeding £1000 as a result of maladministration as directed by the LGO.
- Revisions to Contract Standing Orders (July '23)
- Freedom of the Borough (recommendations from working group)