Statement of Accounts

For the year ending 31st March 2013

Index

Explanatory Foreword

1. Introduction

This is the Council's Statement of Accounts for 2012/13. This statement summarises the financial performance of the Council during 2012/13 showing expenditure on all services during the year and the financial position as at 31st March 2013.

The explanatory foreword provides a guide to the most significant matters reported in the Council's 2012/13 Statement of Accounts. The Statement of Accounts is comprised of the following statements:

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

2. Financial Performance

The Council's financial performance is summarised in the table below.

	2012/13 Budget £000	2012/13 Actual £000	2012/13 Variation £000
Net Service Expenditure	140,650	139,526	(1,124)
Corporate Provisions	14,918	10,836	(4,082)
Net Underspend	155,568	150,362	(5,206)
General Fund Balances brought forward 1/4/12	-	-	(13,632)
General Fund Balances carried forward 31/3/13	-	-	(18,838)

Net service expenditure was underspent by £1.124m in the year due to a number of variances, the largest variance being budget underspends in the area of social care for placements and higher contributions from clients and the local Primary Care Trust. These demand led variances were reported throughout the year to the Council's Cabinet and Overview and Scrutiny Commission.

Corporate provisions were underspent by £4.082m in the year mainly due to contingencies and provisions which did not have to be utilised together with higher than anticipated corporate income from grants and refunds. Offset against this was pension strain expenditure which was fully funded in 2012/13.

The overall underspend that has resulted from the above totals £5.206m for 2012/13 and has been transferred to general fund reserves which stand at £18.838m as detailed in the table above. Monthly Financial Monitoring reports to Cabinet and Council Committees have fully detailed these variances throughout the financial year and are available on the Council's website for review.

3. Fund Balances and Reserves

During 2012/13 the Council's Usable Reserves increased by £21.2m, which was composed of an increase of £12.9m in general fund balances and revenue reserves, a £7.5m increase in the Capital Receipts Reserve and an increase of £0.8m in Capital Grants Unapplied. General Fund balances have increased by £5.206m to £18.838m (£13.63m at the end of 2011/12). The Schools' General Fund balance has decreased by £0.33m to £11.67m. Earmarked Revenue Reserves (including grants and contributions reserves) increased from £40.3m to £48.3m.

	2011/12 Restated £000	2012/13 £000
General Fund Balances	13,632	18,838
General Fund Balances held by schools	12,005	11,674
Earmarked Revenue Reserves	40,258	48,300
Sub Total-Fund Balances and Revenue Reserves	**65,895**	**78,812**
Capital Receipts Reserve	15,199	22,752
Capital Grants Reserve	3,635	4,393
Usable Reserves	**84,729**	**105,957**

4. Capital Summary

Capital investment amounted to £40.5m in 2012/13 (£42.3m in 2011/12). The programme was financed through internal borrowing (£11.7m), capital receipts (£1m), capital grants (£24.9m) and revenue contributions (£2.9m). Capital receipts received in year totalled £8.5m.

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

5. Investments and Borrowing

At the year end the Council held short term deposits (some classified as cash equivalents) in the sum of £67.5m, an increase of £10.5m on the figure as at 31st March 2012. The Council generated £0.952m from investment income.

At the year end the Council had long term borrowing of £116.976m, the same as at 31st March 2012. The Council paid £9.3m in interest on these borrowings.

6. Pensions

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

The last actuarial valuation for the whole fund was carried out as at 31 March 2010 with the assets of the Fund found to represent 84% of the accrued liabilities for the Fund; this compares with 91% at the 2007 actuarial valuation. The next triennial valuation will be in 2013. The focus of the triennial valuation is the long-term financial health of the Pension Fund and to set a contribution rate to maintain this.

For accounting purposes a valuation under IAS19 is carried out to produce an accounting figure of surplus or deficit as at the date of the Balance Sheet. The methodology used is affected by current assumptions and short-term economic market conditions. The deficit attributable to the Council on an IAS19 basis increased from £190m to £195m, an increase of £5m. The authority's actuary estimated that as at 31st March 2013, future liabilities amount to £613m (£553m as at 31st March 2012) with assets of £418m (£363m as at 31st March 2012).

7. Accounting Changes

The Council made some important changes to improve the quality of information in the accounts and these changes involved the restatement of figures for previous years. The main change was to provide more accurate information on the Council's investment assets (such as shops and industrial estates which earn rental income for the Council) and on its leases. In addition, prior to the financial year 2012/13, the Council had not included the PFI partial termination liability (See Note 43) in its Capital

Financing Requirement (See Note 41). This liability should have been included under the Prudential Code. It was therefore restored to the Capital Financing Requirement during 2012/13. The effect of these changes is set out below and further details are provided in the relevant notes (Notes 14 & 43).

	2010/11 Audited Balance Sheet £000	PPA change to audited figures £000	2010/11 Restated Balance Sheet £000	2011/12 PPA Changes £000	2011/12 Transactions reported in the 2011/12 accounts £000	2011/12 Restated Balance Sheet £000
Long Term Assets	417,930	6,356	424,286	2,207	18,794	445,287
Current Assets	118,121	(190)	117,931	0	(12,477)	105,454
Unusable Reserves (Note 25)	(107,574)	(7,693)	(115,267)	(2,660)	71,501	(46,426)
Usable Reserves	(71,801)	1,527	(70,274)	453	(14,908)	(84,729)

The Council also reviewed and updated its presentation of debtors and creditors.

8. Future Developments

General

It is expected that the Council's funding from Central Government for the foreseeable future will be affected by public sector financial restraint and in addition, the Council is facing continuing inflationary cost pressures and demographic changes, which mainly impact on Adult Social Care and Children's Services. However, the Council's continuing strategy of maintaining a prudent level of reserves should ensure the continuing financial stability of the organisation and the maintenance of services.

Customer Contact programme

Customers have long been at the heart of Merton's service design and delivery. As an organisation we are committed to ensuring that we put residents, tax payers, service users and visitors to Merton first. We want our service users to experience a council that understands that it exists to meet their needs and treats them with respect. We want them to know that the council provides them with excellent value for money.

This programme will deliver the Customer Contact strategy, drawing on customer intelligence and experience to redesign services so they are intuitive for customers, and more cost effective, through better management of access channels. The vision for the programme is:

1. Make services more accessible for customers and enable services to be delivered right first time and on time.
2. Procure and implement the necessary IT systems to develop a 'personalised view of customer data' across the Council so that the council can approach customers' queries and requests in a more holistic way.
3. Work with service users to identify and implement opportunities to move appropriate transactions to access channels that are cheaper to manage and

service, and re-design business processes so that the customer is at the centre of everything we do.

4. Ensure that all activity incorporates a comprehensive approach to change management that incorporates customers, staff and partners in order to ensure all stakeholders are fully engaged and benefits realised.

New School Academy

In February 2013 Benedict Primary School was inspected and placed in special measures by Ofsted. The consequence of the judgement is that the school cannot remain under the local authority but will become an academy. The Governors resolved in May to become an academy and the Department for Education is in the process of selecting a suitable sponsor. There are formal legal processes to be carried out after the decision on the sponsor is made. The transfer date is not yet known but is likely to be later in 2013/14.

Shared Services

In February 2013 Cabinet approved the establishment of a four borough shared legal service with London Borough of Richmond upon Thames, the Royal Borough of Kingston upon Thames and the London Borough of Sutton. In September 2011 the London Borough of Richmond and the London Borough of Merton established a shared legal service hosted by Merton. The shared service has been successful and has achieved savings and service quality improvement.
Work has commenced to look at the options for transition to a four borough model to maximise efficiencies and savings and minimise the risk to the existing service.

Public Health

As a result of the Health and Social Care Act 2012, Merton Council assumed responsibility for Public Health services on the 1st April 2013. With an annual budget of £8.9m the public health teams will commission a wide range of public health interventions in areas such as sexual health, healthy living and smoking cessation. In addition, the public health team will provide high quality public health advice to the newly formed Clinical Commissioning Groups (CCGs) and to the council and act as an advocate for considering the impact of how we provide all council services on the public health. This is an exciting addition to the local authority.

Contractors Health and Safety Assessment Scheme

The Contractors Health and Safety Assessment Scheme (CHAS) commenced trading as CHAS 2013 Limited on 3rd June 2013. The company limited by shares is wholly owned by the London Borough of Merton. Previously operating as a trading account, the change in status to a limited company will enable CHAS to embrace the significant opportunities that changes in recent years to local government legislation have permitted with regards powers to trade, significantly supplemented by the enactment of the General Power of Competence in the Localism Act 2011. The change in status will also enable the scheme to react more quickly to ever changing market conditions. CHAS is a financially viable business which is expected to continue for the foreseeable future. The existing CHAS employees were transferred to the new company with their existing terms and conditions protected under the Transfer of Undertakings (Protection of Employment) Regulations, 1981 (TUPE).

Local Council Tax Support

From 1 April 2013, council tax benefit has been abolished and a new local council tax scheme introduced to provide residents with assistance to pay council tax. Whilst funding for the new local scheme has been provided, the funding has been reduced by 10% compared to the amount paid out under council tax benefit. In November 2012 full Council agreed to adopt the default scheme for 2013/14, which in effect protects those receiving council tax benefit to the same level of assistance providing their circumstances remain the same.

Business Rates Retention

From 1 April 2013 business rate retention was implemented. Under the retention scheme Councils will retain a proportion of the business rates it collects from tax payers. The Council will also have to contribute towards the cost of granting reliefs to businesses. Merton will now retain 30% of the business rates it collects. There is an incentive for Councils to retain part of any new business rates growth within the borough.

Community Infrastructure Levy

The Community Infrastructure Levy (CIL) is a planning charge that local councils and the Mayor of London can set on new development to help pay for local infrastructure. CIL is the government's new way of ensuring that new developments contribute financially to the local community in which they are built, helping to provide local schools, paths, parks and open spaces, transport, healthcare and other facilities that people will need. Merton's charge will start from early 2014, and by April 2014, will replace Section 106 agreements as the principal means by which developer contributions towards providing the necessary infrastructure should be collected.

Dedicated Schools Grant (DSG)

In June 2012, the government set out its school funding arrangements for 2013/14, in preparation for the introduction of a national funding formula in the next spending review period. The main features of the new arrangements are:

- The introduction of three notional blocks through which LAs will be allocated funding in the Dedicated Schools Grant (DSG) – a Schools block, Early Years block and High Needs block.
- Maximum delegation of funding to schools.
- A reduction in the number of factors that can be used in local formulae to distribute funding from over 30 to a maximum of 12.
- Changes to the composition and operation of Schools Forums.

For 2013/14, the DSG was kept at the same cash funding per pupil as 2012/13 and the final allocation for each block is determined by school census data.

Core Financial Statements

1. Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services represents the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts which are required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves represents the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the authority.

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2011 (Restated)	(18,195)	(32,645)	(4,054)	(10,799)	(4,581)	(70,274)	(115,268)	(185,542)
Movement in reserves during 2011/12								
(Surplus) or deficit on the provision of services	(2,549)	0	0	0	0	(2,549)	0	(2,549)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	56,936	56,936
Total Comprehensive Income and Expenditure	(2,549)	0	0	0	0	(2,549)	56,936	54,387
Adjustments between accounting basis & funding basis under regulations (Note 7)	(8,452)	0	0	(4,400)	946	(11,906)	11,906	0
Net Increase/Decrease before Transfer to Earmarked Reserves	(11,001)	0	0	(4,400)	946	(14,455)	68,842	54,387
Transfers to/from Earmarked Reserves (Note 8)	3,559	(7,613)	4,054	0	0	0	0	0
Increase/Decrease in Year	(7,442)	(7,613)	4,054	(4,400)	946	(14,455)	68,842	54,387
Balance at 31 March 2012 carried forward (Restated)	**(25,637)**	**(40,258)**	**0**	**(15,199)**	**(3,635)**	**(84,729)**	**(46,426)**	**(131,155)**

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 01 April 2012	(25,637)	(40,258)	(15,199)	(3,635)	(84,729)	(46,426)	(131,155)
Movement in reserves during 2012/13							
(Surplus) or deficit on the provision of services	(23,884)	0	0	0	(23,884)	0	(23,884)
Other Comprehensive Income and Expenditure	0	0	0	0	0	(2,942)	(2,942)
Total Comprehensive Income and Expenditure	(23,884)	0	0	0	(23,884)	(2,942)	(26,826)
Adjustments between accounting basis & funding basis under regulations (Note 7)	10,967	0	(7,553)	(758)	2,656	(2,656)	0
Net Increase/Decrease before Transfer to Earmarked	(12,917)	0	(7,553)	(758)	(21,228)	(5,598)	(26,826)
Transfers to/from Earmarked Reserves (Note 8)	8,042	(8,042)	0	0	0	0	0
Increase/Decrease in Year	(4,875)	(8,042)	(7,553)	(758)	(21,228)	(5,598)	(26,826)
Balance at 31 March 2013 carried forward	**(30,512)**	**(48,300)**	**(22,752)**	**(4,393)**	**(105,957)**	**(52,024)**	**(157,981)**

2. Comprehensive Income and Expenditure Statement

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

2011/12 Gross Expenditure £000	2011/12 Gross Income Restated £000	2011/12 Net Expenditure Restated (See Note 14) £000		2012/13 Gross Expenditure £000	2012/13 Gross Income £000	2012/13 Net Expenditure £000
			Continuing Operations			
21,861	(17,007)	4,854	Central services to the public	20,773	(17,066)	3,707
16,458	(2,561)	13,897	Cultural and Related Services	10,727	(2,253)	8,474
25,499	(4,889)	20,610	Environmental & Regulatory Services	27,883	(5,734)	22,149
4,913	(2,552)	2,361	Planning Services	4,865	(1,861)	3,004
212,342	(157,558)	54,784	Education and children's services	204,864	(162,451)	42,413
26,232	(11,691)	14,541	Highways and transport services	25,493	(13,488)	12,005
87,474	(84,530)	2,944	Other housing services	93,122	(91,150)	1,972
75,830	(25,610)	50,220	Adult social care	71,297	(28,385)	42,912
4,995	0	4,995	Corporate and Democratic Core	5,735	0	5,735
6,849	(3,118)	3,731	Non distributed costs - Other	7,655	(5,993)	1,662
482,453	**(309,516)**	172,937	**Cost of services**	**472,414**	**(328,381)**	144,033
		(3,968)	Other Operating Expenditure (Note 9)			5,451
		11,258	Financing and investment income and expenditure (Note 10)			6,979
		(182,776)	Taxation and non-specific grant income (Note 11)			(180,347)
		(2,549)	**(Surplus) or Deficit on Provision of Services**			**(23,884)**
		(32,091)	(Surplus) or deficit on revaluation of Property, Plant and equipment (Note 25)			(7,442)
		89,027	Actuarial (gains)/losses on pension assets/liabilities (Note 48)			4,499
		56,936	**Other Comprehensive Income and Expenditure**	**0**	**0**	**(2,943)**
		54,387	**Total Comprehensive Income and Expenditure**			**(26,827)**

3. Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are Usable Reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold the timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

31st March 2011 Restated £000	31st March 2012 Restated £000		Notes	31st March 2013 £000
365,789	382,501	Property, Plant & Equipment	12	394,752
669	669	Heritage Assets	13	669
50,130	54,144	Investment Property	14	54,905
1,618	1,682	Intangible Assets	15	1,800
231	231	Assets Held for Sale	21	231
5,849	6,060	Long Term Debtors	16 & 19	8,663
424,286	**445,287**	**Long Term Assets**		**461,019**
66,570	57,349	Short Term Investments	16	65,037
183	181	Inventories	17	243
15,389	26,905	Short Term Debtors	19	30,014
35,789	21,019	Cash and Cash Equivalents	20	24,082
117,931	**105,454**	**Current Assets**		**119,375**
(35,863)	(9,700)	Short Term Borrowing	16	(9,654)
(44,343)	(47,345)	Short Term Creditors	22	(49,067)
0	(1,594)	Current Provisions	23	(1,274)
(80,206)	**(58,639)**	**Current Liabilities**		**(59,995)**
(5,513)	(5,398)	Provisions	23	(4,858)
(116,977)	(116,976)	Long Term Borrowing	16	(116,976)
(39,463)	(38,081)	Other Long Term Liabilities	16	(36,910)
(102,991)	(189,686)	Pension Liability	48	(194,875)
(11,526)	(10,806)	Capital Grants Receipts in Advance	39	(8,798)
(276,470)	**(360,947)**	**Long Term Liabilities**		**(362,418)**
185,542	**131,155**	**Net Assets**		**157,981**
(70,274)	(84,729)	Usable Reserves	7 & 8	(105,957)
(115,268)	(46,426)	Unusable Reserves	25	(52,024)
(185,542)	**(131,155)**	**Total Reserves**		**(157,981)**

These financial statements replace the un-audited financial statements authorised at the meeting of the General Purposes Committee on the 27th June 2013

Signed: Date: 26th September 2013

4. Cash Flow Statement

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

2011/12 Restated £000		2012/13 £000
(2,549)	Net (surplus) or deficit on the provision of services	(23,884)
(32,540)	Adjustments to net surplus or deficit on the provision of services for non cash movements (note 26.1)	(23,124)
24,085	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 27.1)	36,425
(11,003)	Net Cash flows from Operating Activities (note 26)	(10,583)
(5,811)	Investing Activities (note 27)	6,779
31,585	Financing Activities (note 28)	740
14,771	Net Increase or decrease in cash and cash equivalents	(3,063)
(35,789)	Cash and cash equivalents at the beginning of the reporting period	(21,019)
(21,019)	**Cash and cash equivalents at the end of the reporting period (Note 20)**	**(24,082)**

NOTES TO THE CORE FINANCIAL STATEMENTS (IFRS)

1. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the authority's transactions for the 2012/13 financial year and its position at the year end of 31st March 2013. The authority is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.
- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

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

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

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the authority's financial performance.

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

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

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

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

vi. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible non-current assets attributable to the service.

The authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the Minimum Revenue Provision (MRP) in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Under statutory guidance from the Department for Communities and Local Government (DCLG), authorities are required to prepare an annual statement on their policy on making MRP. In the published accounts, assets are depreciated over appropriate periods. However, in the charge to the General Fund and consequently to the Council Tax payer, this depreciation is reversed out and substituted by an MRP charge on the authority's total long term debt. The charge to the General Fund for Prudential Borrowing is more closely aligned to the equivalent of the depreciation charge, rather than previously 4%. The statutory guidance distinguishes between capital expenditure financed by borrowing supported by the Government through the Revenue Support Grant and capital expenditure financed through unsupported (prudential) borrowing. For this latter type of capital expenditure the government allows three options. This authority currently uses the Asset Life Method – Equal Instalment method. The method generates a series of equal annual amounts over the estimated life of the asset. The estimated life of the asset will be that used by the authority for depreciation purposes. Where there is no depreciation equivalent, e.g. capitalisation of redundancy costs, there are national guidelines for the appropriate estimated life. The Equal Instalment method is a prudent approach to MRP, straightforward, understandable and closely aligned with the authority's approach to asset write-down. Depreciation is provided for on all non-current assets (other than land and investment properties) with a determinable finite life, and is calculated on a straight-line basis over the asset's estimated useful economic life.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits in lieu of salary (e.g. nursery vouchers, bicycles) where material for current employees and 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 entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, if these are available, being the period in which the employee takes the benefit. If these are not available, the accrual is made at the wage and salary rates of the year of account. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

and Expenditure Statement when the authority is demonstrably committed to the termination of the employment of an officer or group of officers or has made an offer to encourage voluntary redundancy.
Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits
Employees of the authority are members of two separate pension schemes:
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pensions Scheme, administered by the London Borough of Merton.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned during their employment with the authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme
The Local Government Scheme is accounted for as a defined benefits scheme:
- The liabilities of the London Borough of Merton 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 and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bond [iBoxx AA rated over 15 Year Corporate Bond]).
- The assets of the London Borough of Merton pension fund attributable to the authority are included in the Balance Sheet at their 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 seven components:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- 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 – debited to the Pensions Reserve
- contributions paid to the London Borough of Merton 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 appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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

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

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

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

ix. Financial Instruments

Financial Liabilities

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

x. Foreign Currency Translation

Where the authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

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

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

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

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

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

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

xii. 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.

xiii. Intangible Assets

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

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

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the authority's goods or services.

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

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

xiv. Interest in Companies and Other Entities

The authority has reviewed its relationships with companies and external organisations and followed the Code guidelines and determined that it has no material subsidiary or associated organisation, which would require either part or complete consolidation into the Statement of Accounts.

xv. Inventories and Long Term Contracts

The inventory balance is the Council and the Merton and Sutton Primary Care Trust's (PCT'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.

Prior to 2012/13, the Council and the PCT's Pooled Budget Account maintained stock in partnership with Millbrook Health Care. Inventories were included in the Balance Sheet at cost for new equipment and Net Realisable Value for recycled stock. Net Realisable Value was estimated at 50% of the catalogue price.

The effect of the change in accounting policy on the inventory valuation is not significant. The new accounting policy reflects the requirement of the Code of Practice where inventory is held for distribution at no charge or for a nominal charge.

xvi. Investment Property

Investment properties are those that are used solely to earn rents and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rents received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements 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.

xvii. Jointly Controlled Operations and Jointly Controlled Assets

The authority undertakes jointly controlled operations in conjunction with other bodies. Under these jointly controlled operations, each body uses its own property, plant and equipment and carries its own inventories. These operations do not involve the setting up of an entity or structure that is separate from the individual bodies in the jointly controlled operation. These arrangements are set out below :-

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

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

Shared Legal Services : This is a cost sharing arrangement with the London Borough of Richmond. The London Borough of Merton administers the service and recharges London Borough Richmond with their share of the cost.

Pooled Budget: This is a cost sharing arrangement with the Merton and Sutton PCT. The authority’s contribution is accounted for in the Adult Social Care line in the Comprehensive Income and Expenditure Account. The Balance Sheet contains the value of the pooled aids and adaptations stock.

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

NewSchools: This company is the authority’s PFI provider for its schools’ PFI project. This authority pays an annual unitary payment to NewSchools and this is recorded in the Children’s and Education Services line in the Comprehensive Income and Expenditure Account (as payment for services) and in Financing and Investment Income and Expenditure (as payment for loans taken out by Newschools to finance the building of the schools under the scheme). The arrangement with NewSchools is purely contractual.

xviii. Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

xix. Overhead and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Code of Practice 2012/13* (SerCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

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

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

xx. Plant, Property and Equipment

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

Recognition

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

De Minimis

Capital expenditure of under £1,000 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, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.
Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

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

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

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.

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

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. They do not require valuation but are recorded at historical cost.

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

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

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

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

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

Depreciation is calculated on the following bases:
- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

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

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

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

The Code of Practice on Local authority Accounting in the United Kingdom 2012/13 requires the separate recognition of two or more significant components of an asset for depreciation purposes – i.e. as if each component was a separate asset in its own right.

The authority will follow these requirements where significant components of material items of assets have been identified.
A component is defined as such part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item, if the value of the component is 5% or more of the total gross carry value of the asset.

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

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

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

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

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

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

- Land, and
- Buildings

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

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

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

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

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

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

Disposables and Non-Current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this carrying amount and the fair value less costs of sale, or recoverable amount. Where there is a subsequent reduction in fair value less costs of sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying or recoverable amount. The carrying amount used is that before the assets were classified as held for sale adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale. The recoverable amount of the asset is at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement 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). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are credited to the Capital Receipts Reserve, and can only be used for new capital investment to fund debt redemption premiums (or set aside to reduce the authority’s underlying need to borrow (the capital financing requirement)). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

xxi. Private Finance Initiative (PFI) and Similar Contracts

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

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

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the authority.

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

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

xxii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

1. General

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

2. Insurance Fund

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

Contingent Liabilities

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

Contingent Assets

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

xxiii. Reserves

The authority sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure from a Usable Reserve is incurred it is charged to the appropriate service in that year and forms part of the Surplus or Deficit in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge to Council Tax for the expenditure.

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

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

xxiv. Revenue Expenditure Funded from Capital Under Statute

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

xxv. VAT

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

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

The 2013/14 Code of Practice on Local Authority Accounting will include amendments to IAS1 “Presentation of Financial Statements” and to IAS19 “Employee Benefits”.

The change to IAS1 will affect the presentation of Other Comprehensive Income and Expenditure (OCI) with the objective of improving the consistency and clarity of items within OCI.

The changes to IAS19 are both in presentation and in the substance of the calculation. These changes will be as follows-

- The “finance cost”, which is currently the difference between the interest on liabilities and expected return on assets, will be replaced by a “net interest cost”.

- Both elements of the “net interest cost” will be calculated by reference to the discount rate. It is expected that this will lead to an increase in the “net interest cost” compared to the “finance cost” and so increase the deficit on the Pensions Reserve calculated under IAS19. The change is designed to ensure greater consistency between reporting entities.

- Service cost will include Current Service Cost together with Past Service Costs, settlements and curtailments. Administration expenses will be shown separately in the Profit and Loss charge rather than being deducted from the actual and expected returns on assets. These are all changes in presentation.

	Current IAS 19	Revised IAS 19	Change
	Year to 31 March 2013	Year to 31 March 2013	
	£000	£000	£000
Current service cost	14,181	14,145	(36)
Past service cost	345	-	(345)
Losses (gains) on curtailments and settlements	(381)	-	381
Sub total	**14,145**	**14,145**	**-**
Net interest on the defined liability (asset)	-	8,337	8,337
Interest on obligation	25,115	-	(25,115)
Expected return on scheme assets	(20,980)	-	20,980
Sub total	**4,135**	**8,337**	**4,202**
Administration expenses	-	170	170
Sub total	**-**	**170**	**170**
Total	**18,280**	**22,652**	**4,372**
Actual return on scheme assets (1)	**52,092**	**52,262**	**170**

(1) Actual return on scheme assets (From Note 48): Expected return on scheme assets (£20.980m) plus actuarial gain/losses (£31.113m), rounded.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying certain polices set out in Note 1, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- It is expected that future levels of funding will be reduced however this is not expected to influence the authority's ability as a going concern.
- The authority's relationships with other bodies does not fall within the scope of group accounts.
- Apart from those already declared there are no further service concessions.
- The potential outcomes from legal claims are not expected to be material to the authority's accounts.
- As part of the voluntary stock transfer agreement, which was reached with Merton Priory Homes (MPH) in March 2010, VAT that can be reclaimed from HM Revenue and Customs in respect of specific qualifying works is shared. This arrangement is unique to Authorities and registered social landlords upon transfer. The authority's share of reclaimable VAT amounted to £3.045m in 2012/13 and according to MPH's latest forecast, could amount to a further £18.667m over the next 12 years. The authority accounts for the income as it becomes due in accordance with VAT returns submitted by MPH.
- The authority has agreed to share any proceeds of former house sales if they are subsequently sold by Merton Priory Homes. The agreement lasts until 31 March 2040 and the amount received will depend on the number of sales each year. The authority's share of the proceeds for each sale is treated as a capital receipt in the year that the property is sold.
- The authority has given a number of warranties to Merton Priory Homes and Circle Anglia Treasury, the Prudential Trustee Company Ltd and others in conjunction with the stock transfer. The warranties relate to various legal, property and other issues, including public liabilities in relation to exposure to asbestos up to 2050 with no financial limit. These warranties were taken into consideration in setting the level for the Council's insurance fund.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the London Borough of Merton about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the London Borough of Merton's Balance Sheet at 31st March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item:
Property, Plant and Equipment (PPE)

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

Effect if actual result differs from assumptions:
PPE of £351m (excluding investment properties) is included in the accounts. Therefore a 1% movement in value would result in a change of £3.51m. The average PPE depreciation period is 23 years, a difference of one year would result in a change in the depreciation charge of approximately £0.75m.

Item:
Investment Assets

Uncertainty:
The valuation of Investment Assets has in many cases been based upon indexation owing to the impracticality of valuing each asset in the time available.

Effect if actual result differs from assumptions:
Investment Properties of £55m are included in PPE. Therefore a 1% movement in value would result in a change of £0.55m.

Item:
Provisions

Uncertainty:
The authority has made provisions of £4.27m for insurance claims. The fund is used to pay claims for which the authority is self insured. The level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the authority.

Effect if actual result differs from assumptions:
If the actuals differ from the assumptions then it is possible that the Insurance Fund would be insufficient to cover the liabilities of the authority and further demands would be made on the General Fund. If future claims exceeded the insurance fund provision by 1%, this would result in an additional £0.04m charge to the General Fund.

Item:
Pension Liability

Uncertainty:
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on

pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.

Effect if actual result differs from assumptions:
The assumptions interact in complex ways and changes in assumptions cannot be easily measured. Refer to Note 48 for further detail.

Item:
Fair Value Adjustments

Uncertainty:
In line with FRS25 and IFRS7 on Financial Instruments, the authority has calculated the fair value of its borrowing portfolio. 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.

Effect if actual result differs from assumptions:
All loans are at fixed rates and do not include derivatives, to which the authority is directly exposed. For other market debt, the discount rate used is the published PWLB rate for an instrument with the same maturity period. If the discount rates were different to the assumptions, the cost of redeeming the loans will change. Refer to Note 51 for further detail.

5. MATERIAL ITEMS OF INCOME AND EXPENSE

Other than that disclosed on the face of the Comprehensive Income and Expenditure Statement, there were no material items of Income and Expenses.

6. EVENTS AFTER BALANCE SHEET DATE

There are no significant events arising after the balance sheet date.

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2012/13

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£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	(14,693)			14,693
Revaluation losses on Property Plant and Equipment	(2,462)			2,462
Movements in the market value of Investment Properties	1,956			(1,956)
Amortisation of intangible assets	(534)			534
Revenue expenditure funded from capital under statute	(4,117)			4,117
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	(13,282)			13,282
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	8,460			(8,460)
Capital expenditure charged against the General Fund balance	2,936			(2,936)
Revaluation gains charged direct to Revaluation Reserve				
Adjustments primarily involving the Capital Grant Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	25,009		(25,009)	
Application of grants to capital financing transferred to the Capital Adjustment Account			24,251	(24,251)
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	8,627	(8,627)		

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
Use of the Capital Receipts Reserve to finance new capital expenditure		1,002		(1,002)
Use of Capital Receipts Reserve to finance debt premium				
Contribution to Housing Pool	(11)	11		
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(76)	76		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		(6)		6
Repayment of debt		(9)		9
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(10)			10
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	(18,280)			18,280
Employer's pensions contributions and direct payments to pensioners payable in the year	17,590			(17,590)
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	133			(133)
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	(279)			279
Total Adjustments	**10,967**	**(7,553)**	**(758)**	**(2,656)**

2011/12 Comparative Figures (Restated)

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£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	(13,279)			13,279
Revaluation losses on Property Plant and Equipment	(27,999)			27,999
Movements in the market value of Investment Properties (Restated)	941			(941)
Amortisation of intangible assets	(434)			434
Revenue expenditure funded from capital under statute	(7,288)			7,288
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	(5,854)			5,854
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment (Restated)	8,680			(8,680)
Capital expenditure charged against the General Fund and HRA balances	576			(576)
Revaluation gains charged direct to Revaluation Reserve				
Adjustments primarily involving the Capital Grant Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	28,229		(28,229)	
Application of grants to capital financing transferred to the Capital Adjustment Account			29,175	(29,175)
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	10,710	(10,710)		
Use of the Capital Receipts Reserve to finance new capital expenditure				
Use of Capital Receipts Reserve to finance debt premium	(6,214)	6,214		
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(102)	102		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		(6)		6

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	95			(95)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	(12,277)			12,277
Employer's pensions contributions and direct payments to pensioners payable in the year	14,609			(14,609)
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	582			(582)
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	573			(573)
Total Adjustments	**(8,452)**	**(4,400)**	**946**	**11,906**

8. TRANSFERS TO/ FROM EARMARKED RESERVES

	Restated Balance at 1 April 2011 £000	Restated Transfers out 11/12 £000	Restated Transfers in 11/12 £000	Restated Balance at 31 Mar 2012 £000	Transfers out 2012/13 £000	Transfers in 2012/13 £000	Balance at 31 March 2013 £000
General Fund:							
Balances held by schools under a scheme of delegation	8,026	(240)	4,219	12,005	(1,702)	1,371	11,674
General Fund Balances	14,223	(5,199)	4,608	13,632	0	5,206	18,838
Earmarked reserves	32,644	(7,501)	15,115	40,258	(7,282)	15,324	48,300
Total	**54,893**	**(12,940)**	**23,942**	**65,895**	**(8,984)**	**21,901**	**78,812**

Reserve	Restated 31st March 2011 £000	Net Transfer to/from Reserve £000	Restated 31st March 2012 £000	Net Transfer to/from Reserve £000	31st March 2013 £000
Outstanding Council Programme Board Reserve	5,241	2,462	7,703	2,086	9,789
For use in future years' budgets	0	2,052	2,052	7,700	9,752
Revenue Reserve for Capital/Revenuisation	4,275	2,016	6,291	(2,022)	4,269
Energy renewable reserve	0	841	841	600	1,441
Repairs and Renewals Fund	0	2,000	2,000	(576)	1,424
Transforming families reserve	0	0	0	1,318	1,318
Pension Fund additional contribution	0	1,250	1,250	(172)	1,078
Local Land Charges	409	441	850	225	1,075
Apprenticeships	0	1,500	1,500	(500)	1,000
Community Care Reserve	996	0	996	0	996
Performance Reward Grant	1,192	464	1,656	(1,005)	651
Economic Development Strategy	0	339	339	284	623
Used or eliminated reserves	6,918	(5,681)	1,237	(1,237)	0
Other	671	0	671	(338)	333
Sub total earmarked reserves	**19,702**	**7,684**	**27,386**	**6,363**	**33,749**
Adult social care contributions	513	211	724	1,553	2,277
Culture & Environment contributions	504	747	1,251	(320)	931
Culture & Environment Grants	1,177	(186)	991	(139)	852
Childrens & Education Grants	83	729	812	(32)	780
Adult social care Grants	767	34	801	(700)	101
Housing planning development Grants	0	0	0	345	345
Housing GF Grants	565	(343)	222	(116)	106
Sub total IFRS earmarked reserves	**3,609**	**1,192**	**4,801**	**591**	**5,392**
Insurance reserves	2,417	(463)	1954	0	1954
Sub total fixed to contract reserve	**2,417**	**(463)**	**1,954**	**0**	**1,954**
DSG Reserve	2,497	(787)	1,710	668	2,378
Schools Reserve	556	(41)	515	545	1,060
Schools PFI Fund	3,863	29	3,892	(125)	3,767
Sub total Schools reserves	**6,916**	**(799)**	**6,117**	**1,088**	**7,205**
Grand Total	**32,644**	**7,614**	**40,258**	**8,042**	**48,300**

9. OTHER OPERATING EXPENDITURE

2011/12 £000		2012/13 £000
888	Levies	880
(4,856)	(Gains)/ losses on the disposal of non-current assets	4,571
(3,968)	**Total**	**5,451**

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2011/12 Restated £000		2012/13 £000
16,378	Interest payable and similar charges (Note 16)	9,272
556	Pensions interest cost and expected return on pensions Assets (Note 48)	4,135
(1,940)	Interest receivable and similar income	(952)
(2,747)	(Income) and expenditure in relation to investment properties and changes in their fair value	(3,990)
(989)	Other investment income- trading accounts not related to services	(1,486)
11,258	**Total**	**6,979**

11. TAXATION AND NON-SPECIFIC GRANT INCOMES

2011/12 £000		2012/13 £000
(84,865)	Council tax income	(86,813)
(50,888)	Non domestic rates (see Note 39)	(60,842)
(23,196)	Non-ringfenced government grants (see Note 39)	(10,692)
(23,827)	Capital grants and contributions	(22,000)
(182,776)	**Total**	**(180,347)**

12. PROPERTY, PLANT AND EQUIPMENT

Movements on Balances

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

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

Amortisation
Intangible Assets are amortised over 5 years

Capital Commitments
The authority is undertaking a major expansion of primary schools within the borough. The cost of this programme over the next few years is approximately £60m. The schemes that have been recognised as Assets under Construction at 31 March 2013 have commitments in 2013/14 onwards of approximately £27m.

Effects of Changes in Estimates

There are no material changes to the basis of estimation.

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2012	261,794	21,042	136,650	0	2,000	18,545	440,031	65,012
Additions	14,597	3,287	6,657	677	0	8,827	34,045	617
Revaluation increase/(decreases) recognised in the Revaluation Reserve	6,151	2	0	0	0	0	6,154	0
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,785)	0	0	(677)	0	0	(2,462)	0
Derecognition - Disposals	(12,479)	(3,864)	0	0	0	0	(16,343)	(12,288)
Derecognition - Other	(103)	0	0	0	0	0	(103)	0
Recognition								
Assets reclassified (to)/from held for Sale								
Completed assets under construction	12,370	0	0	0	0	(12,370)	0	0
To Investment Properties								
Other	(511)	1,459	0	0	0	(947)	0	0
At 31 March 2013	280,034	21,926	143,307	0	2,000	14,055	461,322	53,340
Accumulated Depreciation and Impairment								
At 1 April 2012	5,175	7,780	44,574	0	0	0	57,529	1,288
Depreciation Charge	5,513	3,796	5,383	0	0	0	14,692	1,314
Depreciation written out to the Revaluation Reserve	(1,288)	0	0	0	0	0	(1,288)	0
Derecognition - Disposals	(550)	(3,810)	0	0	0	0	(4,360)	(546)
Derecognition - Other	(4)	0	0	0	0	0	(4)	0
Other changes	(35)	35	0	0	0	0	0	0
At 31 March 2013	8,812	7,800	49,957	0	0	0	66,570	2,056
Net Book Value								
At 31 March 2013	**271,222**	**14,126**	**93,350**	**0**	**2,000**	**14,055**	**394,752**	**51,285**
At 31 March 2012	**256,617**	**13,262**	**92,076**	**0**	**2,000**	**18,545**	**382,501**	**63,724**

Comparative Movements in 2011/12

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
Re-stated at 1 April 2011	256,842	17,380	125,471	0	4,800	17,487	421,980	70,818
Additions	6,223	4,729	11,179	967	0	11,427	34,525	666
Revaluation increase/(decreases) recognised in the Revaluation Reserve	16,902	2	0	0	0	0	16,903	(771)
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(26,799)	0	0	(967)	(233)	0	(27,999)	(5,702)
Derecognition - Disposals	0	(1,068)	0	0	(2,567)	0	(3,635)	0
Derecognition - Other	(1,194)	0	0	0	0	0	(1,194)	0
Recognition	0	4	0	0	0	0	4	0
Assets reclassified (to)/from held for Sale	0	0	0	0	0	0	0	0
Completed assets under construction	10,370	0	0	0	0	(10,370)	0	0
To Investment Properties	(549)	0	0	0	0	0	(549)	0
Other	0	(5)	0	0	0	0	(5)	0
At 31 March 2012	261,794	21,042	136,650	0	2,000	18,544	440,031	65,012
Accumulated Depreciation and Impairment								
At 1 April 2011	11,052	5,501	39,638	0	0	0	56,191	3,031
Depreciation Charge	5,073	3,270	4,936	0	0	0	13,279	1,288
Depreciation written out to the Revaluation Reserve	(10,817)	0	0	0	0	0	(10,817)	(3,031)
Derecognition - Disposals	0	(991)	0	0	0	0	(991)	0
Derecognition - Other	(123)	0	0	0	0	0	(123)	0
Other changes	(10)	0	0	0	0	0	(10)	0
At 31 March 2012	5,175	7,780	44,574	0	0	0	57,529	1,288
Net Book Value								
At 31 March 2012	**256,619**	**13,262**	**92,076**	**0**	**2,000**	**18,544**	**382,501**	**63,724**
At 31 March 2011	**245,789**	**11,880**	**85,833**	**0**	**4,800**	**17,487**	**365,789**	**67,787**

13. HERITAGE ASSETS

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

The following table shows the carrying value of Heritage Assets held by the authority:

	Civic £000	Art Collection £000	Regalia & Ceremonial £000	Total Assets £000
Cost or Valuation				
1 April 2010	0	197	472	669
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Service	0	0	0	0
Depreciation	0	0	0	0
31 March 2011	0	**197**	**472**	**669**
1 April 2011	0	197	472	669
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Service	0	0	0	0
Depreciation	0	0	0	0
31 March 2012	0	**197**	**472**	**669**
1 April 2012	0	197	472	669
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Service	0	0	0	0
Depreciation	0	0	0	0
31 March 2013	0	**197**	**472**	**669**

It is not practicable to provide the above analysis of information for any period before 1 April 2010.

14. INVESTMENT PROPERTIES

All of the revaluations of investment assets were carried out by an internally employed valuer who has in excess of 10 years experience working in the local area and in the category of assets valued. The valuer is a Member of RICS (the Royal Institution of Chartered Surveyors) and registered on the RICS Valuer Registration Scheme and as such has an overriding obligation to RICS including their professional standards on independence.
There are no restrictions on the authority's ability to realise the value inherent in its investment property or on the authority's right to the remittance of income and the proceeds of disposal. The authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The table below summarises the movement in the fair value of investment properties over the year. Income and expenditure for investment properties have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (see Note 10) and is summarised in the Prior Period Adjustments table overleaf.

Movement in the fair value of investment properties

	2011/2012 Re-stated £000	2012/2013 £000
Rental income from investment property	(3,087)	(3,471)
Direct operating expenses arising from investment property	1,282	1,437
Net (gain)/loss	(1,805)	(2,034)
The movement in the fair value of investment properties over the year:		
Balance at start of the year	44,987	54,145
Restatement	5,144	0
Additions:		
Purchases	0	0
Construction	0	0
Subsequent expenditure	25	10
Disposals	(2,139)	(1,206)
Recognition	4,648	0
Net gains/ losses from fair value adjustments	942	1,956
Transfers:		
To/ from inventories	0	0
To Property, Plant and Equipment	539	0
Other changes	0	0
Balance at end of year	**54,144**	**54,905**

Prior Period Adjustment – Investment Properties

The correction to the opening balance of Investment Property is due to two Prior Period Adjustments:

1) A reconciliation between records held by finance and records held by property management identified a number of Investment Properties which had not been included in the accounts. This review considered all land and building type properties and there were no PPE assets identified.

2) A review of the criteria used for classifying leases as either operating or finance leases was undertaken. The policy was not changed, however, it was found that too little emphasis had been put on the length of the lease agreements in relation to the useful life of the assets. Furthermore, the de-minimis criteria previously used when considering leases which excluded those with a low annual rental or net book value had excluded a number of leases from consideration, which it was considered would have a significant effect on the accounts. This resulted in some leases being reclassified from operating leases to finance leases and some being reclassified from finance leases to operating leases. The amount of the prior period adjustment and the accounting entries are set out below:

Prior Period Adjustments			
	As at 31 March 2011	During 2011/12	Total As at 31 March 2012
	£000	£000	£000
Investment Properties Identified			
Balance Sheet			
Investment Properties	4,400	0	4,400
Unusable Reserves-Capital Adjustment Account	(4,400)	0	(4,400)
Leasing			
Balance Sheet			
Investment Properties	744	2,027	2,771
Long Term Lease Debtors	1,213	180	1,393
Short Term Lease Debtors	(190)		(190)
Unusable Reserves-deferred capital receipts	(1,023)	(180)	(1,203)
Unusable Reserves-Capital Adjustment Account	(744)	(2,027)	(2,771)
CIES			
Net Cost of Services	0	(79)	(79)
Other Operating Income	0	(2,128)	(2,128)
Movement on Reserves	0	2,207	2,207

The following table shows the PPA's impact on the Comprehensive Income & Expenditure Statement:

Comprehensive Income & Expenditure Statement (Extract)	2011/12 Accounts	2012/13 Accounts	Change
	£000	£000	£000
Cultural and related services	13,927	13,897	(30)
Non distributed Cost	3,780	3,731	(49)
Cost of services	**173,016**	**172,937**	**(79)**
Financing and investment income	13,386	11,258	(2,128)
(Surplus) Deficit on provision of services	**(342)**	**(2,549)**	**(2,207)**

Income and Expenditure investment properties

	2011/2012 Re-stated £000	2012/2013 £000
Net (gain)/loss operating activities	(1,805)	(2,034)
Net (gain)/loss from fair value adjustments	(942)	(1,956)
Total (Income)/Expenditure - see Note 10	**(2,747)**	**(3,990)**

15. INTANGIBLE ASSETS

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.534m charged to revenue in 2012/13 (£0.434m in 2011/12) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

	2011/12 Intangible Assets £000	2012/13 Intangible Assets £000
Balance at start of year:		
Gross carrying amounts	2,172	2,671
Accumulated amortisation	(554)	(989)
Net carrying amount at start of year	**1,618**	**1,682**
Additions:		
Purchases	498	653
Amortisation for the period	(434)	(534)
Net carrying amount at end of year	**1,682**	**1,800**
Comprising:		
Gross carrying amounts	2,671	3,324
Accumulated amortisation	(989)	(1,524)
	1,682	**1,800**

16. FINANCIAL INSTRUMENTS

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

The authority is required to disclose the risks inherent in its usage of financial instruments in its treasury activities, their significance, and how they are managed (Note 51). The tables below show the location of financial instruments within the authority's accounts.

Categories of Financial Instruments

	Long-term		Current	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Investments				
Loans and receivables	0	0	65,037	57,349
Available-for-sale financial assets	0	0	0	0
Unquoted equity investment at cost	0	0	0	0
Financial assets at fair value through profit and loss	0	0	0	0
Total investments	0	0	65,037	57,349
Debtors				
Loans and receivables	7,533	5,760	16,510	20,084
Financial assets carried at contract amount	0	0	0	0
Total debtors	7,533	5,760	16,510	20,084
Borrowings				
Financial liabilities at amortised cost	116,976	116,976	9,654	9,700
Financial liabilities at fair value through profit and loss	0	0	0	0
Total borrowings	116,976	116,976	9,654	9,700
Other Long Term Liabilities				
PFI and Finance Lease LT Liabilities	36,910	38,081	0	0
Total other long term liabilities	36,910	38,081	0	0
Creditors				
PFI and Finance Lease ST Liabilities	0	0	1,187	1,133
Other Financial liabilities at amortised cost	0	0	43,354	40,077
Total creditors	0	0	44,541	41,210

Restatement of 2011/12 Financial Instruments in Debtors and Creditors (see notes 19 and 22)

	Long-Term Debtors £000	Current Debtors £000	Current Creditors £000
2011/12 Statement	4,367	24,619	39,678
Statutory debt	0	(4,369)	0
Lease obligations	1,393	(190)	0
Transactions not involving an exchange between parties	0	24	(3,375)
Accruals	0	0	3,774
Balance 31 March 2012	5,760	20,084	40,077

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

Income, Expense, Gains and Losses

	2011/12			2012/13		
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Total £000
Interest Expense	16,378	0	16,378	9,272	0	9,272
Losses on Derecognition	0	0	0	0	0	0
Reductions in Fair Value	0	0	0	0	0	0
Impairment Losses	0	0	0	0	0	0
Fee Expenses	0	0	0	0	0	0
Total Expenses in Surplus or Deficit on the Provision of Services	**16,378**	**0**	**16,378**	**9,272**	**0**	**9,272**
Interest Income	0	(1,940)	(1,940)	0	(952)	(952)
Interest income accrued on impaired financial assets	0	0	0	0	0	0
Increase in fair values	0	0	0	0	0	0
Gains on derecognition	0	0	0	0	0	0
Fee Income	0	0	0	0	0	0
Total income in Surplus or Deficit on the Provision of Services	**0**	**(1,940)**	**(1,940)**	**0**	**(952)**	**(952)**
Gains on revaluation	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	0	0	0	0	0	0
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**0**	**0**
Net gain/loss for the year	**16,378**	**(1,940)**	**14,438**	**9,272**	**(952)**	**8,320**

The 2011/12 interest expense includes a £6.2m premium paid to redeem debt.

Investments

Investments at 31st March 2013 are all short-term cash deposits, in compliance with the authority's Treasury Management Policy.

Investment Profile		31 March 2012 £000	31 March 2013 £000
Short term		57,000	67,470
Accrued Investment Income		349	137
Total		**57,349**	**67,607**
Investments - Movement in year			**£000**
Investments at 1 April 2012			**57,349**
Change in investment managed internally			10,470
Change in accrued investment income			(212)
Investment at 31 March 2013			**67,607**
Short term investment (book value)			65,037
Cash Equivalents (book value)			2,570
	Book Value £000	**Market Value £000**	**Unrealised Profits/(Losses) £000**
Managed Internally	67,470	67,470	0
Managed Externally	0	0	0
Total	**67,470**	**67,470**	**0**

Fair Value of Assets and Liabilities

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

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

The methods and assumptions used in the valuation technique were:

- For other market debt, Net Present Value (NPV) methodology has been used, which provides an estimate of the value of future payments in today's terms. The discount rate used in the NPV calculation is usually equal to the current rate in relation to the same instrument from a comparable lender and would be the rate applicable in the market on the date of valuation, for an instrument with the same duration date to maturity.

- For PWLB (Public Works Loan Body) debt, fair values as at 31 March 2013 published by PWLB have been used.

Borrowing at source - Fair Value	31 March 2012 £000	31 March 2013 £000
Public Works Loan Board	67,563	69,759
Money Market	81,605	83,583
Temporary Loan	8,007	8,028
Stock Loan	2,951	2,838
	160,126	**164,208**

Borrowing - Maturity Profile	31 March 2012 £000	31 March 2013 £000
Less than 1 year	8,063	8,000
Between 1 and 2 years	0	0
Between 2 and 5 years	0	3,966
Between 5 and 10 years	7,966	4,310
More than 10 years	109,010	108,700
Total over 1 year	**116,976**	**116,976**
Total Borrowings	**125,039**	**124,976**
Accrued Interest	1,637	1,654
	126,676	**126,630**

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

17. INVENTORIES

The stock balance of £0.243m in 2012/13 (£0.181m in 2011/12) represents the complete stock relating to the Partnership Agreement with the Sutton and Merton Primary Care Trust (PCT) and Integrated Community Equipment Services (ICES).

	Consumable Stores	
	2011/12 £000	2012/13 £000
Balance outstanding at the start of the year	183	181
Purchases	451	538
Recognised as an expense in the year	(453)	(476)
Balance outstanding at year end	**181**	**243**

18. CONSTRUCTION CONTRACTS

The authority does not undertake any third party construction projects.

19. DEBTORS

31 March 2011 Restated £000	31 March 2012 Restated £000		31 March 2013 £000
		Long Term Debtors	
0	0	Other Local Authorities	882
5,849	6,060	Bodies external to general government	7,781
5,849	**6,060**	**Total Long Term Debtors**	**8,663**
		Short Term Debtors	
3,447	4,451	Central government bodies	10,306
11,942	22,454	Bodies external to general government	19,708
15,389	**26,905**	**Total short term debtors**	**30,014**
21,238	**32,965**	**Total Debtors**	**38,677**

Financial Instruments in Debtors

31 March 2011 Restated £000	31 March 2012 Restated £000		31 March 2013 £000
		Long Term Debtors	
0	0	Other Local Authorities	882
5,849	5,760	Bodies external to general government	6,651
5,849	**5,760**	**Total Long Term Debtors**	**7,533**
		Short Term Debtors	
11,428	20,084	Bodies external to general government	16,510
11,428	**20,084**	**Total short term debtors**	**16,510**
17,277	**25,844**	**Total Debtors in Financial Instruments**	**24,043**

Balances as at 31 March 2012 have been restated to include prior period adjustment (see note 14) and presentational changes to financial instruments (see note 16).

20. CASH AND CASH EQUIVALENTS

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

31 March 2012 £000		31 March 2013 £000
(549)	Main bank account	(530)
991	Cash in transit (held by agents)	853
20,508	Cash advanced to schools	21,122
0	Cash equivalents	2,570
69	Cash advanced to establishments (cash imprests)	67
21,019	**Total Cash and Cash Equivalents**	**24,082**

21. ASSETS HELD FOR SALE

	Non Current	
	2011/12	2012/13
	£000	£000
Balance outstanding at start of year	**231**	**231**
The balance relates to property, plant and equipment-Eastfields Road property to be sold to developer.		
Balance outstanding at year end	**231**	**231**

There are no Current Assets Held For Sale.

22. CREDITORS

31 March 2011 Restated £000	31 March 2012 Restated £000		31 March 2013 £000
		Short Term Creditors	
(2,964)	(2,533)	Central government bodies	(756)
(931)	(925)	Other local authorities	(625)
(650)	(662)	NHS bodies	(302)
(39,798)	(43,225)	Bodies external to general government	(47,384)
(44,343)	**(47,345)**	**Total Short Term Creditors**	**(49,067)**

Financial Instruments within Creditors:

31 March 2011 Restated £000	31 March 2012 Restated £000		31 March 2013 £000
		Short Term Creditors	
(650)	(662)	NHS bodies	(302)
(33,753)	(39,415)	Bodies external to general government	(43,052)
(34,403)	**(40,077)**	**Total Financial Instruments in Short Term Creditors**	**(43,354)**

Balances as at 31 March 2012 have been restated to include changes to financial instruments (see note 16).

23. PROVISIONS

	Outstanding legal cases £000	Injury and damage compensation claims £000	Other provisions £000	Total £000
Balance at 1 April 2012	0	5,166	1,826	6,992
Additional provisions made in 2012/13	0	964	271	1,235
Amounts used in 2012/13	0	(1,394)	(701)	(2,095)
Unused amounts reserved in 2012/13	0	0	0	0
Unwinding of discounting in 2012/13	0	0	0	0
Balance at 31 March 2013	**0**	**4,736**	**1,396**	**6,132**

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

Injury and Damage Compensation Claims:

- **Insurance Fund £4.272m**

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

- **MMI Provision £0.463m**

Municipal Mutual Insurance (MMI), one of the Council's previous insurers, ceased its underwriting operation in 1992, as it did not have sufficient solvency to trade as an insurance company. Most of MMI's public sector clients, including the Council, elected to participate in the "Scheme of Arrangements" which means that they may have to pay back part of all claims for which they have received settlement. A recent Supreme Court ruling makes it more probable than not that the Scheme of Arrangements will be triggered.

Other Provisions:

- **Social Services**

Homecare £0.072m
Provision of £0.072m is retained in respect of a disputed claim for the provision of homecare.

Nursing Care £0.280m
It has been identified that underpayments of Nursing Care Contributions, funded by the NHS, have been made to nursing home providers over a 3 year period.

- **Housing £0.234m**

As part of the stock transfer agreement made on 22 March 2010, the authority paid £1.85m to Merton Priory Homes in order for them to complete the 2009/10 capital programme. Due to health and safety and various design issues, the cost of the programme increased by £0.24m. The work has been completed and a provision of £0.343m was made for final settlement of this and other outstanding housing contracts. In 2012/13, a £0.109m charge was made against the provision.

- **Single Status Provision £0.540m**

Single Status is a national agreement reached in 1997 aimed at modernising pay and rewards in Local Government. The agreement covers the introduction of a single job evaluation (JE) scheme for all Council workers, a standardised working week and a pay and grading review which recognises equal pay for work of equal value. A further national implementation agreement was reached in 2004 under which local authorities would complete and implement local pay reviews. In 2012/13, the authority made payments totalling £0.591m against the provision. The remaining provision of £0.540m is the estimated liability for the Park Rangers (£0.03m), Social Work Support Officer (£0.29m) and Parking Officers (£0.22m).

- **Carbon Reduction Commitment Scheme £0.271m**

The authority has made a provision of £0.271m to meet its obligations under the Carbon Reduction Commitment Scheme.

Of the above provisions, those for single status, the carbon reduction commitment scheme and MMI are classified as current provisions, expected to fall due within one year of the balance sheet date. The remainder of the provisions, totalling £4.858m are long-term provisions, expected to fall due more than one year after the balance sheet date.

24. USABLE RESERVES

Movements in the authority's usable reserves are detailed in the Movement in Reserves Statement and Notes 7 and 8.

25. UNUSABLE RESERVES

31 March 2012 £000		31 March 2013 £000
(50,901)	Revaluation Reserve	(57,840)
(178,776)	Capital Adjustment Account	(182,787)
189,686	Pensions Reserve	194,875
(5,355)	Deferred Capital Receipts Reserve	(5,338)
(4,853)	Collection Fund Adjustment Account	(4,986)
3,773	Accumulated Absences Account	4,052
(46,426)	**Total Unusable Reserves**	**(52,024)**

Revaluation Reserve
The Revaluation Reserve contains the gains made by the London Borough of Merton arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:
- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

	2011/2012 £000			2012/2013 £000
	(25,187)	**Balance at 1 April**		(50,901)
(39,254)		Upward revaluation of assets	(8,520)	
11,533		Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services	1,078	
	(27,721)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(7,442)
925		Difference between fair value depreciation and historical cost depreciation	380	
801		Accumulated gains on assets sold or scrapped	123	
	1,726	Amount written off to the Capital Adjustment Account		503
	281	Lease adjustment		0
	(50,901)	**Balance at 31 March**		(57,840)

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the authority. The account also contains revaluation gains accumulated on Property, Plant and

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

	2011/2012 £000			2012/2013 £000
	(181,208)	**Balance at 1 April**		**(178,776)**
	(6,671)	**Prior Period Adjustment**		
	(187,879)	**Restated balance at 1 April**		**(178,776)**
	(1,726)	Amounts written out of the Revaluation Reserve		(503)
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
13,279		Charges for depreciation and impairment of non-current assets	14,693	
27,999		Revaluation losses on Property, Plant and Equipment	2,462	
434		Amortisation of intangible assets	534	
7,287		Revenue expenditure funded from capital under statute	4,117	
5,854		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	13,282	
(4,652)		Recognition of existing assets		0
	50,201			35,088
	48,475	**Net written out amount of the cost of non-current assets consumed in the year**		**34,585**
		Capital financing applied in the year:		
0		Use of Capital Receipts Reserve to finance new capital expenditure	(1,002)	
(29,175)		Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	(24,251)	
(8,680)		Statutory provision for the financing of capital investment charged against the General Fund	(8,460)	
(576)		Capital expenditure charged against the General Fund	(2,936)	
	(38,431)			**(36,649)**
	1,086	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income or Expenditure Statement		(1,956)
	(2,027)	Prior Period Adjustment to movements in the market value of Investment Properties debited or credited to the Comprehensive Income or Expenditure Statement		0
	0	Loan Repayments		9
	(178,776)	**Balance at 31 March**		(182,787)

Pensions Reserve
The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed, as the authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2011/12 £000		2012/13 £000
102,991	**Balance at 1 April**	189,686
89,027	Actuarial gains and losses on pensions assets and liabilities	4,499
12,277	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	18,280
(14,609)	Employer's pensions contributions and direct payments to pensioners payable in the year	(17,590)
189,686	**Balance at 31 March**	194,875

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

2011/12 Re-stated £000		2012/13 £000
(4,243)	**Balance at 1 April**	(5,355)
(1,203)	Prior period adjustment	0
85	Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	11
6	Transfer to the Capital Receipts Reserve upon receipt of cash	6
(5,355)	**Balance at 31 March**	(5,338)

Collection Fund Adjustment Account

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

2011/2012 £000		2012/2013 £000
(4,272)	**Balance at 1 April**	(4,853)
(581)	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	(133)
(4,853)	**Balance at 31 March**	(4,986)

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.

2011/12 £000		2012/13 £000
4,346	**Balance at 1 April**	3,773
(4,346)	Settlement or cancellation of accrual made at the end of the preceding year	(3,773)
3,773	**Amount accrued at 31 March**	4,052

26. CASH FLOW STATEMENT - OPERATING ACTIVITIES

2011/12 Re-stated £000		2012/13 £000
(18,221)	Employee running costs and income	(19,197)
(1,591)	Interest received	(1,165)
5,206	Interest paid	6,299
3,603	Interest element of finance lease	3,480
(11,003)		**(10,583)**

26.1 ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

2011/12 Re-stated £000		2012/13 £000
	Non Cash Movements	
(13,279)	Depreciation	(14,693)
(27,999)	Impairment & downward valuations	(2,462)
(434)	Amortisation	(534)
(5,854)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(13,282)
2,332	Movement in Pension Liability	(690)
(16)	Increase/(decrease) in provision for the impairment of bad debts	2,128
(1,479)	Increase/(decrease) in Provisions	858
1,692	Other non-cash items charged to the net surplus or deficit on the provision of services	3,963
(45,038)		**(24,711)**
	Accruals Adjustments	
(2)	Increase/(decrease) in Inventories	62
11,743	Increase/(decrease) in Debtors	3,584
(220)	Increase/(decrease) in Interest Debtors	(213)
974	(Increase)/decrease in Creditors	(1,829)
2	(Increase)/decrease in Interest Creditors	(17)
12,497		**1,587**
(32,540)		**(23,124)**

27. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2011/12 Re-stated £000		2012/13 £000
33,255	Purchase of property, plant and equipment, investment property and intangible assets	35,042
0	Purchase of short-term and long-term investments	7,900
(6,958)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(12,389)
(9,000)	Proceeds from short-term and long-term investments	0
(23,107)	Other receipts from investing activities	(23,774)
(5,811)	**Net cash flows from investing activities**	**6,779**

27.1 ADJUSTMENTS FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES

2011/12 Re-stated £000		2012/13 £000
6,958	Proceeds from the sale of PP&E, investment property and intangible assets	12,389
17,127	Any other items for which the cash effects are investing or financing cash flows	24,036
24,085		**36,425**

28. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2011/12 Re-stated £000		2012/13 £000
(2,665)	Other receipts from financing activities	(262)
1,875	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	939
26,161	Repayment of short- and long-term borrowing	63
6,214	Other payments for financing activities	0
31,585	**Net cash flows from investing activities**	**740**

29. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The income and expenditure of the authority's principal directorates recorded in the budget reports for the year is as follows.

2012/13	Corporate Services £000	Children, Schools & Families £000	Adult Social Care £000	Libraries £000	Housing £000	Environment & Regeneration £000	Total £000
INCOME							
Fees, charges and other service income	(8,625)	(12,484)	(18,885)	(931)	(170)	(22,374)	**(63,469)**
Government grants	(103,480)	(147,805)	(7,668)	(1,889)	(1,504)	(2,478)	**(264,824)**
Total income	(112,105)	(160,289)	(26,553)	(2,820)	(1,674)	(24,852)	**(328,293)**
EXPENDITURE							
Employee expenses	21,577	119,807	12,913	3,251	1,066	22,000	**180,614**
Other service expenses	118,941	71,140	60,426	1,527	910	24,490	**277,434**
Support service recharges	10,780	8,795	6,965	1,117	291	9,434	**37,382**
Total expenditure	151,298	199,742	80,304	5,895	2,267	55,924	**495,430**
Surplus or deficit on the provision of services	39,192	39,453	53,750	3,075	593	31,072	**167,137**

2011/12 Comparative Figures Restated	Corporate Services £000	Children, Schools & Families £000	Adult Social Care £000	Libraries £000	Housing £000	Environment & Regeneration £000	Total £000
INCOME							
Fees, charges and other service income	(7,054)	(13,525)	(15,746)	(1,151)	(485)	(20,628)	**(58,590)**
Government grants	(96,681)	(142,018)	(8,237)	(1,796)	(1,592)	(1,997)	**(252,321)**
Total income	(103,735)	(155,544)	(23,983)	(2,947)	(2,077)	(22,625)	**(310,911)**
EXPENDITURE							
Employee expenses	21,974	104,669	12,465	3,208	1,090	22,046	**165,452**
Other service expenses	111,905	75,960	62,048	1,845	2,042	23,869	**277,669**
Support service recharges	11,195	10,861	8,151	1,796	466	12,000	**44,469**
Total expenditure	145,074	191,490	82,664	6,848	3,598	57,915	**487,590**
Surplus or deficit on the provision of services	41,340	35,947	58,681	3,901	1,521	35,290	**176,679**

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement:

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2011/12 Restated £000		2012/13 £000
176,679	Net Expenditure: Segmental Analysis	167,137
(3,742)	Amounts in the I&E not in the Segmental Analysis	(23,104)
172,937	Cost of Service in Comprehensive Income and Expenditure Account	**144,033**

2011/12 Restated £000	Amounts in the I&E not in the Segmental Analysis	2012/13 £000
(46,001)	Recharges	(40,052)
40,882	Depreciation, Impairment & Amortisation	16,931
1,371	Pension Settlement Costs	(381)
0	Pension Auto enrolment	345
6	Sundry	53
(3,742)		**(23,104)**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2012/13	Net Expenditure: Segmental Analysis	Amounts in the I&E not in the Segmental Analysis	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
INCOME						
Fees, charges and other service income	(63,469)	0	0	(63,469)	0	(63,469)
Interest and Investment Income	0	0	0	0	(952)	(952)
Income from Council Tax	0	0	0	0	(86,813)	(86,813)
Government grants	(264,824)	0	0	(264,824)	0	(264,824)
Total income	**(328,293)**	**0**	**0**	**(328,293)**	**(87,765)**	**(416,058)**
EXPENDITURE						
Employee expenses	180,614	0	(16,464)	164,150	0	164,150
Other service expenses	277,434	16	(14,372)	263,079	0	263,078
Support Service Recharges	37,382	0	(6,642)	30,740	0	30,740
Depreciation, Amortisation & Impairment	0	16,931	(2,575)	14,356	0	14,356
Interest Payments	0	0	0	0	9,272	9,272
Precepts and Levies	0	0	0	0	880	880
Gain or Loss on Disposal of Non-current Assets	0	0	0	0	4,571	4,571
Total expenditure	**495,430**	**16,947**	**(40,052)**	**472,326**	**14,723**	**487,049**
Surplus or deficit on the provision of services	**167,137**	**16,947**	**(40,052**	**144,033**	**(73,042)**	**70,991**

Reconciliation to Surplus/Deficit on Provision of Services 2012/13	£000
Subjective Analysis	70,991
Financing and investment income and expenditure not included in Subjective Analysis	(1,766)
Depreciation and Impairment not included in Subjective Analysis (Trading Accounts)	425
Taxation and non specific grant	(180,347)
Income from Council Tax	86,813
Surplus/Deficit on Provision of Services	**(23,884)**

2011/12 Restated	Net Expenditure: Segmental Analysis	Amounts in the I&E not in the Segmental Analysis	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
INCOME						
Fees, charges and other service income	(58,590)	0	0	(58,590)	0	(58,590)
Interest and Investment Income	0	0	0	0	(1,940)	(1,940)
Income from Council Tax	0	0	0	0	(84,865)	(84,865)
Government grants	(252,321)	0	0	(252,321)	0	(252,321)
Total income	**(310,911)**	**0**	**0**	**(310,911)**	**(86,805)**	**(397,716)**
EXPENDITURE						
Employee expenses	165,452		(17,512)	147,940		147,940
Other service expenses	277,669	1,377	(16,376)	262,670		262,670
Support Service Recharges	44,469		(6,455)	38,014		38,014
Depreciation, Amortisation & Impairment		40,880	(5,655)	35,225		35,225
Interest Payments				0	16,378	16,378
Precepts and Levies				0	888	888
Gain or Loss on Disposal of Non-Current Assets				0	(4,856)	(4,856)
Total expenditure	**487,590**	**42,257**	**(45,999)**	**483,848**	**12,410**	**496,258**
Surplus or deficit on the provision of services	**176,679**	**42,257**	**(45,999)**	**172,938**	**(74,395)**	**98,543**

Reconciliation to Surplus/Deficit on Provision of Services 2011/12 Restated	£000
Subjective Analysis	98,543
Financing and investment income and expenditure not included in Subjective Analysis	(4,011)
HRA (discontinued ops)	830
Taxation and non specific grant	(182,776)
Income from Council Tax	84,865
Surplus/Deficit on Provision of Services	**(2,549)**

A reconciliation between figures reported to Cabinet at year end and figures in the Statement of Accounts is shown below:

2012/13	Cabinet (Draft Accounts) £000	Audit Adjustments (excluding MRS) £000	Budgetary control presentation £000	Reserves transfers reported* £000	Other reserve transfers* £000	Services in corporate in Sercop £000	IFRS Accounting £000	IFRS Cap Grants £000	IFRS MRS (including audit adjustments) £000	IFRS Unrealised Gains £000	Statement of Accounts £000
Services	139,524	0	6,888	0	(2,558)	5,738	(1,834)	(3,725)	0	0	144,033
Corporate	10,840	0	(5,931)	(7,209)	2,055	(5,738)	1,834	25,726	(9,147)	0	12,430
Cost of services	**150,364**	**0**	**957**	**(7,209)**	**(503)**	**0**	**0**	**22,001**	**(9,147)**	**0**	**156,463**
Corporate Funding	(155,568)	0	(958)	0	0	0	0	(22,001)	(1,820)	0	(180,347)
(Surplus)/deficit on provision of services	**(5,204)**	**0**	**(1)**	**(7,209)**	**(503)**	**0**	**0**	**0**	**(10,967)**	**0**	**(23,884)**
Unrealised Gains and Losses	0	0	0	0	0	0	0	0	0	(2,943)	(2,943)
(Surplus)/deficit	**(5,204)**	**0**	**(1)**	**(7,209)**	**(503)**	**0**	**0**	**0**	**(10,967)**	**(2,943)**	**(26,827)**

* Net £7.712m movement = Increase in earmarked reserves £8.042m - reduction in schools' reserves £0.331m (See Note 8)

2011/12	Cabinet (Draft Accounts) £000	Audit Adjustments* £000	Budgetary control presentation £000	Reserves transfers reported £000	Other reserve transfers** £000	Services in corporate in Sercop £000	IFRS Accounting £000	IFRS Cap Grants £000	IFRS MRS*** £000	IFRS Unrealised Gains £000	Statement of Accounts £000
Services	139,275	1,594	39,362	0	0	3,970	(6,317)	(4,947)	0	0	172,937
Corporate	12,053	0	(36,798)	(14,989)	7,452	(3,970)	6,317	28,774	8,452	0	7,290
Cost of services	**151,328**	**1,594**	**2,564**	**(14,989)**	**7,452**	**0**	**0**	**23,826**	**8,452**	**0**	**180,227**
Corporate Funding	(156,386)	0	(2,564)	0	0	0	0	(23,826)	0	0	(182,776)
(Surplus)/deficit on provision of services	**(5,058)**	**1,594**	**0**	**(14,989)**	**7,452**	**0**	**0**	**0**	**8,452**	**0**	**(2,549)**
Unrealised Gains and Losses	0	0	0	0	0	0	0	0	0	56,936	56,936
(Surplus)/deficit	**(5,058)**	**1,594**	**0**	**(14,989)**	**7,452**	**0**	**0**	**0**	**8,452**	**56,936**	**54,387**

* Reported to Sept 2012 GPC
** Net £7.537m movement = Addition to Earmarked £7.614m + Schools £3.979m - HRA added to GF 4.056m (See Note 8)
*** Includes MRP PPA

30. ACQUIRED AND DISCONTINUED OPERATIONS

The authority did not have any acquired or discontinued operations in 2012/13.

31. TRADING OPERATIONS

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

- Industrial Estates: Commercial property rents and service charges.
- Printing and Graphic Design: Design and printing of official documents.
- Translation Services: Provides translation and interpreting services.
- Transport: Recharged income and expenditure for service department vehicles
- Contractors Health and Safety Assessment (CHAS): The authority provides health and safety training and courses for other local authorities and bodies.

Trading Account		**2011/12 £000**	**2012/13 £000**
Industrial Estates	Turnover	3,346	5,576
	Expenditure	3,482	1,621
	(Surplus)/Deficit	**136**	**(3,955)**
Printing and Graphic Design	Turnover	439	326
	Expenditure	390	201
	(Surplus)/Deficit	**(49)**	**(125)**
Translation Services	Turnover	327	355
	Expenditure	332	332
	(Surplus)/Deficit	**5**	**(23)**
Transport	Turnover	8,733	9,260
	Expenditure	9,239	9,181
	(Surplus)/Deficit	**506**	**(78)**
Contractors Health and Safety Assessment	Turnover	3,400	3,544
Scheme (CHAS)	Expenditure	1,949	2,284
	(Surplus)/Deficit	**(1,451)**	**(1,260)**
All trading operations		**2011/12 £000**	**2012/13 £000**
	Turnover	16,245	19,061
	Expenditure	15,392	13,619
Total	**(Surplus)/Deficit**	**(853)**	**(5,442)**

The variation in results for the Industrial Estates is due to year on year changes in the revaluation of Investment Properties. In 2012/13 the authority revalued all investment properties.

32. AGENCY SERVICES

The Code stipulates that an authority is acting as an agent in situations or circumstances *'where the authority is acting as an intermediary'*. It is acting as a principal in situations or circumstances *'where the authority is acting on its own behalf'*. Using this distinction, this authority does not act as an agent in the provision of service.

33. ROAD CHARGING SCHEMES UNDER THE TRANSPORT ACT 2000

The authority does not operate any road charging schemes under the Transport Act 2000.

34. POOLED BUDGETS – Partnerships - Section 75

During 2012/13 the authority has continued to operate the Partnership Agreements with Sutton & Merton Primary Care Trust, under Section 75 of the National Health Service Act 2006, to provide learning disabilities and integrated community equipment services (ICES). This included the continued operation of the pooled community equipment funds, although the Learning Disabilities programmes no longer fall under Section 75 of NHS Act 2006:

POOLED FUND FOR COMMUNITY EQUIPMENT SERVICES IN MERTON MEMORANDUM ACCOUNT FOR THE YEAR ENDING 31 MARCH 2013	Total 2011/12	Total 2012/13
	£000	£000
INCOME		
PARTNERS' CONTRIBUTIONS		
Brought forward	182	28
Refund of LBM Contributions	0	0
LB Merton	473	441
Sutton & Merton PCT	172	330
Additional From PCT	40	0
Learning Disabilities Development Fund (LDDF)	0	0
TOTAL CONTRIBUTIONS	**867**	**799**
EXPENDITURE		
Joint Team	0	0
Day Services	0	0
LDDF	0	0
Transfer to PCT	0	0
Transfer to LD Projects	0	0
Community Equipment Services	451	538
Stock Adjustment	2	(62)
Management & Support Costs	386	21
TOTAL EXPENDITURE	**839**	**497**
NET (UNDER) / OVERSPEND CARRIED FORWARD	**(28)**	**(302)**

The pooled budget net underspend is included within Creditors.

35. MEMBERS' ALLOWANCES

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

	2011/12 £000	2012/13 £000
Salaries	0	0
Allowances	769	766
Expenses	1	0
Total	**770**	**766**

36. OFFICERS' REMUNERATION

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

Remuneration Band £	2011/12 Teaching Staff	2011/12 Other Staff	2012/13 Teaching Staff	2012/13 Other Staff
50,000 – 54,999	88	46	85	28
55,000 – 59,999	38	18	33	15
60,000 – 64,999	18	14	14	11
65,000 – 69,999	22	10	23	9
70,000 – 74,999	10	12	10	12
75,000 – 79,999	8	6	8	3
80,000 – 84,999	4	6	4	1
85,000 – 89,999	3	3	4	3
90,000 – 94,999	1	2	0	2
95,000 – 99,999	1	3	0	2
100,000 – 104,999	1	1	3	0
105,000 – 109,999	1	1	0	0
110,000 – 114,999	1	0	0	0
115,000 – 119,999	0	1	1	0
120,000 – 124,999	1	0	1	0
125,000 – 129,999	0	1	0	0
130,000 – 134,999	0	2	0	1
135,000 – 139,999	0	2	0	3
140,000 – 144,999	0	0	0	0
145,000 – 149,999	0	0	0	0
150,000 – 154,999	0	0	0	0
155,000 – 159,999	0	0	0	0
160,000 – 164,999	0	0	0	0
165,000 – 169,999	0	0	0	0
170,000 – 174,999	0	0	0	0
175,000 – 179,999	0	0	0	0
180,000 – 184,999	0	0	0	0
185,000 – 189,999	0	1	0	1
Total	**197**	**129**	**186**	**91**

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below:

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	
(£)	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12 (£)	2012/13 (£)
0 - 20,000	78	20	41	17	119	37	838,541	315,543
20,001 - 40,000	21	5	25	8	46	14	1,331,203	371,808
40,001 - 60,000	6	1	12	1	18	1	875,427	91,948
60,001 – 150,000	1	1	5	1	6	2	439,701	156,074
TOTAL	106	27	83	27	189	54	3,484,872	935,373

In accordance with Regulation 4 of the Accounts and Audit Regulations 2009, there is a legal requirement to increase transparency and accountability in Local Government for reporting the remuneration of senior employees.

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

The following table provides this detail for 2012/13 and also the 2011/12 comparative year data with supporting sub-notes.

2012/13 Post holder information	Sub-Notes	Remuneration (Including fees & allowances) 2012/13 £	Employer's Pension contributions £	Total Remuneration including pension contributions 2012/13 £
Chief Executive Ged Curran	1	185,000	26,085	211,085
Director of Corporate Services Caroline Holland	2	135,000	19,035	154,035
Director of Community and Housing Simon Williams	3	136,096	19,190	155,286
Director of Children, Schools and Families Yvette Stanley	4	135,000	17,901	152,901
Director of Environment & Regeneration Chris Lee	5	134,042	19,035	153,077
Director of Transformation Post no longer exists	6	0	0	0

2011/12 Post holder information	Sub-Notes	Remuneration (Including fees & allowances) 2011/12 £	Employer's Pension contributions £	Total Remuneration including pension contributions 2011/12 £
Chief Executive Ged Curran	7	185,000	26,085	211,085
Director of Corporate Services Caroline Holland	8	135,000	19,035	154,035
Director of Community and Housing Simon Williams	9	136,096	19,190	155,286
Director of Children, Schools and Families Yvette Stanley	10	125,345	17,674	143,019
Director of Environment & Regeneration Chris Lee	11	134,306	19,035	153,341
Director of Transformation Chris Pope OBE	12	36,368	4,795	41,163

Sub-note 1: Mr G Curran, Chief Executive, received an additional separate payment of £5,015.06 for Deputy Constituency Returning Officer duties at the GLA election and Wimbledon Park by-election on 3rd May 2012.

Sub-note 2: Ms C Holland, Director of Corporate Services, received an additional separate payment of £1,000 for Deputy Constituency Returning Officer duties at the GLA election and Wimbledon Park by-election on 3rd May 2012.

Sub-note 3: Mr S Williams, Director of Community and Housing, received an additional separate payment of £318.95 for Polling Station Inspector and Returning Officer's Assistant duties at the GLA election and Wimbledon Park by-election on 3rd May 2012.

Sub-note 4: Ms Y Stanley, Director of Children, Schools and Families, received an additional separate payment of £305 for Polling Station Inspector and Returning Officer's Assistant duties at the GLA election and Wimbledon Park by-election on 3rd May 2012.

Sub-note 5: Mr C Lee, Director of Environment and Regeneration, remuneration for 2012/13 comprised of salary of £135,000 less a salary sacrifice scheme payment of £958.29. A separate payment of £215 was received for Polling Station Inspector duties at the GLA election and Wimbledon Park by-election on 3rd May 2012.

Sub-note 6: The Director of Transformation post was deleted in 2012/13 as a Corporate Services departmental saving.

Sub-note 7: Mr G Curran, Chief Executive's remuneration for 2011/12 was a salary of £185,000. An additional payment of £6,731 was due but was waived by the Chief Executive for Counting Officer responsibility at the Parliamentary Voting System Referendum on 5th May 2011. A separate payment of £700 was received for Pan London Emergency Planning.

Sub-note 8: Ms C Holland, Director of Corporate Services received additional separate payments of £700 for Pan London Emergency Planning and of £1,300 for Deputy Counting Officer, inspection and supervision duties at the Parliamentary Voting System Referendum on 5th May 2011.

Sub-note 9: Mr S Williams, Director of Community and Housing, received an additional separate payment of £283 for inspection and count supervision duties at the Parliamentary Voting System Referendum on 5th May 2011.

Sub-note 10: Ms Y Stanley, Director of Children, Schools and Families, remuneration for 2011/12 was a salary of £125,345.

Sub-note 11: Mr C Lee, Director of Environment and Regeneration, remuneration for 2011/12 comprised of salary of £135,000 less a salary sacrifice scheme payment of £694.40. A separate payment of £511.50 was made for inspection and count supervision duties at the Parliamentary Voting System Referendum on 5th May 2011.

Sub-note 12: Mr C Pope OBE, Director of Transformation, ceased employment at the Council on 17th July 2011. His salary comprised of £24,861 salary plus additional roles and responsibilities allowance of £9,144 plus accrued holiday pay of £2,363. The annualised remuneration for this post was £90,000.

37. EXTERNAL AUDIT COSTS

The authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the authority's external auditors:

	2011/12 Restated £000	2012/13 £000
Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year	315	189
Rebate received from the Audit Commission	(25)	(22)
Sub total	**290**	**167**
Fees payable to the External Auditor for the certification of grant claims and returns for the year	80	42
Total	**370**	**209**

The figures show the sums charged in the financial year solely in relation to the audit of that year. In the case of 2011/12 certification fees, additional work is being undertaken in relation to housing and council tax benefits and the consequence of this is that the 2012/13 figures also include an accrual of £21,300 for the estimated cost of this additional work.

38. DEDICATED SCHOOLS GRANT

The authority's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the Department for Children, Schools and Families. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2012/13 are as follows:

	Central Expenditure	Individual Schools Budget	Total Expenditure
	£000	£000	£000
Final DSG for 2012/ 13 before Academy recoupment			128,432
Academy figure recouped for 2012/13			(347)
Total DSG figure after Academy recoupment for 2012/13			128,085
Brought forward from 2011/12			1,710
Carry-forward to 2013/14 agreed in advance			(1,439)
Agreed initial budgeted distribution in 2012/13	17,487	110,869	128,356
In year adjustments	0	0	0
Final budgeted distribution for 2012/13	17,487	**110,869**	**128,356**
Less Actual Central Expenditure 2012/13	(16,230)		(16,230)
Less Actual Individual Schools Budgets 2012/13		(111,187)	(111,187)
Carry forward for 2012/13	**1,257**	**(318)**	**939**
Carry-forward to 2013/14 agreed in advance			1,439
Total carry forward 2013/14			**2,378**

39. GRANT INCOME

The London Borough of Merton credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

	2011/12 Restated £000	2012/13 £000
Credited to Taxation and Non Specific Grant Income		
Collection Fund	(84,865)	(86,813)
Revenue Support Grant	(15,729)	(1,179)
Business Rates	(50,888)	(60,842)
Area Base Grant	(50)	0
Capital Grant Income	(23,827)	(22,000)
PFI Contribution	(4,797)	(4,797)
New Homes Bonus Grant	(552)	(1,136)
Local Authority Central Spend Equivalent Grant (Refund)	0	(1,295)
Council Tax Freeze Grant	(2,061)	(2,070)
Total grants under £1 million	(7)	(214)
Total	**(182,776)**	**(180,347)**
Credited to Financing and Investment Income		
Grant towards Wimbledon Magistrates Court capital financing	**(234)**	**(262)**
Credited to Services		
Grants over £1million		
Schools Delegated Budget	(128,182)	(132,697)
Housing Benefits Subsidy	(80,284)	(87,067)
Council Tax Benefits	(13,815)	(13,846)
Standards Fund 1.1 School Development Grant	(187)	0
REFCUS related grants for voluntary aided schools	(1,768)	(1,396)
Children's Centres	(1,880)	(1,435)
Benefits Administration	(1,527)	(1,485)
Standards Fund 1.10 Early Years	(170)	0
Standards Fund 1.6 Extended Schools Sustainability	(40)	0
LD Crossroads & NHS Grant	(6,653)	(6,799)
Pupil Premium	(1,651)	(3,401)
Bed & Breakfast Accommodation	0	(1,004)
Nursery Grant - (2 year olds)	0	(1,159)
Adult Education Main	(1,750)	(1,801)
	(237,907)	(252,091)
Total grants under £1million	(14,414)	(12,733)
Total Grants	**(252,321)**	**(264,824)**
Contributions over £1million		
LD Residential Care External	(1,220)	(1,234)
LD Home Care	(146)	(101)
Schools Contribution to PFI Schemes Facilities Management	(1,663)	(1,610)
Retention in Drug Treatment Services	(1,036)	(1,129)
Local Taxation Services	(1,086)	(1,045)
Non Delegated Statements	(1,179)	(983)
Provider Service	(1,625)	(2,962)
	(7,955)	(9,066)
Total contributions under £1million	(14,188)	(13,224)
Total Contributions	**(22,143)**	**(22,290)**
TOTAL GRANTS AND CONTRIBUTIONS	**(274,464)**	**(287,113)**

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

Current Liabilities

	31 March 2012 £000	31 March 2013 £000
Capital Grants Receipts in Advance		
Total of grants under £1million	(257)	(74)
Total	**(257)**	**(74)**
Revenue Grants Receipts in Advance		
Grants over £1million:	0	0
Total grants under £1million	(1,742)	(1,638)
Total	**(1,742)**	**(1,638)**

Long Term Liabilities - Capital Grants Receipts in Advance

	2011/12 £000	2012/13 £000
1. Government Grants and other contributions		
Standards Fund	(1,228)	(211)
Other Grants and Contributions	(2,286)	(1,502)
	(3,514)	(1,713)
2. Section 106	(6,347)	(6,190)
3. Schools Capital Grant	(945)	(895)
Total	**(10,806)**	**(8,798)**

40. RELATED PARTIES

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

Central Government
Central Government has significant influence over the operations of the authority – it is responsible for providing the statutory framework within which the authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the authority has with other parties (e.g. Council Tax bills, housing benefits). Details of grants received from government departments are set out in Note 39 as well as grant receipts outstanding at 31 March 2013. The following table provides a summary of the main amounts arising in the accounts:

	2011/12 Payments / (Receipts) £000	2012/13 Payments / (Receipts) £000
Central Government		
- Revenue Support Grant	(15,729)	(1,179)
- Receipts from NNDR Pool	(50,888)	(60,842)
- Area Based Grant	(50)	0
- Levy by the Environment Agency	147	146
Precepting Authorities and Other Bodies		
- Greater London Authority precept	23,598	25,127
Levying Bodies – Levies paid		
- London Pensions Fund Authority	254	253
- Lee Valley Authority	220	215
- Wimbledon and Putney Commons Conservators	267	267

Members
Members of the authority have direct control over the financial and operating decisions of the authority. The total of members' allowances paid in 2012/13 is shown in Note 35.

This disclosure note has been prepared using the authority's Register of Members' Interest in addition to a specific declaration obtained in respect of related party transactions from Members and Senior Officers. The authority issued 60 standard letters to Members who held office in 2012/13; 59 Members have responded.

During 2012/13 members of the authority (or members of their immediate family or household) undertook related party transactions with the following organisations to the value of £5.673m. The amounts disclosed below are those material to either party of the related party transaction (i.e. the London Borough of Merton (LBM) or the other entity) and therefore explains the large variance in the amounts identified for disclosure.

Organisation	Nature of transaction	2012/13 £000
Deen City Farm	Grant Received from LBM	127
Endeavour Youth Club	Grant Received from LBM	19
Merton Age UK	Grant Received from LBM	213
Merton Action for Single Homeless (MASH)	Grant Received from LBM	174
Asian Elderly	Grant Received from LBM	62
Merton and Morden Guild	Grant Received from LBM	95
Merton Community Transport	Grant Received from LBM	50
Merton Priory Homes (MPH)	Capital receipts paid to LBM as part of VAT sharing agreements with MPH	4,869
North East Mitcham Community Association	Funding received from LBM	64
Total		**5,673**

Senior Officers
Senior officers of the authority also have direct control over the financial and operating decisions of the authority. Senior officers are required to make a specific declaration in respect of related party transactions. The authority issued 29 standard letters to current (27) and former (2) senior officers who held office in 2012/13; to date there have been 26 responses from current officers and 0 responses from former officers.

In 2012/13, Senior Officers within the authority did not hold any positions in other organisations which would have enabled them to significantly influence the policies of the authority and which would have resulted in a related party transaction of a material nature.

Voluntary Organisations
The authority made grants and payments totalling £803,000 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 relevant members did not take part in any discussion or decision relating to the grants. 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 2012/13 an administration fee of £0.283m was paid by the Fund to the authority (£0.087m in 2011/12, Reference Pension Fund, Note 11).

41. 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 second part of this note.

	2011/12 Re-stated £000	2012/13 £000
Opening Capital Financing Requirement	190,532	210,349
Prior Period Adjustment	17,225	0
Restated Opening Capital Financing Requirement	207,757	210,349
Capital Investment		
Property, Plant and Equipment	34,525	34,045
Investment Properties	25	10
Intangible Assets	499	652
Revenue Expenditure Funded from Capital Under Statute	7,251	4,117
Loans to public sector organisations	0	1,002
Sources of Finance		
Capital receipts	0	(1,002)
Government grants and other contributions	(29,175)	(24,251)
Sums set aside from revenue:		
Direct revenue contributions	(576)	(2,936)
MRP	(8,680)	(8,460)
Adjustment of MRP	(29)	0
Adjustment of PFI Liability	(1,247)	0
Closing Capital Financing Requirement	**210,349**	**213,525**
Explanation of movements in year		
Increase in underlying need to borrowing (unsupported by government financial assistance)	4,321	3,177
Adjustment of MRP	(29)	0
Adjustment of PFI Liability	(1,247)	0
Increase in Capital Financing Requirement	**3,045**	**3,177**

42. LEASES

Authority as Lessee

Finance Leases

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

31 March 2012 £000		31 March 2013 £000
2,729	Other Land and Buildings	2,665
188	Vehicles, Plant, Furniture and Equipment	0
2,917		**2,665**

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

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

31 March 2012 £000		31 March 2013 £000
	Finance lease liabilities (net present value minimum lease payments):	
294	- current	116
600	- non current	484
32	Finance costs payable in future years	5
926	Minimum lease payments	**605**

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

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Not later than one year	121	320	116	294
Later than one year and not later than five years	190	283	189	276
Later than five years	294	323	295	324
Total	**605**	**926**	**600**	**894**

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 2012/13 £0.053m contingent rents were payable by the authority (2011/12 £0.053m)

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

31 March 2012 £000		31 March 2013 £000
126	Not later than one year	126
502	Later than one year and not later than five years	502
1,011	Later than five years	885
1,639		**1,513**

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

2011/12 £000		2012/13 £000
1,639	Minimum lease payments	1,513
1,639		**1,513**

Authority as Lessor

Finance leases

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

The gross investment is made up of the following:

31 March 2012 Re-stated £000		31 March 2013 £000
	Finance lease debtor (net present value of minimum lease payments):	
10	- current	10
5,915	- non current	5,554
24,680	Unearned finance income	23,391
5	Unguaranteed residual value of property	5
30,610	Gross investment in lease	**28,960**

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

	Gross investment in the Lease		Minimum Lease Payments	
	31 March 2013 £000	31 March 2012 Re-stated £000	31 March 2013 £000	31 March 2012 Re-stated £000
Not later than one year	360	376	360	376
Later than one year and not later than five years	1,444	1,503	1,444	1,503
Later than five years	27,156	28,731	27,151	28,726
	28,960	**30,610**	**28,955**	**30,605**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13, £0.352m contingent rents were receivable by the authority (£0.326m in 2011/12)

Operating Leases

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

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

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

31 March 2012 Re-stated £000		31 March 2013 £000
2,404	Not later than one year	2,541
7,647	Later than one year and not later than five years	8,402
28,581	Later than five years	29,898
38,632		**40,841**

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

43. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Property, Plant and Equipment

The authority has a Private Finance Initiative (PFI) scheme under which six secondary schools were rebuilt by a PFI operator, NewSchools. Following a partial termination of the contract in 2006, two schools were transferred to academies. On 1st March 2013, a third school also became an academy, but remains within the PFI contract. The PFI scheme provides for an annual payment to NewSchools, the PFI operator.

Value of Assets Held

The authority's accounts include school buildings constructed under the PFI scheme.

	31 March 2012 £000	31 March 2013 £000
Gross Value	65,012	65,628
Accumulated Depreciation	(1,288)	(2,602)
Net	**63,724**	**63,026**

Value of Liabilities

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

	Capital £000	Interest £000	Services £000	Total £000
Mar 2014	1,071	3,511	3,865	8,447
Mar 2015 - 2018	5,764	13,800	15,902	35,466
Mar 2019 - 2022	6,959	14,409	19,144	40,512
Mar 2023 - 2026	9,740	13,302	20,172	43,214
Mar 2027 - 2030	13,752	16,367	22,831	52,950
Total	**37,286**	**61,389**	**81,914**	**180,589**

Partial Termination

	Capital £000	Interest £000	Services £000	Total £000
Mar 2014	520	1,139	0	1,659
Mar 2015 - 2018	2,480	4,156	0	6,636
Mar 2019 - 2022	3,272	3,364	0	6,636
Mar 2023 - 2026	4,318	2,318	0	6,636
Mar 2027 - 2030	5,697	939	0	6,636
Total	**16,287**	**11,916**	**0**	**28,203**

Three Schools and One Academy

	Capital £000	Interest incl. Contingent Rent £000	Services £000	Total £000
Mar 2014	551	2,372	3,865	6,788
Mar 2015 - 2018	3,284	9,644	15,902	28,830
Mar 2019 - 2022	3,687	11,045	19,144	33,876
Mar 2023 - 2026	5,422	10,984	20,172	36,578
Mar 2027 - 2030	8,055	15,428	22,831	46,314
Total	**20,999**	**49,473**	**81,914**	**152,386**

Prior Period Adjustment (PPA)

Prior to the financial year 2012/13, the Council had not included the PFI partial termination liability in its Capital Financing Requirement (Note 41). This liability should have been included under the Prudential Code. This liability was restored to the Capital Financing Requirement during 2012/13. The effect of this is that the Council has had to make a prior period Minimum Revenue Provision adjustment of £1.98m, comprising £1.527m for the period up to 31st March 2011 and £0.453m in 2011/12.

	2010/11 PPA £000	2011/12 PPA £000
Usable Reserves	1,527	453
Unusable Reserves	(1,527)	(453)

44. IMPAIRMENT LOSSES

The authority carried out an impairment review in 2012/13, the result of which was that there were no impairment losses recognised in 2012/13.

45. CAPITALISATION OF BORROWING COSTS

Borrowing costs are expensed as incurred and included in interest payable (Note 10).

46. TERMINATION BENEFITS

The authority terminated the contracts of 54 employees in 2012/13, incurring liabilities of £0.935m (£3.485m in 2011/12) (Note 36).

47. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

The Teachers Pension Scheme is a funded, defined benefit final salary scheme administered by the Department for Children, Schools & Families (DCSF). However, as the authority only acts as an intermediary, passing on the contributions to the DfES, it is unable to identify its share of the underlying assets and liabilities, which is why it is not included as a pension liability in the balance sheet. Instead, the authority pays an employers' contribution, which is supported by a five-yearly actuarial review and charged to the accounts, of 14.1% (2012/13), 14.1% (2011/12) to the DfES. There were no material prepaid or accrued pension contributions at the Balance Sheet date. Contributions for the current and previous year were:

	2011/12 £000	2012/13 £000
Council's contribution to DCSF Teacher's Pension Scheme	6,096	6,463

The added years payments awarded by the authority in respect of the Teachers' Pension Scheme were £47,868 in 2012/13 (£19,384 in 2011/12).

48. DEFINED BENEFIT PENSION SCHEMES

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

The authority participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by the London Borough of Merton. This is a defined benefit final salary scheme where both the authority and employees make contributions into a fund. The level of contributions made into the fund is calculated with the aim of balancing pension liabilities and investment assets.
- 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 amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £4.5m (a loss of £89.0m in 2011/12).

	Local Government Pension Scheme	
	2011/12 £000	2012/13 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Current service cost	(10,350)	(14,181)
Past service cost	0	(345)
Settlements and curtailments	(1,371)	381
Finance and Investment Income and Expenditure		
Interest cost	(24,935)	(25,115)
Expected return on scheme assets	24,379	20,980
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**(12,277)**	**(18,280)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and (losses)	(89,027)	(4,499)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(101,304)**	**(22,779)**
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	12,227	18,280
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	14,609	17,590

Assets and Liabilities in Relation to Post-employment Benefits

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

	Local Government Pension Scheme	
	2011/12 £000	2012/13 £000
Opening Defined Benefit Obligation	**454,377**	**552,938**
Service Cost	10,350	14,181
Interest Cost	24,935	25,115
Actuarial losses (gains)	76,329	35,612
Losses (gains) on curtailment	1,371	162
Liabilities extinguished on settlements	0	(1,020)
Liabilities assumed in a business combination	0	0
Estimated benefits paid net of transfers in	(16,351)	(16,331)
Past service cost	0	345
Contributions by Scheme participants	3,750	4,079
Unfunded pension payments	(1,823)	(2,240)
Fair value of Scheme assets at end of period	**552,938**	**612,841**

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

	Local Government Pension Scheme	
	2011/12 £000	2012/13 £000
Opening fair value of Scheme assets	**351,387**	**363,253**
Expected return on scheme assets	24,379	20,980
Actuarial gains (losses)	(12,698)	31,113
Contributions by employer including unfunded	14,609	17,590
Contributions by Scheme participants	3,750	4,079
Assets acquired in a business combination	0	0
Estimated benefits paid net of transfers in and including unfunded	(18,174)	(18,571)
Receipt / (Payment) of bulk transfer value	0	(477)
Fair value of Scheme assets at end of period	**363,253**	**417,967**

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.

Scheme History

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Present value of scheme liabilities					
The Local Government Pension Scheme (LGPS)	(348,121)	(533,352)	(443,887)	(529,492)	(589,722)
Unfunded Liabilities	(9,378)	(25,544)	(10,491)	(23,447)	(23,119)
Fair value of assets in the LGPD	233,837	316,496	351,387	363,253	417,967
Surplus / (Deficit) in the scheme	(123,662)	(242,400)	(102,991)	(189,686)	(194,874)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £613m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £195m. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The authority, through the advice of the actuary, provides additional employers contributions to the fund in support of the recovery of past service deficiencies over a fifteen year period. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

	2011/12	2012/13
Long Term expected rate of return on assets in the scheme:	%	%
Equity Investments	6.8	6.5
Gilts	3.3	3.0
Property	4.3	4.0
Cash	3.0	0.5
Mortality Assumptions	Years +	Years +
Longevity at 65 for current pensioners retiring today at 65:		
Men	20.0	20.1
Women	24.0	24.1
Longevity at 65 for future pensioners retiring in 20 years at 65:		
Men	22.0	22.1
Women	25.9	26.0
	%	%
Rate of Inflation	2.5	2.5
Rate of increase in salaries	4.7	4.7
Rate of increase in pensions	2.5	2.5
Rate for discounting scheme liabilities	5.5	4.3
Take up option to convert annual pension into retirement lump sum	50.0	50.0

History of Experience Gains and Losses

Amounts for the current and previous four periods	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Defined Benefit Obligation	(357,499)	(558,896)	(454,378)	(552,939)	(612,841)
Scheme Assets	233,837	316,496	351,387	363,253	417,967
Surplus/Deficit	(123,662)	(242,400)	(102,991)	(189,686)	(194,874)
Experience Adjustments on Scheme Liabilities	0	(15,844)	37,092	(13,754)	0
Percentage of liabilities	0.0%	-2.8%	8.2%	-2.5%	0.0%
Experience adjustments on Scheme Assets	(78,432)	73,831	12,996	(12,698)	31,113
Percentage of assets	-33.5%	23.3%	3.7%	-3.5%	7.4%
Cumulative Actuarial Gains and Losses	11,261	(104,176)	(2,299)	(91,326)	(95,825)

Estimation of Contributions to be paid 2013/14
The table below shows the estimated contributions to be paid to the plan during 2013/14, assuming a 1% staff pay award for 2013/14.

	2012/13 £000	2013/14 £000
Employers contributions - normal	8,673	8,760
Employers contributions - Deficit Funding Contributions (Additional)	4,800	4,848
Early Retirements (Additional)	1,877	144
Employees Contributions	4,080	4,121
Total	**19,430**	**17,873**

49. CONTINGENT LIABILITIES

Local Land Charges

Merton is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of £38,784 plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is £248,850 plus interest and costs. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

Employment Disputes

There are 5 employment disputes where the authority could be ordered to pay compensation. The maximum liability for these is estimated to be £158,000. However due to the inherent uncertainties surrounding their outcome, the authority has not made a provision for these in the accounts.

Civil Litigation

The authority, along with 5 other boroughs, is involved in a dispute in the Employment Tribunal in relation to Connexions and TUPE. The Employment Tribunal has ruled in favour of the Council, but it is not yet known whether the decision will be appealed.

Proceedings have been threatened regarding a dilapidations claim following the ending of a lease. Negotiations are under way to settle the claim, which is not expected to exceed £29,000.

A county court claim has been brought following bailiff action to recover a business rates debt. The claim is between £5,000 and £15,000 and includes damages for trespass.

There is a county court claim regarding the interpretation of a Section 106 Agreement. Proceedings have been stayed as attempts are being made to negotiate settlement.

Education

There are three special educational need appeals which potentially could result in significant additional costs if successful. The estimated maximum cost is £105,000. The Council may decide to defend itself, so the outcome of the appeals is uncertain.

50. CONTINGENT ASSETS

Civil Litigation

The authority has brought county court proceedings to recover Section 106 monies totalling £69,000.

Prosecutions

The authority is involved in a number of prosecutions where applications have been made for confiscation orders under the Proceeds of Crime Act. Orders have been made in two cases and two others are currently being processed by the courts. As this is a payment over and above costs incurred it represents a reward for prosecuting. The level of recovery cannot be accurately estimated at present.

Legal Fees Recovery

The authority obtained an order for the disposal of property in relation to the recovery of £177,000 costs in a court case. The property has been sold and the authority holds the proceeds of sale. However, there is an on-going High Court action regarding distribution of the proceeds.

51. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Credit Risk

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

<u>Lending and Investments</u>

In the case of lending/investing surplus funds, risk is minimised through the authority's credit policy that seeks to ensure that invested funds (deposits) are at relatively low risk of deposit-taker default. The policy sets a minimum level of creditworthiness for deposits in individual financial institutions, assessed by reference to data from commercial credit rating agencies and credit default swap data. The minimum credit criteria for 2012/13 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	2	n/a	n/a	Expectation of Central Government Support
Money Market Funds	AAAmmf	Aaa-mf	AAAm	

In addition to deposits in higher rated deposit-takers, the authority may use an AAA rated Money Market Fund, (which spreads risk taking across deposit takers), and may also place deposits in UK public sector institutions, such as local authorities. At 31st March 2013 the disposition of investments was:

Category	£000	%	Spread (number of counterparties)	Rating
UK Clearing Banks	19,700	29.2	1	F1, A,a, 1
UK Nationalised Banks	35,320	52.35	2	F1,A,bbb,1
UK Building Society	11,450	16.97	1	F1,A,a+,1
Local Authority	1,000	1.48	1	N/A
Money Market Funds	0	0	0	AAA
Total	**67,470**	**100**	**5**	

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.

Long Term Debtors

The authority's remaining housing advances (mortgages) are secured on the properties and the Business Investment Fund is funded by a non-repayable government loan. For all debts there are formal repayment arrangements.

Trading Debtors

No losses or impairments were incurred in 2012/13, nor are expected for the duration of current deposits. The authority does not generally allow credit for customers. All trade and other payables are due to be paid in less than one year. The past-due amount of trade debts can be analysed by age as follows:

	31 March 2012 £000	31 March 2013 £000
< 3 months	4,754	4,453
3 to 12 months	1,631	2,288
> 1 year	2,523	2,293
Total	**8,908**	**9,034**

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

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

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

Liquidity Risk

The authority's ability to pay its financial commitments as and when due is supported by substantial resources. It plans a balanced annual budget that provides sufficient revenue to cover annual expenditure, and has access to borrowings from the Money Markets and the Public Works Loans Board.
The maturity analysis of financial liabilities is set out in the following table. This maturity profile is designed to limit the consequence of *significant amounts of* finance being required when market conditions are difficult or expensive.

	31 March 2012 £000	31 March 2012 %	31 March 2013 £000	31 March 2013 %
Under 12 months	8,063	6.4	8,000	6.4
1yr to 2yrs	0	0.0	0	0.0
2yrs to 5yrs	0	0.0	3,966	3.2
5yrs to 10yrs	7,966	6.4	4,310	3.4
10yrs and over	109,010	87.2	108,700	87.0
Total	**125,039**	**100.0**	**124,976**	**100.0**

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

LOBO debt Option exposure when market rates in range of:	Prospectively repayable / requiring Re-finance £000	Proportion of total debt %
4.00 - 4.99%	5,000	4.0
5.00 - 5.99%	34,000	27.2
6.00 - 6.99%	15,500	12.4
7.00 - 7.99%	2,000	1.6
8.00 - 8.99%	6,500	5.2

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

At 31 March 2013 the sources of potential borrowing appear unimpaired, and the maturity profile of investments, available to support liquidity going forward, is as follows:

	£000	%
April to June 2013	21,620	32.04
July to September 2013	14,050	20.82
October to December 2013	9,800	14.53
January 2014 to March 2014	22,000	32.61
	67,470	**100**

Given the resources available, the authority did not experience any significant liquidity problems in 2012/13 and does not anticipate any for 2013/14.

Interest Rate Risk

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

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

If market interest rates move by 0.50% and 1.00%, with other variables held constant, the financial effect on the portfolio is estimated to be:

	£000	0.50% £000	1.00% £000	Mitigation
Borrowings	124,976	625	1,250	In the short-medium term the majority of borrowing is unaffected, being on an effectively high fixed rate basis in current climate of very low interest rates. Prior to 31/03/13, the profile of investments protects the budget from lower interest rates, whilst higher rates act to improve the return. However in current interest rate climate interest rate on investments are not expected to increase in the short term.
Investments	67,470	337	675	
Impact on CIES		288	575	

	£000	0.50% £000	1.00% £000	Comment
Borrowings	164,208	821	1,642	Due to recent low interest rate environment, the fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet.
Investment Deposits	67,735	339	677	

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

Prudential Indicator Limits

Maximum % exposure	2012/13	2013/14	2014/15	2015/16
Fixed rates	100	100	100	100
Variable rates	50	50	50	50

At 31st March 2013 exposure to variable rates on borrowings is exclusively through future maturities and the risk of LOBO options being exercised. The prospect of the latter is currently not considered significant. The market risk is, therefore, through the spread of debt maturities, and an estimate of a possible financial consequence is shown in the following table. The prospective refinance rate is a normal level of Public Works Loans Board interest rate for long-term finance. This is considered an appropriate and cautious rate to use at present although this may change over time.

Maturity in	Actual at 31 March 2013 £000	Current average interest rate %	Prospective re-finance rate %	Margin %	Effect (Saving or Increased cost) £000 pa
Under 12 months	8,000	0.52	1.13	0.61	49
1yr to 2yrs	0	0.00	0	0.00	0
2yrs to 5yrs	3,966	9.61	1.75	-7.86	(312)
5yrs to 10yrs	4,310	6.74	2.84	-3.90	(168)
10yrs to 15yrs	26,200	5.99	3.51	-2.48	(649)
15yrs to 20yrs	5,500	7.62	3.87	-3.75	(206)
20yrs to 25yrs	11,500	5.46	4.07	-1.39	(160)
25 to 30yrs	13,500	6.64	4.18	-2.46	(332)
30yrs to 35yrs	0	0.00	4.23	4.23	0
35yrs to 40yrs	7,000	4.40	4.25	-0.15	(11)
40yrs to 45yrs	25,000	4.77	4.25	-0.52	(129)
45yrs to 50yrs	20,000	5.04	4.22	-0.82	(165)
	124,976				**(2,083)**

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

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

Prudential Indicator Limits

	2012/13	2013/14	2014/15	2015/16
Maximum investment over 1 year as % of total investments	40	40	40	40

At 31 March 2013, the investment portfolio's exposure to interest rate change is set out in the following table. The effective reduction of income relative to the interest rates being earned on the portfolio at 31 March 2013 is calculated in proportion to the period in 2012/13 over which it would apply, (i.e. investments maturing in the 0-3 month period would be re-invested at lower rates for 3 months).

Deposit Maturity in:	Actual at 31 March 2013 £000	Current average interest rate %	Prospective re-finance rate at 31 March 2013 %	Margin %	Reduction of income relative to 31 March 2013 £000 pa
0-3 months	21,620	0.52	0.45	0.07	15
3-6 months	14,050	0.98	0.54	0.44	61
6-9 months	9,800	1.30	0.70	0.60	58
9-12 months	22,000	0.95	0.88	0.07	16
over 12 months	0				
	67,470				**151**

The general, precipitate, reduction in market interest rates prompted by the Euro economic crisis impacts significantly on the amount of investment income to be earned in 2012/13. The reduction of income is not a realised portfolio loss, but rather a reflection of movement in the external market, and is to be accommodated by budgetary measures and prospective savings from debt management.

PFI Borrowing

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

Price Risk

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

Foreign Exchange Risk

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

52. HERITAGE ASSETS: FURTHER INFORMATION ON THE MUSEUM'S COLLECTIONS

The authority does not operate any museums.

53. TRUST FUNDS

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

2012/13

	Income £000	Expenditure £000	Assets £000	Liabilities £000
LBM Funds				
Tamworth Rec External Investments				
The Investment with Black Rock Merrill Lynch investment managers held on behalf of Tamworth Recreation Grounds. This is LBM's book value. The accumulated gains from this fund are not realised.			110	
Tamworth Rec Ground & Allotment				
This Trust Fund was set up to fund improvement works at Tamworth Recreation Ground and allotments. Amount shows all internal funds held by LBM on behalf of Tamworth.	1		15	
Established by the authority pre 1990s				
Maintenance of Graves				
This Trust Fund was set up for the maintenance of graves in perpetuity. The amount shows all internal funds held in LBM bank accounts	1		22	
Established pre 1990s from residence estates naming LBM as a beneficiary				
Allotments for Working Men				
Established in 1922 to provide allotment gardens for working men at the frontage to Cambridge Road situated in Cottenham Park, Wimbledon. The area covered being 10.5 acres.			1	
Rock Terrace Trust				
Established under the indenture dated 19th March 1925. LBM holds the premises "to the intent that the same shall be held used and enjoyed as an open space for the use and recreation of the public"	3		58	
Total	**5**		**206**	

The £206,000 total comprises £110,000 held in an external investment fund and £96,000 cash held in the authority's bank account. The £96,000 is shown within Short Term Creditors on the Balance Sheet.

2011/12

	Income £000	Expenditure £000	Assets £000	Liabilities £000
LBM Funds				
Tamworth Rec External Investments			110	
The Investment with Black Rock Merrill Lynch investment managers held on behalf of Tamworth Recreation Grounds. This is LBM's book value. The accumulated gains from this fund are not realised.				
Tamworth Rec Ground & Allotment			14	
This Trust Fund was set up to fund improvement works at Tamworth Recreation Ground and allotments. Amount shows all internal funds held by LBM on behalf of Tamworth.				
Established by the authority pre 1990s				
Maintenance of Graves			21	
This Trust Fund was set up for the maintenance of graves in perpetuity. The amount shows all internal funds held in LBM bank accounts				
Established pre 1990s from residence estates naming LBM as a beneficiary				
Allotments for Working Men Established in 1922 to provide allotment gardens for working men at the frontage to Cambridge Road situated in Cottenham Park, Wimbledon. The area covered being 10.5 acres.			1	
Rock Terrace Trust			55	
Established under the indenture dated 19th March 1925. LBM holds the premises "to the intent that the same shall be held used and enjoyed as an open space for the use and recreation of the public"				
Total	**0**		**201**	

In 2011/12, of the £201,000 total, £110,000 was held in an external investment fund. £91,000 was held in the authority's bank account and shown on the Balance Sheet within Short Term Creditors.

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

2011/12 £000		Notes	2012/13 £000
	Income		
	Council Tax:		
95,638	Income from Council Tax Payers	1	96,755
13,815	Transfer from General Fund Council Tax Benefit		13,852
109,453	Gross Council Tax Income		110,607
74,955	Income collectable in respect of Business Rate Payers	2	78,669
2,685	Income collectable in respect of Business Rate Supplements	2	2,613
187,093	**Total Income**		**191,889**
	Expenditure		
	Precepts and Demands:		
82,424	The Council (London Borough of Merton)		82,789
23,077	Greater London Authority		22,948
105,501			**105,737**
	Business Rates:		
74,669	Payment to national pool	2	78,388
286	Cost of Collection	2	281
2,685	Payment to GLA for Business Rates Supplements	2	2,613
77,640			**81,282**
828	Provision for non-payment of Council Tax	3	(264)
183,969	**Total Expenditure**		**186,755**
(3,124)	(Surplus)/deficit for the year		(5,134)
	Appropriation Account		
(5,468)	(Surplus)/deficit brought forward		(6,212)
521	Payment to preceptors of previous year's surplus		1,090
1,859	Transfer to General Fund of Collection Fund surplus		3,891
(3,088)	**Surplus after appropriation**		**(1,231)**
(3,124)	Surplus for the year		(5,134)
(6,212)	**Surplus as at 31st March**	4	**(6,365)**

Accounting Policies

The transactions of the Collection Fund are wholly prescribed by legislation. The fund account is prepared on an accruals basis and complies with the appropriate regulations and the Code. The Collection Fund balances are not disclosed separately but are consolidated into the Council's Balance Sheet.

1. Council Tax

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

The Council tax base is the total number of properties in each of the eight valuation bands adjusted by a set proportion for each band to convert to the Band D equivalent for that band. The Band D Charge is the required income from the Collection Fund divided by the Council Tax base. An individual amount due for each Band is calculated by multiplying the Band D charge by the proportion that is specified for each particular band. The Council Tax base in 2012/13 is 74,816 (74,486 for 2011/12). The derivation of this is shown in the table below. The Council Tax charge for a Band D property was £1,409.71 in 2012/13 compared to £1,412.81 in 2011/12.

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	
	2011/12	2012/13	2011/12	2012/13		2011/12	2012/13
A adjust	2	2	2	2	5/9	1	1
A	1,050	1,055	882	865	6/9	588	577
B	8,002	8,058	6,765	6,789	7/9	5,262	5,281
C	21,082	21,251	18,610	18,770	8/9	16,542	16,685
D	27,232	27,346	24,746	24,906	9/9	24,746	24,906
E	12,960	12,919	11,884	11,873	11/9	14,525	14,511
F	4,943	4,999	4,538	4,584	13/9	6,555	6,623
G	3,903	3,900	3,603	3,596	15/9	6,005	5,994
H	1,536	1,570	1,439	1,474	18/9	2,878	2,948
Total						**77,102**	**77,526**
Allowance for non-collection						(2,621)	(2,715)
Defence properties						5	5
Council Tax Base						**74,486**	**74,816**

The Council's estimated tax base for 2012/13 was 74,816 and from this an income yield of £106.80m was expected (£105.50m in 2011/12). The actual tax base was equivalent to 78,256 and the income generated was £110.61m (£109.45m in 2011/12). This income is received from Council Taxpayers and through Council Tax benefit (in effect, by means of Government Grant). There is no transitional relief and the Council does not give discounts for prompt payments.

2. National Non-Domestic Rates (NNDR)

The Council is responsible for collecting rates due from the business ratepayers in its area. Her Majesty's Revenue and Customs (HMRC) sets the rateable value. These values are then multiplied by a Uniform Business Rate, which is set by Central Government. The proceeds are paid into a pool administered by the Government. The Government then redistributes the sums paid into the pool back to local authorities' General Funds. This is done on the basis of a fixed amount per head of population. The table below contains information relating to National Non-Domestic Rates.

	31st March 2012	31st March 2013
Non-domestic rateable value at year end	£205m	£205m
Number of Hereditaments	5,333	5,363
Uniform Business Rate (in the £)	43.3 p	45.8p

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

	2011/12 £000	2012/13 £000
Gross Rates payable (including net amounts for previous years)	84,247	92,083
Mandatory and discretionary reliefs	(8,539)	(9,866)
Provision for bad and doubtful debts	(753)	(3,548)
Net Income	**74,955**	**78,669**
Cost of collection	(286)	(281)
Net contribution to NNDR pool	**74,669**	**78,388**

Business Rate Supplements (BRS) were introduced by the Business Rate Supplements Act 2009 and related regulations and statutory guidance. The Act confers powers on relevant local authorities 'to impose a levy on non-domestic ratepayers to raise money for expenditure on projects expected to promote economic development.'

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

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

	2011/12 £000	2012/13 £000
Gross Rates payable	2,900	2,856
Mandatory and discretionary reliefs	(215)	(243)
Net contribution to GLA	**2,685**	**2,613**

3. Provision for Bad and Doubtful Debts

The movements in the provision for bad and doubtful debts were as follows:

	Balance at 1st April 2012 £000	Allowance for Impairment £000	Amounts charged against Allowance £000	Balance at 31st March 2013 £000
Council Tax	6,700	(264)	(1,236)	5,200
National Non-Domestic Rates	3,200	3,548	(2,248)	4,500
TOTAL	**9,900**	**3,284**	**(3,484)**	**9,700**

4. Collection Fund Surpluses and Deficits

There is an accumulated surplus of £6.365m on the Collection Fund (£6.2m in 2011/12). This surplus is attributable to the London Borough of Merton and to the Greater London Authority (GLA) and is based on their respective demands upon the Collection Fund. The estimated shares of the fund are shown in the following table.

	2011/12 £000	2012/13 £000	Change in the Year £000
London Borough of Merton Council Tax surplus	4,854	4,987	133
Greater London Authority Council Tax surplus	1,358	1,378	20
Total	**6,212**	**6,365**	**153**

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

	Greater London Authority £000	London Borough of Merton £000	Total £000
Accumulated surplus as at 1st April 2012	(1,358)	(4,854)	(6,212)
Paid to GLA in 2012/13	1,090	0	1,090
Transfer to General Fund in 2012/13	0	3,891	3,891
Surplus/Deficit in 2012/13	(1,110)	(4,024)	(5,134)
Total	**(1,378)**	**(4,987)**	**(6,365)**

5. Link to Core Statements

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

Income and Expenditure	2011/12 £000	2012/13 £000
Demand on the Fund	82,424	82,789
Transfer of Surplus	1,859	3,891
Total included in I&E under Collection Fund Regulations	**84,283**	**86,680**
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	582	133
Council Taxation Fund Income	**84,865**	**86,813**

Movement in Reserves Statement	2011/12 £000	2012/13 £000
Reversal of adjustment of Collection Fund Surplus under 2011 Code	(582)	(133)
Net charge to General Fund, which is based on statutory requirements	**84,283**	**86,680**

The £84.993m Council Tax income in the CIES shows the Council's share of the Council Tax income received in the year according to normal accountancy rules. The Council Tax income which ultimately is credited to the General Fund is the Council's share of the Collection Fund surplus (generated from income of the previous year).

Balance Sheet	Collection Fund 2012/13 £000	Balance Sheet 2012/13 £000
Council Tax		
Arrears	8,600	6,665
Impairment Allowance for Doubtful Debts	(5,200)	(4,019)
Receipts in Advance	(4,333)	(3,358)
Collection Fund (Surplus) / Deficit	(4,987)	(4,987)
GLA	(1,378)	(1,599)
Cash	**(7,298)**	**(7,298)**
Business Rates		
Arrears	5,747	0
Impairment Allowance for Doubtful Debts	(4,500)	0
Receipts in Advance	(629)	0
Pool	(1,781)	(1,163)
Cash	**(1,163)**	**(1,163)**

The Council Tax balances in the Balance Sheet excludes the GLA's share of the Collection Fund. The Business Rates balances are removed from the Balance Sheet.

Pension Fund Accounts

Fund Account	Notes	2011/12 £000	2012/13 £000
Dealings with members, employers and others directly involved in the fund			
Contributions	7	(19,102)	(20,627)
Transfers in from other pension funds	8	(4,542)	(2,330)
Total Income		**(23,644)**	**(22,957)**
Benefits	9	20,210	19,261
Payments to and on account of leavers	10	8,715	654
Administration Expenses	11	186	348
Total Expenditure		**29,111**	**20,263**
Net (additions)/withdrawals from dealing with members		**5,467**	**(2,694)**
Returns on Investments			
Investment and other income	12	(10,566)	(9,787)
Taxes on Income	13	300	205
(Profit) and losses on disposal of investments and changes in the market value of investments:			
- Unrealised	15	(4,894)	(42,974)
- Realised		(3,256)	(4,415)
- Futures Variance Margins		(22)	(168)
Investment Management Expenses	14	1,029	586
Net Returns on Investments		(17,409)	(56,553)
Net (increase)/decrease in the fund during the year		**(11,942)**	**(59,247)**

Net Assets Statement

The Net Assets Statement shows how the assets of the Pension Fund are invested.

2011/12 £000		Notes	2012/13 £000
395,440	Investment assets	15	452,582
3,213	Cash deposits	15	2,226
398,653			**454,808**
(1,237)	Investment liabilities	15	(1,479)
4,033	Current assets	20	4,038
(4,484)	Current liabilities	21	(1,155)
396,965	**Net assets of the fund available to fund benefits at period end**		**456,212**

Note1: The financial statements summarise the transactions of the Fund and the net assets. 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 dealt with in the statement by the consulting actuary in the annual report and these accounts should be read in conjunction with that.

Notes to the Pension Fund Accounts

1. Description of Fund

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

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

Admitted Bodies	Scheduled Bodies
• Greenwich Leisure • Merton Priory Homes • Central and Cecil Housing Trust • Environmental Waste Control	• Wimbledon and Putney Commons Conservators • Harris Academy Merton • Harris Academy Morden • St Mark's Academy

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

The rates of contribution paid by employees and employers are determined by national regulations, as are the scheme's benefits, including final salary based pensions, death grants and lump sum payments.

A Pension Fund Advisory Panel oversees and advises on investment of the Fund. This panel comprises Council Members, a pensioner representative, staff side representative and officers, with the Director of Corporate Services responsible for administration. The authority takes independent professional advice on investment policy and strategy.

London Borough of Merton Pension Fund	2011/12	2012/13
	No.	No.
Contributors	3,055	3,196
Pensioners	3,260	3,330
Deferred Pensioners	3,193	3,293
Employers' contribution rates as included in the certificate of adequacy of the contribution rate:	**2011/12**	**2012/13**
Scheduled bodies:		
• LB Merton	14.1% plus £4.8m	14.1% plus £4.8m
• Wimbledon and Putney Commons Conservators	25.4%	25.4%
• Harris Academy	15.6%	15.6%
• St. Mark's Academy	14.1%	14.1%
Admitted bodies:		
• Moat Housing Association	24.1%	24.1%
• Greenwich Leisure	16.8% plus £12.6k	16.8% plus £12.6k
• Merton Priory Homes	13.8%	13.8%
• Central and Cecil Housing Trust	24.2%	24.2%
• Environmental Waste Control	15.1%	15.1%
Since April 2008, member's contributions have been set by reference to the whole time pay for their post and fall in the range 5.5% to 7.5%.		

2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, which is based upon International Financial Reporting Standards (IFRS).

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

3. Summary of Significant Accounting Policies

3.1 Investments

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

- Quoted securities are valued at current market "bid" price.

- Unquoted securities are valued using professional estimates of fair value provided by investment managers, or otherwise at the lower of estimate or book value where considered more prudent.

- Pooled investment vehicles are valued at bid price where available in an active market or otherwise at a single closing price.

- The two UBS Property Holdings are valued as follows: The UBS Triton Property Unit Trust (UBS Triton Trust) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, tax, income and cash balances. The UBS Life Triton Property Fund (UBS Life Triton) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, income and cash balances. UBS Life Triton Is valued at Bid Price.

- Property investments are in pooled vehicles rather than direct investments in property. Property investments (i.e. managed funds) are valued at bid prices where available and representative, or at a single price provided by the fund manager where there are no representative bid/offer spreads and the chosen single price better represents fair value.

- Derivatives are used to effect efficient management of the investment portfolio, and not as an investment class. These are valued from prices set by independent participants in the market, with variance margins calculated against published FTSE indices.

3.2 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.

3.3 Foreign currency

Foreign currency transactions are converted into Sterling by the investment managers. This is done at London rates prevailing at close of business on the 31 March 2013.

3.4 Cash

Cash comprises cash in hand and demand deposits.

3.5 Contributions

Employees' contributions are accounted for at the time equivalent to when they are deducted from pay.

Employer normal contributions are accounted for in the period in which they are due under a schedule of contributions. 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 fifteen years).

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

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

3.6 Benefits

Benefits are accounted for on the basis of the date of leaving or the date of decision on the type of benefit, if later.

3.7 Transfers

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of payments made or receipts received in the case of individual transfers and on an accruals basis for bulk transfers, which are considered material to the accounts. As at 31 March 2013, there were no outstanding obligations for transfer payments or amounts receivable for 2012/13, other than those specified under Contingent Liabilities (Note 24).

3.8 Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are recharged to the pension fund from the administering authority.

3.9 Taxation

Withholding tax and any other tax deducted on trading activities is shown as a tax charge and the recovery of this tax is not anticipated by the raising of a debtor but is credited to other income only when received. By virtue of Merton Council being the Administering authority, VAT input tax is generally recoverable on all fund activities.

3.10 Provisions

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

3.11 Additional Voluntary Contributions

Merton Pension fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The two AVC providers appointed by Merton are the Prudential and the Royal Bank of Ireland.

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

3.12 Going Concern

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

4. Critical Judgements in Applying Accounting Policies

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

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

The main item in the Fund's Net Asset Statement at 31 March 2013 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 Waddington. 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 £12.2m and a -0.1% reduction would increase the obligation by £12.6m. An adjustment to the mortality age rating assumption of -1 yr would increase the obligation by £23.1m.

6. Events After The Reporting Date

A new employer, the Contractors Health and Safety Assessment Scheme (CHAS), was admitted to the Fund on 3rd June 2013. Also an admitted employer, Environmental Waste Control (EWC) went into administration in July 2013,
There may be future transfers from Administering Body status to Schedule bodied status.
The Pension Fund is currently reviewing its Pensions Administration arrangements and this may result in key changes.
Other than the points above, there were no subsequent events after 31st March 2013 which affect the 2012/13 accounts.

7. Contributions Receivable

2011/12 £000		2012/13 £000
	Employers	
	London Borough of Merton	
8,566	• Normal	8,673
4,800	• Deficit Funding Contributions (Additional)	4,800
175	• Early Retirements (Additional)	1,877
345	• Scheduled Bodies	383
768	• Admitted Bodies	483
14,654		**16,216**
	Members	
	London Borough of Merton	
4,076	• Normal	4,080
131	• Scheduled Bodies	125
241	• Admitted Bodies	206
4,448		**4,411**
19,102	**Total**	**20,627**

The increase in employer contribution in 2012/13 compared to 2011/12 is due to an employer (LB Merton) paying all outstanding early retirement contributions.

8. Transfers In From Other Pension Funds

2011/12 £000		2012/13 £000
2,245	Individual Transfers	2,330
2,297	Bulk Transfers	0
4,542	**Total**	**2,330**

The bulk transfer in 2011/12 was from the London Borough of Richmond in respect of Legal Services.

9. Benefits Payable

2011/12 £000		2012/13 £000
	Pensions Payable	
15,260	London Borough of Merton	16,115
595	Scheduled Bodies	623
133	Admitted Bodies	276
15,988		**17,014**
	Lump Sum Benefits Payable	
	Retirement Benefits	
3,667	London Borough of Merton	1,856
3	Scheduled Bodies	59
0	Admitted Bodies	97
	Death Benefits	
552	London Borough of Merton	235
4,222		**2,247**
20,210	**Total**	**19,261**

10. Payments to and on Account of Leavers

2011/12 £000		2012/13 £000
1,656	Individual Transfers	652
7,056	Bulk Transfers	0
4	Refunds of Contribution	2
(1)	State Scheme Premiums	0
8,715	**Total**	**654**

The bulk transfer for 2011/12 includes a provision of £4.37m relating to the London Borough of Sutton and bulk transfer of £2.68m to Wimbledon School of Art.

11. Administrative Expenses

2011/12 £000		2012/13 £000
87	Employee cost	283
35	Audit Fee	21
64	Running Costs	44
186	**Total**	**348**

The employee costs are based upon the time spent by relevant officers on pensions' administration and investment matters. A greater proportion of administration costs have been coded to administration expenses in 2012/2013 compared to 2011/2012.

12. Investment Income

2011/12 £000		2012/13 £000
3,850	Bonds - Unit Trusts	3,011
5,190	UK Equities and Convertibles	5,279
476	Europe - Equity	398
391	Property	503
175	Unit Trusts - Equities	174
484	Other	422
10,566	**Total**	**9,787**

13. Taxes on Income

2011/12 £000		2012/13 £000
276	Non-Recoverable Tax	184
24	Recoverable Tax	21
300	**Total**	**205**

14. Investment Expenses

2011/12 £000		2012/13 £000
1,029	Management Fees and Custody	586
1,029	**Total**	**586**

15. Investments

15.1 Fund management arrangements

The management of Pension Fund investments is delegated to external investment managers. The table below shows the market value of the assets (including accrued dividends) by fund manager and the proportion managed by each manager as at 31 March 2013.

2011/12			2012/13	
£000	%	Fund Manager	£000	%
180,744	45%	Aberdeen	206,296	46%
209,782	53%	UBS	242,113	53%
6,890	2%	RREEF/Blackrock	4,920	1%
397,416	**100%**	**Total**	**453,329**	**100%**

15.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2013 is shown below.

Market Value 31 March 2012 £000		Market Value 31 March 2013 £000
	Investment Assets	
51,631	Fixed Interest Securities	54,941
153,301	Equities (Direct)	175,153
173,473	Pooled Investments	207,577
14,941	Pooled Property Investments	12,476
	Derivative contracts	
1,203	Futures	1,461
3,213	Cash Deposits	2,226
891	Investment income due	974
398,653	**Total Investment Assets**	**454,808**
	Investment Liabilities	
	Derivative contracts	
(1,237)	Futures	(1,479)
(1,237)	**Total Investments liabilities**	**(1,479)**
397,416	**Net Investment assets**	**453,329**

15.3 Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2012/2013. 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 2012 £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 2013 £000
Fixed Interest Securities	**51,631**	4,254	(1,818)	874	**54,941**
Equities	**275,296**	25,348	(18,911)	42,315	**324,048**
Index Linked	**51,478**	7,155	(3,029)	3,078	**58,682**
Pooled Property	**14,941**	127	0	(2,592)	**12,476**
	393,346	**36,884**	**(23,758)**	**43,675**	**450,147**
Derivatives (Futures)					
Future contracts	**1,203**			258	**1,461**
Cash Liability	**(1,237)**	7,533	(7,291)	(484)	**(1,479)**
	393,312	**44,417**	**(31,049)**	**43,449**	**450,129**
Other Investment Balances					
Cash UK (Fund Managers)	**3,213**				**2,226**
Investment Income Due	**891**				**974**
	4,104				**3,200**
Cash Adjustment				**(475)**	
Total Investments at Market Value	**397,416**			**42,974**	**453,329**

Note:
The 2012/13 adjustment relates to cash held within the UBS Global Thirds Pooled Fund.

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2011/2012.

	Market Value 1 April 2011 £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 2012 £000
Fixed Interest Securities	**49,138**	1,810	(4,476)	5,159	**51,631**
Equities	**276,203**	21,328	(18,561)	(3,674)	**275,296**
Index Linked	**45,097**	9,212	(5,164)	2,333	**51,478**
Pooled Property	**9,920**	4,312	0	709	**14,941**
	380,358	**36,662**	**(28,201)**	**4,527**	**393,346**
Derivatives (Futures)					
Future contracts	**1,942**			(739)	**1,203**
Cash Liability	**(1,866)**	7,115	(7,745)	1,259	**(1,237)**
	380,434	**43,777**	**(35,946)**	**5,047**	**393,312**
Other Investment Balances					
Specialist investment balances (2010/11 Adj)	**153**			(153)	**0**
Cash UK (Fund Managers)	**4,375**				**3,213**
Investment Income Due	**764**				**891**
	5,292				**4,104**
Total Investments at Market Value	**385,726**			**4,894**	**397,416**

15.4 Detail analysis of investments (excluding derivative contracts)

The table below shows an analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'. The analysis excludes derivatives and the net impact of those derivatives (See note 15.5).

Market Value 31 March 2012 £000		Market Value 31 March 2013 £000
	Fixed Interest Securities	
26,069	Public Sector : UK quoted	27,109
25,562	: Overseas quoted	27,832
51,631		**54,941**
	Equities (Direct)	
144,174	UK quoted	151,200
9,127	Other European quoted	23,814
0	Other Overseas	139
153,301		**175,153**
	Pooled Investments	
51,478	Index Linked Public Sector	58,682
22,864	UK (Equities)	29,105
18,726	Other European (Equities)	23,055
39,244	American (Equities)	42,460
14,173	Japanese (Equities)	18,332
14,070	Other Overseas (Equities)	20,491
12,917	Developing Markets (Equities)	15,452
6,666	Property Managed Fund/Units quoted	5,396
8,276	Property Managed Fund/Units un-quoted	7,080
4,104	Other Investment Balances	3,200
192,518		**223,253**
397,450	**Total**	**453,347**

15.5 Analysis of derivatives

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

The derivative instruments, which are used by the fund, are FTSE future contracts, which have been applied to the active and passive sub funds managed by UBS Asset Management. The futures contracts have not been used for speculative purposes but rather to facilitate strategic change in the effective composition of the funds more efficiently than could be obtained through sale or purchase of underlying investments at a point in time. At 31 March 2013, the value of FTSE futures amounted to less than 0.5% of all equity investment in the fund.

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

Type	Expires	Economic exposure £000	Market value 31 March 2012 £000	Economic exposure £000	Market value 31 March 2013 £000
UK Equities	Three – Six months	1,237	1,203	1,479	1,461

15.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2013.

15.7 Value and realisation of investments

The valuation of investments at year-end incorporates the value of purchases, gains/losses realised on the sale of investments, and changes in the assessed market value of investments retained in the portfolio.

The BlackRock property portfolio is valued each quarter with the last valuation being at 23 March 2013. Any variations to the valuation between this date and the 31 March 2013 would be minor.

The majority of investments are quoted and in compliance with our Statement of Investment Principles, easily realised in normal circumstances. Property Unit Trusts may be illiquid and realisation protracted but the allocation to Property investment is less than 5% of the total investment portfolio and it is recognised as being a longer-term investment vehicle.

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

Security	% Market Value
Aberdeen Global II Index Linked	13.8%
UBS Life Global Optimal Thirds	6.9%
UBS Life USA Equity Tracker	6.8%
Aberdeen Global II Global Aggregate	6.5%
Aberdeen Global II Long Dated	6.4%

The largest single direct holding is in HSBC at 2.6%.

16. Financial Instruments

16.1 Classification of financial instruments

The table below analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading.

31 March 2012				31 March 2013		
Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			Financial Assets			
51,478			Pooled Index Linked Securities	58,682		
51,631			Pooled Fixed Interest Securities	54,941		
174,437			Equities	177,122		
101,612			Pooled Equities Investments	147,544		
14,188			Pooled Property Investments	11,874		
1,203			Derivative Contracts	1,461		
	3,213		Cash		2,223	
891			Other Investment Balances	974		
	4,033		Debtors		4,038	
395,440	**7,246**	**0**		**452,598**	**6,261**	**0**
			Financial Liabilities			
(1,237)			Derivative Contracts	(1,479)		
		(113)	Creditors			(1,155)
(1,237)	**0**	**(113)**		**(1,479)**	**0**	**(1,155)**
394,203	**7,246**	**(113)**		**451,119**	**6,261**	**(1,155)**

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 2012 £000		31 March 2013 £000
	Financial Assets / Liabilities	
8,150	Fair Value through profit and loss	47,389
22	Loans and Receivables	168
0	Financial Liabilities at Amortised Cost	0
8,172	**Total**	**47,557**

16.3 Valuation of financial Instruments carried at fair value

The valuation of financial instruments can be classified into three levels, according to the quality and reliability of information used to determine fair values. All the financial instruments of the fund are classified as level 1, (fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities). Listed investments are shown at bid prices.

16.4 Fair value of financial instruments and liabilities

The table below compares the carrying value to the fair value of financial assets and financial liabilities.

31 March 2012			31 March 2013	
Carrying value £000	Fair value £000		Carrying value £000	Fair value £000
		Financial Assets		
329,657	395,440	Fair Value through profit and loss	345,477	452,597
3,213	3,213	Loans and Receivables	2,222	2,223
		Financial Liabilities		
(1,237)	(1,203)	Fair Value through profit and loss	(1,479)	(1,461)
0	0	Financial Liabilities at Amortised Cost	0	0
331,633	**397,450**	**Total**	**346,220**	**453,359**

Note: The 2012 Fair Value Financial Liability has been restated.

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

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

The Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund advisory committee (PFAC). Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. The Statement of Investment Principles and Risk Register are reviewed regularly to reflect changes in activity and in market conditions.

The fund also ensures reputable investment managers are used through its rigorous fund manager's selection process. In addition the fund employs an independent advisor who provides advice on investment issues.

17.2 Market risk

The fund is exposed to market risk from its investment activities especially through its equity holdings. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risks on equity investments. The Fund has one future valued at £1,460,730 as at 31 March 2013 (£1,203,195 as at 31 March 2012).

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. The London Borough of Merton asset allocation is predominantly in equities, the majority of which are priced in Pounds Sterling. Riskier assets in the fund such as equities display greater potential price volatility than bonds.

Asset Type	Value at 31 March 2013 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	2,223	0.02%	2,223	2,223
Investment portfolio assets				
Total Equities	324,666	12.61%	365,606	283,725
Total Bonds	54,941	5.66%	58,051	51,832
UK Index Linked	58,682	8.11%	63,441	53,922
Property	11,874	4.22%	12,375	11,373
Income Due	974	0.0%	974	974
Total Assets	**453,360**		**502,670**	**404,049**

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

Asset Type	Value at 31 March 2012 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	3,213	0.0%	3,213	3,213
Investment portfolio assets				
Total Equities	275,261	15.13%	316,908	233,614
Total Bonds	51,631	6.20%	54,832	48,430
UK Index Linked	51,478	7.46%	55,318	47,638
Property	14,942	4.35%	15,592	14,292
Income Due	891	0.02%	891	891
Total Assets	**397,416**		**446,754**	**348,078**

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

17.4 Other price risk

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

Asset Type	Potential market movements (+/-)
Equities	12.61%
Bonds	5.66 %
UK Index Linked	8.11%
Cash	0.0%
Property	4.22%

17.5 Interest rate risk

Generally fixed interest rate 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 rates. As at 31 March 2013, the fund's fixed rate investments were in pooled investments.

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 £UK. The majority of foreign equities in the UBS portfolio are priced in £UK thereby reducing currency risk fluctuations.

The table below shows the currency exposure by asset type as at 31 March 2013.

Asset Type	Value at 31 March 2013 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	14,008	5.9%	14,838	13,179
Overseas Bonds	27,832	5.9%	29,480	26,184
Total Overseas Assets	**41,840**		**44,318**	**39,363**

The table below shows the currency exposure by asset type as at 31 March 2012.

Asset Type	Value at 31 March 2012 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	12,212	9.5%	13,371	11,053
Overseas Bonds	25,562	9.5%	27,988	23,137
Total Overseas Assets	**37,774**		**41,359**	**34,190**

The following table calculates the aggregate currency exposure within the fund as at 31 March 2013. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in £UK and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

Currency	Value at 31 March 2013 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	391	7.7%	422	361
EURO	8,686	7.8%	9,364	8,009
Norwegian Krone	418	9.0%	456	380
Swedish Krona	1,784	8.1%	1,929	1,629
Swiss Franc	2,564	9.4%	2,804	2,324
US Dollar	27,997	8.7%	30,444	25,550
Total	**41,840**		**45,419**	**38,253**

Currency	Value at 31 March 2012 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	437	8.3%	474	401
EURO	8,010	8.4%	8,680	7,340
Norwegian Krone	217	10.5%	240	194
Swedish Krona	1,028	10.2%	1,133	923
Swiss Franc	2,391	10.2%	2,636	2,146
US Dollar	25,690	9.8%	28,196	23,185
Total	**37,774**		**41,359**	**34,190**

17.7 Credit risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria.

The average long term credit rating in the bond portfolio is AA as at 31 March 2013. The table below shows the credit quality.

Value at 31 March 2012	Credit Quality	Value at 31 March 2013
74,711	AAA	4,485
13,149	AA	85,663
6,362	A	11,915
5,859	BBB	8,267
716	BB or below	721
100,797		**111,051**

The fund's cash balance under its treasury management arrangements as at 31 March 2013 was held with Lloyds bank with a credit rating of A.

17.8 Liquidity risk

The Council has immediate access to its pension fund cash holdings to enable it to meet its financial obligations when due. Within the bond portfolio, the fund is permitted to hold up to 10% of the fund in cash for this reason and to ensure that the

fund has available an element of cash to ensure that settlement of the segregated securities traded in the portfolio do not take the cash accounts overdrawn.
Management prepares quarterly cashflow forecasts to understand and manage the timing of the fund's cash; this is reviewed by the Pension Fund Panel on a quarterly basis.

17.9 Refinancing risk

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

18. Funding Arrangements

18.1 Actuarial position

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

(i) to determine the accrued position of the fund (for which the valuation of assets is based on the 'assessed value approach') and;

(ii) to establish appropriate contribution arrangements required to support accruing benefits (for which the 'projected unit' actuarial method is adopted).

18.2 Actuarial assumption

Barnett Waddingham LLP carried out the last actuarial valuation in 2010. This gave an assessment of the value of the fund as at 31 March 2010. The results of the actuarial valuation showed that the assessed value of assets held by the Fund at 31st March 2010 was £343.5m, whilst the liabilities accrued in respect of pensionable service were £410.7m. The assessed actuarial value of £343.5m was different to the market value of the assets at 31 March 2010 (shown in Note 18.4) because the actuarial value is based on the average asset value over 6 months straddling the valuation date.

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

The table below shows financial assumptions used in the actuarial valuations.

Financial Assumptions	2007		2010	
Investment Return	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Equities	7.6%	4.3%	7.4%	3.9%
Gilts	4.7%	1.3%	4.5%	1.0%
Bonds & Property	5.4%	2.0%	5.6%	2.1%
Index Linked Gilt yields	3.4%			
Equity Risk Premium	3.0%			
Equity Return	7.6%			
Discount Rate	6.9%	3.5%	6.7%	3.2%
Pay Increases	4.9%	1.5%	5.0%	1.5%
Price Inflation	3.4%		3.5%	
Pension Increase	3.4%		3.0%	(0.50)%

18.3 Funding policy

Regulations require the Actuary to set the employer's contribution rate for the authority and Scheduled and Admitted Bodies, so that it is sufficient to meet 100% of existing and prospective liabilities including pension increases. The funding objective is to ensure that the Scheme's assets and income are adequate to finance scheme members' benefits when they fall due.

The actuary has recommended contribution rates that recover any deficiency in the Fund over the next fifteen years, and this is consistent with the funding strategy.

18.4 Funding position

The overall funding level declined from 90.5% in 2007 to 84% in 2010.
Whilst investment returns were less than assumed this was slightly offset by CPI changes and other assumption changes.

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

	2007 Valuation	2010 Valuation
Funding Level %	90.50%	84.00%
Funding (Deficit) £m	**(33.5)**	**(67.2)**

The funding deficiency of £67.2 million at the time of the 2010 valuation was equivalent to 16% of the accrued liabilities, compared to 10% as at the time of the 2007 valuation.
The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 is 21.4% of pensionable payroll.
Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 actuarial valuation report.

The actuary carried out an interim valuation as at 31 March 2012. At this date the funding level was 85% and the funding deficit (£70.4m).

The table below shows the reconciliation of past service position.

	Funding Position £m	
Deficit at 2007 Valuation	**(34)**	
New Liabilities	(50)	
Contributions Paid		59
Interest on Deficit	(6)	
Asset Gain/Loss	(70)	
Liability Gain/Loss	(28)	
Experience		3
Change in Assumptions/CPI		59
Deficit at 2010 Valuation	**(67)**	

The table below shows the past service funding position.

	31 March 2010 £000	
Smoothed Asset Value		**343,541**
Past Service Liabilities		
Active Members	139,683	
Deferred Pensioners	59,740	
Pensioners	211,227	
Value of Scheme Liabilities		410,650
Surplus (Deficit)		**(67,109)**
Funding Level		**84%**
Employer Contribution Rates		**% of Payroll**
Future Service Contribution Rate		14.10%
Deficit Recovery (15 years)		7.30%
Total Contribution Rate		**21.40%**

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

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS 26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes.

In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2013, using a valuation methodology that is consistent with IAS 19.

The value of the Fund's promised retirement benefits as at 31 March 2013 was £637.6m

Year Ended	31/03/12 £m	31/03/13 £m
Present value of promised retirement benefits	570.9	637.6

20. Current Assets

	2011/12 £000	2012/13 £000
Debtors		
Contributions due	1,139	2,650
Cash Balances		
Cash in Hand	2,894	1,388
Current Assets	**4,033**	**4,038**

21. Current Liabilities

Creditors	2011/12 £000	2012/13 £000
Cash overdrawn	(113)	(377)
Fund Managers Fees	0	(181)
Sundry	0	(597)
Provision For Bulk Transfer	(4,371)	0
Current Liabilities	**(4,484)**	**(1,155)**

22. Additional Voluntary Contributions

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

The amount of additional voluntary contributions paid by members during 2012/13 to AVC schemes outside the authority's responsibility was £0.133m (£0.267m at 31 March 2012). The external providers have reported that at 31 March 2013 the total value of accumulated AVCs is £1.263m (£1.125m at 31 March 2012).

23. Related Parties

Related parties to the pension fund include: -

i) **The Pension Fund's Investment Managers** who work under contract arrangements.

ii) **The London Borough of Merton**, a separate pension fund bank account is in full operation which holds pension fund cash balances. The Council recharges the Fund for incurred overheads while the pension fund recharges the council for any employers recharge to pensioners pay.

iii) **The Admitted and Scheduled bodies** who make employer contributions to the fund.

iv) **Local authority elected members and senior management officers** who sit on the Pension Fund Advisory Panel.

There are two serving Councillor Members on the Pension Fund Advisory Panel who are contributors to the Pension Fund. In addition, there is one Pensioner representative on the Panel who is in receipt of pension benefits.
The relevant senior officer in the financial management of Merton Pension Fund is the Director of Corporate Services who is remunerated by Merton Council as the administering authority. They are not paid directly by the Merton Pension Fund. Further information on remuneration is available within the financial statements of Merton Council.

There have been no related-party disclosures, or material declarable transactions with the Pension Fund during the financial year other than administrative services and the use of the council's financial systems which may result in occasional cross transactions. The former were undertaken by the Council on behalf of the Pension Fund, at a cost, of £0.348m (£0.186m in 2011/12).

24. Contingent and Contractual Liabilities

There are no outstanding Capital Commitments (Investments) as at 31 March 2013 (£nil in 2011/12).
There is a contingent liability in respect of the bulk transfer for South Thames College (formerly Merton College). This transfer is particularly difficult to quantify at this stage as neither the data nor the actuarial basis for quantifying the liability have been agreed between the parties.

Statements of Responsibilities

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Services.

- To manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.

- To approve the Statement of Accounts.

1.1. The Director of Corporate Services' Responsibilities

The Director of Corporate Services is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the local authority Code of Practice.

The Director of Corporate Services has also:

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

1.2 Certification of Responsible Finance Officer

I hereby certify that the Statement of Accounts give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2013.

C Holland
Director of Corporate Services
26 September 2013

1.3 Approval of Accounts by General Purposes Committee

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

Peter McCabe
Chairman General Purposes Committee
26 September 2013

Further information about the accounts is available from:

Director of Corporate Services
8th Floor

Merton Civic Centre
London Road
MORDEN
Surrey
SM4 5DX
Or alternatively, please ask for Stephen Bowsher on 020 8545 3531.
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERTON COUNCIL

Opinion on the Authority's financial statements

We have audited the financial statements of Merton Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes 1 to 53. 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 2012/13.

This report is made solely to the members of Merton Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of the Director of Corporate Services Responsibilities set out on pages 129-130, the Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts for the year ending 31 March 2013 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Merton Council as at 31 March 2013 and of its expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts for the year ending 31 March 2013 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Merton Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the accounts of Merton Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

David Wilkinson
for and on behalf of Ernst & Young LLP, Appointed Auditor
London
27 September 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERTON COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. 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 2012/13.

This report is made solely to the members of Merton Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of the Director of Corporate Services' Responsibilities set out on pages 129-130, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts for the year ending 31 March 2013 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts for the year ending 31 March 2013 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Peter O'Neill
for and on behalf of Ernst & Young LLP, Appointed Auditor
Apex Plaza, Forbury Road, Reading RG1 1YE
27 September 2013

Glossary

ACCOUNTING POLICIES
Rules and practices followed in drawing up the accounts.

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

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

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

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

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

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

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

b. The actuarial assumptions have changed.

APPROPRIATIONS
The assignment of revenue balances for specified purposes.

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

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

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

BUDGET
Statement of the spending plans for the year.

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

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

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

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

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

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)
The Institute produces standards and codes of practice that must be followed in preparing the Council’s financial statements.

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

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

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

COMPREHENSIVE SPENDING REVIEW (CSR)

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

CONTINGENT ASSETS AND LIABILITIES

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

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

CORPORATE AND DEMOCRATIC CORE

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

CORPORATE GOVERNANCE

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

COUNCIL TAX

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

CREDIT APPROVAL

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

CREDITORS

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

CURRENT SERVICE COST (PENSIONS)

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

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

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

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

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

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

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

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

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

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

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

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

FAIR VALUE

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

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

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

FINANCE LEASE

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

FINANCIAL YEAR

The financial year runs from the 1st April to the following 31st March.

FINANCIAL INSTRUMENT

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

FIXED ASSETS

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

FRED

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

FRS

Financial reporting standards: these replace statements of standard accounting practice (SSAP) and generally go into much more depth. Adherence to both FRSs and where appropriate SSAPs, are essential to demonstrate compliance to the SORP which is fully convergent with UK GAAP.

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

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

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

GROSS EXPENDITURE
The total expenditure of a fund or account.

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 FRS10 as 'non financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody and legal rights'. As such, they may provide the authority with access to future economic benefits which are controlled by the local authority.

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

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

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

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

JOINT ARRANGEMENT WHICH IS NOT AN ENTITY (JANE)
A JANE is a contractual arrangement under which participants engage in joint activities but which is not an entity.

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

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

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

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

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

NET ASSETS

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

NET BOOK ASSETS

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

NET CURRENT REPLACEMENT COST

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

NET REALISABLE VALUE

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

NET WORTH

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

NON-DISTRIBUTED COSTS

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

NON-DOMESTIC RATE (NDR)

A levy on businesses based on national 'rateable value' of the premises occupied. NDR is collected by the Council in line with national criteria, paid into a national pool and then redistributed to all local and police authorities on the basis of population.

NON-OPERATIONAL ASSETS

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

OPERATIONAL ASSETS

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

PAST SERVICE COST

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

POOLED VEHICLES
A pooled vehicle is a single investment whose value and performance is the aggregate of a number of separate investments held within the pooled arrangement. Pooled investments are undertaken to improve the diversification and efficiency of investment activity, particularly where a similar spread of segregated investments would incur higher management costs, and be less economic.

POST BALANCE SHEET EVENT
These are events which arise after the end of the accounting period. They can be divided into

- Adjusting events, which provide further evidence of conditions that existed at the end of the accounting period and that may require changes to the accounts.

- Non Adjusting Events, which are indicative of conditions that arose subsequent to period end, that are reported by way of a note to the accounts.

PRECEPTS
An amount collected by the Council as part of the Council Tax on behalf of another statutory body.

PRIVATE FINANCE INITIATIVE (PFI)
PFI contracts are agreements with private sector organisations to refurbish, maintain and operate fixed assets on behalf of public sector organisations such as local authorities.

PRIOR PERIOD ADJUSTMENTS
Prior period adjustments are material adjustments relating to the accounts of previous years and which arise from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. Prior period adjustments do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROVISIONS
Amounts set aside for any liabilities or losses which are likely to be incurred, but which are uncertain as to the amounts or the dates on which they will arise.

RESERVES
These are amounts set aside for specific purposes. The Council has discretion in whether it wishes to set aside these amounts as distinct from sums set aside in provisions.

RESIDUAL VALUE
This is the estimate, based on current prices, of the increase in market value of the buildings transferred to NewSchools under the PFI contract.

REVALUATION RESERVE

The Revaluation Reserve records increases and reductions in the value of fixed assets when compared to their original book value. Reductions in value can be offset against accumulated revaluation gains before they are charged to the income and expenditure account.

REVENUE EXPENDITURE
Expenditure incurred on day to day running costs and confined to accounts within one financial year.

REVENUE EXPENDITURE FUNDED BY CAPITAL RESOURCES UNDER STATUTE
This is expenditure which is classified as revenue expenditure but which can be funded from capital resources under statutory requirements. This expenditure was called deferred charges under the 2007 SORP.

SCHEME LIABILITIES
These are the liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

SETTLEMENT COSTS
An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

STATEMENT OF RECOMMENDED PRACTICE (SORP)
This is the authoritative guidance on the application of accounting standards and incorporates UK GAAP. (See Accounting Codes of Practice). The SORP has now been superseded by the IFRS based Code of Practice.

STOCKS
The amount of unused or unconsumed supplies held in expectation of future use.

SUPPORT SERVICES
These are services that are not statutory local authority services but which give support to those services.

SUPPORTED CAPITAL EXPENDITURE

This is the term for central government support for local authority capital expenditure with effect from 1st April 2004. Under the system, central government provides allocations to replace the previous system of credit approvals. The allocations enable services to borrow to finance capital schemes. The services will also receive revenue funding through the revenue support grant to pay for the borrowing.

UK GAAP
UK Generally Accepted Accounting Principles cover accounting practices that are regarded as permissible by the accounting profession. These practices may be laid down in accounting standards and/or legislation (such as Local Government Finance Legislation) but it also includes accounting practices that are outside the scope of accounting standards but are generally accepted by practitioners as legitimate. Local Authority accounts are now required to be IFRS compliant.

USEFUL LIFE
This is the period over which the local authority derives benefit from the use of a fixed asset.

VESTED RIGHTS
In relation to a defined benefit scheme, these are: -

a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
b) for deferred pensioners, their preserved benefits;
c) for pensioners, pensions to which they are entitled.

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